

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

**(a) Basis of preparation of accounts**

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March 2001, with the exception of the accounts of the subsidiaries in Indonesia because the directors are of the opinion that their inclusion would be misleading and inappropriate, given the Group's control of their operations has been significantly impaired since February 1999. The Group's interest in these subsidiaries is stated at the attributable net asset value at the time the restrictions came into force less provision for permanent diminution in value, as more fully explained in note 13 to the accounts.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as applicable.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**(c) Goodwill**

Goodwill represents the excess of purchase consideration over the fair values ascribed to the separable net assets of the subsidiaries acquired and is taken to reserves in the year of acquisition.

**(d) 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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (e) Revenue recognition

Revenue from the sales of sports footwear is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

#### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and provision for significant anticipated losses on planned disposal of assets.

Leasehold land is depreciated over the remaining period of the lease. Other property, plant and equipment are depreciated at rates sufficient to write-off their cost over their estimated useful lives on a straight-line basis at the following annual rates:

|                                   |                                       |
|-----------------------------------|---------------------------------------|
| Leasehold land                    | 2% or over the lease term, if shorter |
| Buildings                         | 5%                                    |
| Leasehold improvements            | 25%                                   |
| Plant, machinery and tools        | 10% — 50%                             |
| Furniture, fixtures and equipment | 25%                                   |
| Motor vehicles                    | 25%                                   |
| Leisure boat                      | 10%                                   |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **(g) Operating leases**

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

#### **(h) Investment securities**

Investment securities are held for long-term and stated at cost less any provision for diminution in value.

The carrying amounts of individual investment are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of reduction is recognised as an expense in the profit and loss account.

#### **(i) Inventories**

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### **(j) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### **(k) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the exchange rates ruling at the date on which the amount recorded in the financial statements was established. All monetary assets and liabilities are translated at the closing rate and any resulting exchange difference is taken to the profit and loss account.

#### (m) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

With effect from 1st December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund (the "MPF"). The Group's contributions to the MPF are expensed as incurred and are 100% vested in the employees as soon as they are paid to the MPF but all benefits derived from the mandatory contributions must be preserved until the employees reach the age of 65 subject to a few exceptions. The MPF is a defined contribution retirement scheme administered by independent trustees.

#### (n) Related companies

A related company is a company in which a director or a major shareholder of the Company has a significant direct or indirect beneficial interest.

## Notes to the Accounts

### 2. REVENUES AND TURNOVER

The Group is principally engaged in the manufacture of athletic and sports leisure footwear products. Turnover represents gross invoiced sales of sports footwear net of returns and discounts. Revenues recognised during the year are as follows:

|   | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Turnover  |                                |                         |
| Sales of goods  | <b>967,064</b>                 | 961,815                 |
| Other revenues  |                                |                         |
| Bank interest income  | <b>3,116</b>                   | 1,024                   |
| Rental income   | <b>2,617</b>                   | —                       |
| Net gain on disposal of used plant, machinery and<br>tools to a related company | <b>470</b>                     | 1,425                   |
| Interest on rental advances   | <b>156</b>                     | 181                     |
| Exchange gain, net  | <b>2,281</b>                   | —                       |
| Others  | <b>4,265</b>                   | 1,812                   |
|   | <b>12,905</b>                  | 4,442                   |
| Total revenues  | <b>979,969</b>                 | 966,257                 |

An analysis of the Group's turnover for the year by geographical markets is as follows:

Principal markets:

|                          | <b>Turnover</b>                |                         |
|--------------------------|--------------------------------|-------------------------|
|                          | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| United States of America | <b>546,259</b>                 | 574,539                 |
| Europe                   | <b>192,601</b>                 | 179,432                 |
| Asia                     | <b>177,303</b>                 | 51,078                  |
| Canada                   | <b>13,920</b>                  | 16,311                  |
| Other areas              | <b>36,981</b>                  | 140,455                 |
|                          | <b>967,064</b>                 | 961,815                 |

No analysis of the contribution by geographical markets is presented as none of the ratios of the contribution to operating profit achieved from these individual markets are substantially out of line with the normal ratio of operating profit to turnover.

## Notes to the Accounts

## 3. OPERATING PROFIT BEFORE FINANCE COST

|  | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Operating profit before finance cost is stated after crediting and charging the following: |                         |                         |
| <b>Crediting</b>   |                         |                         |
| Exchange gain, net   | <u>2,281</u>            | <u>—</u>                |
| <b>Charging</b>  |                         |                         |
| Staff costs (including directors' emoluments)  | 154,250                 | 134,123                 |
| Depreciation   | 32,112                  | 54,673                  |
| Operating lease rentals for land and buildings   | 3,204                   | 4,461                   |
| Contributions to retirement scheme less forfeiture of HK\$19,000 (2000: HK\$12,000)        | 1,345                   | 1,139                   |
| Auditors' remuneration   |                         |                         |
| — Current year   | 908                     | 984                     |
| — Underprovision in prior years  | 382                     | 216                     |
| Loss on disposal of fixed assets   | 60                      | 9,587                   |
| Legal and professional fees  | 1,332                   | 4,011                   |
| Exchange loss, net   | <u>—</u>                | <u>558</u>              |

## 4. FINANCE COST

|                             | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Interest on bank overdrafts | <u>96</u>               | <u>780</u>              |

## Notes to the Accounts

### 5. TAXATION

No provision for Hong Kong profits tax has been made (2000: 16%) as the Group has no assessable profits for the year. Overseas taxation has been calculated based on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

|                                 | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---------------------------------|--------------------------------|-------------------------|
| Hong Kong profits tax           |                                |                         |
| — Current year                  | —                              | 7                       |
| — Overprovision in prior years  | —                              | (12)                    |
| Overseas taxation               |                                |                         |
| — Current year                  | <b>154</b>                     | 223                     |
| — Underprovision in prior years | <b>93</b>                      | —                       |
|                                 | <b>247</b>                     | <b>218</b>              |

There was no material unprovided deferred taxation for the year (2000: Nil).

### 6. DIRECTORS' EMOLUMENTS

|   | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Fees  | <b>2,408</b>                   | 300                     |
| Basic salaries, housing allowances, other allowances and benefits-in-kind | <b>4,036</b>                   | 6,034                   |
| Discretionary bonuses   | <b>400</b>                     | 435                     |
| Retirement benefit costs  | <b>336</b>                     | 272                     |
|   | <b>7,180</b>                   | <b>7,041</b>            |

Directors' fees disclosed above include HK\$153,000 (2000: HK\$300,000) paid to independent non-executive directors.

As at 31st March 2001, certain directors of the Company had personal interests in options to subscribe for shares in the Company granted in prior years under the share option scheme of the Company. Details of these share options are disclosed in note 21.

## Notes to the Accounts

### 6. DIRECTORS' EMOLUMENTS *(continued)*

The emoluments of the directors fall within the following bands:

| Emoluments band               | Number of directors |           |
|-------------------------------|---------------------|-----------|
|                               | 2001                | 2000      |
| HK\$Nil — HK\$1,000,000       | 12                  | 11        |
| HK\$1,000,001 — HK\$1,500,000 | 1                   | 2         |
|                               | <u>13</u>           | <u>13</u> |

No directors have waived emoluments in respect of the years ended 31st March 2001 and 2000.

### 7. SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31st March 2001, all the five highest paid individuals of the Group are directors of the Company (2000: five) and their emoluments are reflected in the analysis presented in note 6 to the accounts.

### 8. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$7,507,000 (2000: loss of HK\$19,627,000).

### 9. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of HK\$50,460,000 (2000: loss of HK\$38,015,000) and the weighted average number of 340,616,934 (2000: 340,616,934) shares in issue during the year.

No fully diluted earnings/(loss) per share is shown as the Company has no potential dilutive ordinary shares at 31st March 2001 and 2000.

### 10. RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution retirement scheme for those employees who are eligible and have elected to participate in the scheme. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions of HK\$19,000 were utilised during the year (2000: HK\$12,000).

## Notes to the Accounts

### 10. RETIREMENT BENEFIT COSTS (continued)

With effect from 1st December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund. The employer and employee each have to contribute 5% of the employee's gross salary or HK\$1,000, whichever is lower.

The retirement benefit cost charged to the profit and loss account represents contributions payable by the Company to the schemes.

### 11. FIXED ASSETS

#### (a) Group

|                          | Medium term<br>leasehold land<br>and buildings<br>(Outside<br>Hong Kong)<br>HK\$'000 | (In Hong<br>Kong)<br>HK\$'000 | Leasehold<br>improve-<br>ments<br>HK\$'000 | Plant,<br>machinery<br>and tools<br>HK\$'000 | Furniture,<br>fixtures<br>and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Leisure<br>boat<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------|--|-------------------------------|--|--|--|-------------------------------|-----------------------------|-------------------|
| Cost                     |  |                               |  |  |  |                               |                             |                   |
| At 1st April 2000        | 54,493   | 7,945                         | 19,299                                     | 210,339                                      | 4,624  | 1,759                         | 1,688                       | 300,147           |
| Additions                | —  | —                             | 677  | 9,102  | 665  | —                             | —                           | 10,444            |
| Disposals/written off    | —  | —                             | (8,003)                                    | (36,512)                                     | (2,744)  | (303)                         | (1,688)                     | (49,250)          |
| At 31st March 2001       | <b>54,493</b>  | <b>7,945</b>                  | <b>11,973</b>                              | <b>182,929</b>                               | <b>2,545</b>   | <b>1,456</b>                  | <b>—</b>                    | <b>261,341</b>    |
| Accumulated depreciation |  |                               |  |  |  |                               |                             |                   |
| At 1st April 2000        | 10,850   | 1,655                         | 13,164                                     | 126,252                                      | 3,870  | 1,105                         | 1,266                       | 158,162           |
| Charge for the year      | 2,349  | 397                           | 3,790                                      | 23,939                                       | 1,098  | 398                           | 141                         | 32,112            |
| Disposals/written off    | —  | —                             | (8,003)                                    | (36,331)                                     | (2,744)  | (303)                         | (1,407)                     | (48,788)          |
| At 31st March 2001       | <b>13,199</b>  | <b>2,052</b>                  | <b>8,951</b>                               | <b>113,860</b>                               | <b>2,224</b>   | <b>1,200</b>                  | <b>—</b>                    | <b>141,486</b>    |
| Net book value           |  |                               |  |  |  |                               |                             |                   |
| At 31st March 2001       | <b>41,294</b>  | <b>5,893</b>                  | <b>3,022</b>                               | <b>69,069</b>                                | <b>321</b>   | <b>256</b>                    | <b>—</b>                    | <b>119,855</b>    |
| At 31st March 2000       | 43,643   | 6,290                         | 6,135                                      | 84,087                                       | 754  | 654                           | 422                         | 141,985           |

## Notes to the Accounts

## 11. FIXED ASSETS (continued)

## (b) Company

|                                       | <b>Medium term<br/>leasehold land<br/>and building<br/>in Hong Kong<br/>HK\$'000</b> |
|---------------------------------------|--|
| Cost                                  |  |
| At 1st April 2000 and 31st March 2001 | 7,945  |
| Accumulated depreciation              |  |
| At 1st April 2000                     | 1,655  |
| Charge for the year                   | 397  |
| At 31st March 2001                    | 2,052  |
| Net book value                        |  |
| At 31st March 2001                    | 5,893  |
| At 31st March 2000                    | 6,290  |

## 12. INVESTMENTS IN SUBSIDIARIES

|   | <b>Company</b>           |                  |
|---|--------------------------|------------------|
|   | <b>2001<br/>HK\$'000</b> | 2000<br>HK\$'000 |
| Unlisted shares, at cost                          | 304,296                  | 304,296          |
| Amounts due from subsidiaries                     | 510,178                  | 510,178          |
| Amounts due to subsidiaries                       | (15,837)                 | (7,603)          |
|   | 798,637                  | 806,871          |
| Less: Provision for permanent diminution in value | (529,904)                | (529,904)        |
|   | <b>268,733</b>           | <b>276,967</b>   |

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## Notes to the Accounts

### 12. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries at 31st March 2001:

| Name   | Place of incorporation/<br>operations                  | Principal activity              | Issued share capital/<br>registered capital  | Group equity interest |
|--|--|---------------------------------|--|-----------------------|
| KTP (BVI) Company Limited                    | British Virgin Islands/<br>Hong Kong                   | Investment holding              | 100 ordinary shares of US\$1 each  | 100%*                 |
| TP Industrial Limited                        | Hong Kong  | Investment holding              | 10,000 ordinary shares of HK\$1 each,<br>10,300,000 non-voting deferred shares of HK\$1 each and<br>800,000 non-voting ordinary "A" shares of HK\$1 each | 100%                  |
| Kong Tai Shoes Manufacturing Company Limited | Hong Kong/<br>People's Republic of China               | Manufacture of footwear         | 1,000 ordinary shares of HK\$1 each and 31,500,000 non-voting deferred shares of HK\$1 each  | 100%                  |
| Kenmate Industrial Limited                   | Hong Kong/<br>People's Republic of China<br>and Taiwan | Raw material sourcing           | 1,000 ordinary shares of HK\$1 each and 8,000,000 non-voting deferred shares of HK\$1 each   | 100%                  |
| Brave Win Industries Limited                 | Hong Kong/<br>People's Republic of China               | Manufacture of sole units       | 21,000,000 ordinary shares of HK\$1 each and 9,000,000 non-voting deferred shares of HK\$1 each  | 100%                  |
| Choy Fung Industrial Limited                 | Hong Kong/<br>People's Republic of China               | Provision of poly-clothing work | 100 ordinary shares of HK\$1 each and 4,500,000 non-voting deferred shares of HK\$1 each   | 100%                  |
| TP Investment Limited                        | Hong Kong  | Investment holding              | 1,000 ordinary shares of HK\$1 each and 10,000,000 non-voting deferred shares of HK\$1 each  | 100%                  |

## Notes to the Accounts

## 12. INVESTMENTS IN SUBSIDIARIES (continued)

| Name  | Place of incorporation/<br>operations | Principal activity             | Issued share capital/<br>registered capital | Group equity interest |
|---|---------------------------------------|--------------------------------|---|-----------------------|
| Dongguan Hungyip Shoes Manufacturing Co. Ltd. | People's Republic of China            | Manufacture of footwear        | Registered capital of HK\$125,480,000       | 100%                  |
| Dongguan Hungfa Shoes Material Co. Ltd.       | People's Republic of China            | Manufacture of footwear moulds | Registered capital of HK\$86,290,000        | 100%                  |

\* Directly held by the Company

Note: As at 31st March 2001, the issued/registered capital of each of the above subsidiaries has been fully paid up except for Dongguan Hungyip Shoes Manufacturing Co. Ltd. and Dongguan Hungfa Shoes Material Co. Ltd. whose respective paid up capital are HK\$112,510,047 and HK\$76,331,226 (2000: HK\$91,947,985 and HK\$59,808,989) respectively.

## 13. NON-CONSOLIDATED SUBSIDIARIES

|   | Group            |                  |
|---|------------------|------------------|
|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Unlisted shares, at cost                          | 35,568           | 35,568           |
| Attributable post-acquisition reserves            | (422,604)        | (422,604)        |
|   | (387,036)        | (387,036)        |
| Amounts receivable                                | 509,283          | 509,283          |
|   | 122,247          | 122,247          |
| Less: Provision for permanent diminution in value | (122,247)        | (122,247)        |
|   | —                | —                |

## Notes to the Accounts

### 13. NON-CONSOLIDATED SUBSIDIARIES (continued)

At 31st March 2001, details of the non-consolidated subsidiaries, both of which are incorporated in Indonesia are as follows:

| Name   | Principal activity | Issued share capital                    | Group equity interest |
|--|--------------------|---|-----------------------|
| P T Kong Tai Indonesia Shoes Manufacturing (“KTI”) | Dormant            | 4,000 ordinary shares of US\$1,000 each | 80%                   |
| P T Worldbest Raya Industry (“WRI”)                | Dormant            | 1,700 ordinary shares of US\$1,000 each | 80%                   |

As a result of the volatile political environment in Indonesia and the lack of co-operation of the minority shareholder and key management of the Indonesian subsidiaries, the directors consider the control of these companies has been significantly impaired by severe restrictions which came into force in February 1999. Accordingly, the Indonesian subsidiaries have been excluded from consolidation since 1st February 1999.

Both KTI and WRI have ceased operations since October 1999 and January 1998 respectively. In view of the loss of control and the cessation of operations of these two subsidiaries, the directors reviewed the carrying amounts of the Group’s investments in these two subsidiaries and determined, on grounds of prudence, to make full provision against the Group’s total investment exposure in prior years. The directors of the Company do not expect any significant liabilities will arise in respect of the Group’s investments in these subsidiaries for which additional provision would be required.

In connection with the closure of the factory of KTI, KTI received labour redundancy claims of approximately US\$3.5 million (approximately HK\$27.1 million) from the central labour court of Indonesia. The directors of KTI considered the amount of the claims unjustifiable as it represented twice the amount stipulated under the provisions of the Indonesian manpower regulations. Appeal was filed by KTI to seek to reduce the amount of compensation, however, it was rejected by the High Administrative Court in Indonesia.

On 25th May 2000, the assets of KTI were confiscated and put on public auction by the Bekasi Court for the settlement of redundancy claimed by the workers. The redundancy claims were fully settled by the proceeds from the auction sale.

The directors of the Company considered the action of Bekasi Court unjustifiable. The Company had instructed the Indonesian lawyers to file an appeal to the Supreme Court and to commence the liquidation proceedings for KTI in order to preserve the Company’s interest in KTI. However, both actions failed due to the objection of the minority shareholder.

## Notes to the Accounts

### 13. NON-CONSOLIDATED SUBSIDIARIES (continued)

It is the directors' intention to wind up or dispose of these two companies when suitable opportunities arise, however, given the current political situation in Indonesia and the lack of cooperation of the minority shareholder, the directors are not optimistic that these two companies can be successfully dissolved or sold in a short period of time and they consider the full provision made against the Group's total investment exposure in prior years is appropriate to reflect the uncertainty surrounding the recovery of the Group's investments in these two subsidiaries. The directors do not expect any further significant liabilities would arise in respect of the Group's investments in these subsidiaries.

Given the Group's loss of control of the non-consolidated subsidiaries, the directors are of the opinion that the cost of obtaining the financial information, for the disclosure of the Group's share of post-de-consolidation results of these subsidiaries pursuant to paragraph 24 of the Tenth Schedule to the Hong Kong Companies Ordinance, would involve delay and expense out of proportion to the benefit of the shareholders of the Company. Accordingly, the required information is not disclosed.

### 14. INVESTMENT SECURITIES

|   | <b>2001</b>         | <b>Group</b>        |
|---|---------------------|---------------------|
|   | <b>HK\$'000</b>     | <b>2000</b>         |
|   |                     | <b>HK\$'000</b>     |
| Unlisted equity securities outside Hong Kong, at cost | <b>13,313</b>       | 13,313              |
| Less: Provision for diminution in value               | <b>(5,814)</b>      | (5,814)             |
|   | <b><u>7,499</u></b> | <b><u>7,499</u></b> |

At 31st March 2001, details of the investee companies which are incorporated in Indonesia are as follows:

| <b>Name</b>                   | <b>Principal activity</b>    | <b>Issued share capital</b>                   | <b>Group equity interest</b> |
|-------------------------------|------------------------------|---|------------------------------|
| PT Sung Shin<br>Indonesia     | Manufacture<br>of sole units | 15,525,000 ordinary<br>shares of Rp1,000 each | 35%                          |
| PT Hanif<br>Dinamika          | Leather<br>processing        | 1,840,000 ordinary<br>shares of Rp1,000 each  | 35%                          |
| PT Korea Polymer<br>Indonesia | Manufacture<br>of sole units | 1,680,000 ordinary<br>shares of Rp1,000 each  | 44%                          |

The Group has no significant influence in the management of the above investment companies and accordingly they are not treated as associated companies of the Group.

## Notes to the Accounts

### 15. RENTAL ADVANCES

|   | <b>Group</b>        |                     |
|---|---------------------|---------------------|
|   | <b>2001</b>         | 2000                |
|   | <i>HK\$'000</i>     | <i>HK\$'000</i>     |
| Balance of rental advances  | 3,743               | 5,312               |
| Less: Amounts to be set off in the next twelve months<br>included in current assets | <u>(2,025)</u>      | <u>(1,789)</u>      |
|   | <b><u>1,718</u></b> | <b><u>3,523</u></b> |

Rental advances represent payments advanced to Bao An Xian provincial government to finance the construction of the factory premises which are now being used by the Group in the People's Republic of China. These advances are set off against rentals and management fees payable by the Group on leasing the premises. The lease period granted to the Group is fifty years.

These rental advances are interest-free except for an amount of HK\$2,374,473 (2000: HK\$2,793,361) which carries interest at 6% per annum.

### 16. INVENTORIES

|                  | <b>Group</b>          |                       |
|------------------|-----------------------|-----------------------|
|                  | <b>2001</b>           | 2000                  |
|                  | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Raw materials    | 53,625                | 63,504                |
| Work-in-progress | 20,269                | 32,593                |
| Finished goods   | <u>30,133</u>         | <u>26,387</u>         |
|                  | <b><u>104,027</u></b> | <b><u>122,484</u></b> |

At 31st March 2001 and 2000, all inventories were stated at cost.

## Notes to the Accounts

## 17. ACCOUNTS RECEIVABLE AND DEPOSITS

|                                     | Group                   |                         | Company                 |                         |
|-------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                     | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| Accounts receivable ( <i>Note</i> ) | 94,378                  | 98,125                  | —                       | —                       |
| Prepayments and deposits            | 3,980                   | 5,154                   | 28                      | 28                      |
|                                     | <u>98,358</u>           | <u>103,279</u>          | <u>28</u>               | <u>28</u>               |

*Note:* The Group allows an average credit period of 30 to 60 days to its trade customers and the ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) was as follows:

|                    | Group                   |                         |
|--------------------|-------------------------|-------------------------|
|                    | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| Current to 30 days | 67,504                  | 70,043                  |
| 31-60 days         | 24,576                  | 11,040                  |
| Over 60 days       | 2,298                   | 17,042                  |
|                    | <u>94,378</u>           | <u>98,125</u>           |

## 18. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company arose from transactions with the related company as stated in note 26 to the accounts. The balance is unsecured, interest-free and repayable on demand.

## 19. BANK BALANCES AND CASH

Included in the bank balances and cash of the Group are Renminbi deposits and cash in the People's Republic of China of HK\$3,159,000 (2000: HK\$4,344,000). Renminbi is not a freely convertible currency.

## Notes to the Accounts

### 20. ACCOUNTS PAYABLE AND ACCRUALS

|                                  | Group          |                | Company      |              |
|----------------------------------|----------------|----------------|--------------|--------------|
|                                  | 2001           | 2000           | 2001         | 2000         |
|                                  | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000     |
| Accounts payable ( <i>Note</i> ) | 75,805         | 93,631         | —            | —            |
| Accruals                         | 44,014         | 39,377         | 1,326        | 2,450        |
|                                  | <u>119,819</u> | <u>133,008</u> | <u>1,326</u> | <u>2,450</u> |

*Note:* At 31st March 2001, the ageing analysis of accounts payable was as follows:

|                    | Group         |               |
|--------------------|---------------|---------------|
|                    | 2001          | 2000          |
|                    | HK\$'000      | HK\$'000      |
| Current to 30 days | 35,036        | 43,068        |
| 31-60 days         | 26,632        | 19,114        |
| Over 60 days       | 14,137        | 31,449        |
|                    | <u>75,805</u> | <u>93,631</u> |

### 21. SHARE CAPITAL

|  | 2001               | 2000               |
|--|--------------------|--------------------|
|  | HK\$               | HK\$               |
| <i>Authorised:</i>                           |                    |                    |
| 800,000,000 ordinary shares of HK\$0.45 each | <u>360,000,000</u> | <u>360,000,000</u> |
| <i>Issued and fully paid:</i>                |                    |                    |
| 340,616,934 ordinary shares of HK\$0.45 each | <u>153,277,620</u> | <u>153,277,620</u> |

*Note:* Under the Company's share option scheme (the "Scheme"), the directors may, at their discretion, grant to employees and executive directors of the Group, options to subscribe for the Company's shares. The options are exercisable between 1st January 1997 and 1st December 2003, between 1st October 1997 and 1st December 2003 and between 1st December 2001 to 1st December 2003, at a subscription price of HK\$2.900, HK\$1.000 and HK\$0.178 per share respectively.

At 31st March 2001, 13,137,500 options were outstanding (2000: 22,044,500). No share options were exercised during the year.

Pursuant to a resolution passed at the board meeting on 25th July 2001, the Scheme was terminated with immediate effect. In addition, with the written approval of all option holders of the Company all the unexercised share options granted in prior years under the Scheme were cancelled on the same date.

## Notes to the Accounts

## 22. RESERVES

**Group**

|                     | <b>Share<br/>premium</b><br><i>HK\$'000</i> | <b>Contributed<br/>surplus</b><br><i>HK\$'000</i> | <b>Accumulated<br/>losses</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|---------------------|---|---|--|---------------------------------|
| At 1st April 1999   | 272,516                                     | 164,639   | (271,293)  | 165,862                         |
| Loss for the year   | —   | —   | (38,015)   | (38,015)                        |
| At 31st March 2000  | 272,516                                     | 164,639   | (309,308)  | 127,847                         |
| Profit for the year | —   | —   | 50,460   | 50,460                          |
| At 31st March 2001  | <b><u>272,516</u></b>                       | <b><u>164,639</u></b>                             | <b><u>(258,848)</u></b>                          | <b><u>178,307</u></b>           |

**Company**

|                    |                       |                       |                         |                       |
|--------------------|-----------------------|-----------------------|-------------------------|-----------------------|
| At 1st April 1999  | 272,516               | 397,766               | (522,808)               | 147,474               |
| Loss for the year  | —                     | —                     | (19,627)                | (19,627)              |
| At 31st March 2000 | 272,516               | 397,766               | (542,435)               | 127,847               |
| Loss for the year  | —                     | —                     | (7,507)                 | (7,507)               |
| At 31st March 2001 | <b><u>272,516</u></b> | <b><u>397,766</u></b> | <b><u>(549,942)</u></b> | <b><u>120,340</u></b> |

## Notes to the Accounts

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

|  | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Profit/(loss) before taxation  | <b>50,707</b>                  | (37,797)                |
| Provision for diminution in value of investments in<br>non-consolidated subsidiaries | —                              | 61,105                  |
| Provision for investment securities  | —                              | 1,000                   |
| Depreciation   | <b>32,112</b>                  | 54,673                  |
| Interest income  | <b>(3,116)</b>                 | (1,024)                 |
| Interest expenses  | <b>96</b>                      | 780                     |
| Loss on disposal of fixed assets   | <b>60</b>                      | 9,587                   |
| Decrease in amounts due from non-consolidated subsidiaries                           | —                              | 895                     |
| Decrease/(increase) in inventories   | <b>18,457</b>                  | (5,810)                 |
| Decrease/(increase) in accounts receivable and deposits                              | <b>4,921</b>                   | (47,248)                |
| (Increase)/decrease in amount due from a related company                             | <b>(284)</b>                   | 1,514                   |
| Decrease in rental advances - non-current portion                                    | <b>1,805</b>                   | 1,544                   |
| Increase in rental advances - current portion  | <b>(236)</b>                   | —                       |
| (Increase)/decrease in bills receivable  | <b>(9,457)</b>                 | 3,238                   |
| (Decrease)/increase in accounts payable and accruals                                 | <b>(13,189)</b>                | 34,122                  |
| Increase/(decrease) in bills payable   | <b>473</b>                     | (41,857)                |
| Net cash inflow from operating activities  | <b><u>82,349</u></b>           | <b><u>34,722</u></b>    |

### 24. CONTINGENT LIABILITIES

|  | <b>Group</b>                   |                         | <b>Company</b>                 |                         |
|--|--------------------------------|-------------------------|--------------------------------|-------------------------|
|  | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| Guarantees executed in favour of<br>banks to secure banking and loan<br>facilities granted to subsidiaries | <u>—</u>                       | <u>—</u>                | <b><u>22,173</u></b>           | <b><u>66,759</u></b>    |

## Notes to the Accounts

## 25. COMMITMENTS

## (a) Capital commitments

|                                 | <b>2001</b><br><i>HK\$'000</i> | <b>Group</b><br>2000<br><i>HK\$'000</i> |
|---------------------------------|--------------------------------|---|
| Contracted but not provided for |                                |   |
| — Acquisition of fixed assets   | <u>204</u>                     | <u>736</u>                              |

## (b) Commitments under operating leases

At 31st March 2001, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

|                                       | <b>2001</b><br><i>HK\$'000</i> | <b>Group</b><br>2000<br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|---|
| Within one year                       | —                              | 201                                     |
| In the second to fifth year inclusive | 287                            | 694                                     |
| After the fifth year                  | <u>2,613</u>                   | <u>2,435</u>                            |
|                                       | <u>2,900</u>                   | <u>3,330</u>                            |

The Company did not have any commitments at 31st March 2001 (2000: Nil).

## Notes to the Accounts

### 26. RELATED PARTY TRANSACTIONS

During the year, certain subsidiaries of the Company had transactions with Brilliant Footwear Company Limited in which certain former directors of the Company have beneficial interests. All these transactions constituted connected transactions as defined under the Listing Rules. These transactions were entered into in the normal course of business with prices and terms which were determined with reference to the relevant industrial practices. Details of these transactions were as follows:

|   | <b>2001</b><br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Sale of raw materials                                     | <b>3,263</b>                   | 5,398                   |
| Subcontracting income for provision of poly clothing work | <b>1,422</b>                   | 3,145                   |
| Sale of moulds  | <b>2,124</b>                   | 2,436                   |
| Sale of used plant, machinery and tools                   | <b>484</b>                     | 2,153                   |
| Subcontracting income for provision of embroidery work    | <b>328</b>                     | 1,299                   |
| Subcontracting fee paid for assembling of sole unit       | <b><u>(3,818)</u></b>          | <b><u>(3,363)</u></b>   |

### 27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25th July 2001.