

Notes to Financial Statements

31 December 2001

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. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 12 to the financial statements.

Notes to Financial Statements (continued)

31 December 2001

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of this revised SSAP. The revised requirements have not had a material effect on the amounts previously recorded in the financial statements and therefore, no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 34 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with SSAPs, 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 periodic remeasurement of investment properties, investments in short term equity 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 2001. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements (continued)

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Jointly-controlled entity**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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.

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 profits 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%

Notes to Financial Statements (continued)

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation (continued)**

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 fixed assets under construction, and is stated at cost less any impairment losses, and is 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.

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. Investment properties 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.

*Notes to Financial Statements (continued)**31 December 2001***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

(a) 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 acquisition, less any impairment losses.

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.

(b) 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 impairment losses, on an individual investment basis.

When 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.

Notes to Financial Statements (continued)

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments (continued)***(c) 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.

(d) Others

Golf club membership is stated at cost less any impairment losses.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

*Notes to Financial Statements (continued)**31 December 2001***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of assets (continued)**

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the 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 and jointly-controlled entity 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.

Notes to Financial Statements (continued)

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Retirement benefits scheme**

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 in Hong Kong. The Scheme has operated since 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.

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) from 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;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

*Notes to Financial Statements (continued)**31 December 2001***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Dividends (continued)**

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in note 12 to the financial statements.

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.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the footwear products segment produces footwear products for sale to customers; and
- (b) the property investment segment invests in prime office spaces for their rental income potential.

Notes to Financial Statements (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

Group

	Footwear products		Property investment		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue	814,348	633,550	1,155	1,515	815,503	635,065
Segment results	112,050	47,134	(24,623)	(2,180)	87,427	44,954
Net unallocated expenses					(27,249)	(6,775)
Profit from operating activities					60,178	38,179
Finance costs					(1,967)	(467)
Share of profit of a jointly-controlled entity					118	-
Profit before tax					58,329	37,712
Tax					(5,448)	(1,828)
Profit before minority interests					52,881	35,884
Minority interests					5,532	541
Net profit from ordinary activities attributable to shareholders					58,413	36,425

Notes to Financial Statements (continued)

31 December 2001

4. SEGMENT INFORMATION (continued)**(a) Business segments** (continued)

Group	Footwear products		Property investment		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment assets	427,627	343,091	77,138	101,588	504,765	444,679
Interests in a jointly-controlled entity					43,269	–
Unallocated assets					117,392	528,662
Total assets					665,426	973,341
Segment liabilities	218,698	189,073	597	614	219,295	189,687
Unallocated liabilities					3,915	55,675
Total liabilities					223,210	245,362
Other segment information:						
Capital expenditures	34,541	74,394	–	62,736	34,541	137,130
Unallocated capital expenditures					–	337
					34,541	137,467
Depreciation	14,110	9,720	–	–	14,110	9,720
Unallocated depreciation					2,651	1,585
					16,761	11,305
Non-cash expenses	10,521	65,874	24,450	3,286	34,971	69,160
Unallocated non-cash expenses					12,996	14,635
					47,967	83,795
Impairment losses recognised in the profit and loss account	–	1,193	–	–	–	1,193
Unallocated losses					16,786	682
					16,786	1,875
Unallocated impairment losses reversed directly in equity					5,745	–

Notes to Financial Statements (continued)

31 December 2001

4. SEGMENT INFORMATION *(continued)***(b) Geographical segments**

The following table presents revenue and profit information for the Group's geographical segments.

Group

	Turnover		Contribution to gross profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
North America:				
United States of America	539,238	384,154	113,707	82,296
Others	48,822	34,819	10,295	7,459
	588,060	418,973	124,002	89,755
Europe	123,238	132,314	25,987	28,345
Asia	44,161	39,813	10,223	9,719
Australia	28,737	20,873	6,060	4,472
Others	31,307	23,092	6,601	4,947
	815,503	635,065	172,873	137,238

The contribution to profit from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and, accordingly, a geographical analysis of contribution, which is discloseable pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), is not presented.

Over 90% of the Group's assets and liabilities are located in Hong Kong and mainland China.

5. TURNOVER

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

Notes to Financial Statements (continued)

31 December 2001

6. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	448,175	337,868
Depreciation	16,761	11,305
Auditors' remuneration	1,089	1,221
Minimum lease payments under operating leases in respect of land and buildings	9,555	9,994
Staff costs (excluding directors' remuneration, note 8):		
Provident fund contributions	448	343
Less: Forfeited contributions	(224)	(267)
Net contributions to provident fund	224	76
Wages and salaries	165,007	131,488
	165,231	131,564
Product development expenditure	4,554	2,053
Loss on disposal of fixed assets	385	69
Loss on write-off of fixed assets	1,342	4,380
Provision for doubtful debts	9,111	61,442
Provision for impairment in value of land held for development	16,786	1,875
Deficit on revaluation of leasehold land and buildings	9,175	8,832
Deficit on revaluation of investment properties	24,450	3,286
Provision for impairment of long term investments	1,769	50
Net holding loss on short term investments	1,735	5,736
and after crediting:		
Gain on disposal of short term investments	3,626	5,600
Gain on disposal of long term investments	23,049	4,375
Gross rental income from investment properties	1,155	1,515
Less: Outgoings	(148)	(67)
Net rental income from investment properties	1,007	1,448
Dividend income from listed investments	773	91
Exchange gains, net	466	229
Interest income from:		
Cash and bank balances	11,009	22,409
Listed investments	11,822	15,807

Notes to Financial Statements (continued)

31 December 2001

7. FINANCE COSTS

	2001 HK\$'000	Group 2000 HK\$'000
Interest expense on bank loans and overdrafts wholly repayable within five years	1,967	467

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Fees:		
Executive directors	90	–
Non-executive directors	90	–
Independent non-executive directors	238	96
	418	96
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	5,475	5,971
Discretionary bonus	46	–
Compensation for loss of office	977	–
Provident fund contributions		
Pension contributions	187	169
Less: Forfeited contributions	(292)	–
	(105)	169
	6,393	6,140
Other emoluments of independent non-executive directors:		
Salaries, allowances and benefits in kind	60	120

Notes to Financial Statements (continued)

31 December 2001

8. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	13	9
HK\$1,000,001 – HK\$1,500,000	4	2
	17	11

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all (2000: five) directors, details of whose remuneration are set out in note 8 to the financial statements above.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000:16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices thereof.

	2001 HK\$'000	2000 <i>HK\$'000</i>
Group:		
Hong Kong	886	568
Elsewhere	4,260	1,072
Underprovision in prior years	302	188
Tax charge for the year	5,448	1,828

11. 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\$2,884,000 (2000: HK\$41,524,000).

Notes to Financial Statements (continued)

31 December 2001

12. DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Proposed final dividend – Nil (2000: HK\$0.125 per ordinary share, adjusted for the consolidation of 25 ordinary shares of HK\$0.04 each into 1 ordinary share of HK\$1.00 each (the “Share Consolidation”) (note 30))	–	25,659

During the year, the Group adopted the SSAP 9 (Revised) “Events after the balance sheet date”, as detailed in notes 2 and 3 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of HK\$25,659,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of such reclassification is to reduce both the Company’s and the Group’s current liabilities, and increase the reserves previously reported as at 31 December 2000, by HK\$25,659,000.

13. EARNINGS PER SHARE

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

	2001 HK\$'000	2000 HK\$'000
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	58,413	36,425
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	205,723,618	196,924,383*
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	67,606	1,346,288*
Weighted average number of ordinary shares used in diluted earnings per share calculation	205,791,224	198,270,671*

* Adjusted for the Share Consolidation.

Notes to Financial Statements (continued)

31 December 2001

14. FIXED ASSETS**Group**

	Land and buildings	Construction in progress	Land held for development	Leasehold improvements	Moulds	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At beginning of year	50,909	10,846	25,234	9,921	16,670	78,824	9,869	5,223	207,496
Additions	-	6,968	-	2,324	13,409	8,388	1,576	1,876	34,541
Transfers	-	(17,814)	-	16,749	-	484	581	-	-
Disposals	(1,400)	-	-	(51)	(305)	(479)	(193)	(780)	(3,208)
Written off	-	-	-	(807)	(2,189)	(193)	(1,802)	-	(4,991)
Deficit on revaluation	(10,000)	-	-	-	-	-	-	-	(10,000)
Exchange realignment	(839)	-	-	137	155	631	(66)	(60)	(42)
At 31 December 2001	38,670	-	25,234	28,273	27,740	87,655	9,965	6,259	223,796
At cost	8,920	-	-	28,273	27,740	87,655	9,965	6,259	168,812
At valuation	29,750	-	25,234	-	-	-	-	-	54,984
	38,670	-	25,234	28,273	27,740	87,655	9,965	6,259	223,796
Accumulated depreciation and impairment:									
At beginning of year	-	-	-	6,061	2,562	28,508	6,749	1,948	45,828
Provided for the year	943	-	-	2,850	3,582	7,362	1,073	951	16,761
Impairment during the year:									
Recognised directly in equity	-	-	5,745	-	-	-	-	-	5,745
Shared by the minority shareholders	-	-	2,703	-	-	-	-	-	2,703
Recognised in the profit and loss account	-	-	16,786	-	-	-	-	-	16,786
Disposals	(25)	-	-	(31)	(22)	(471)	(136)	(695)	(1,380)
Written off	-	-	-	(736)	(954)	(193)	(1,766)	-	(3,649)
Written back on revaluation	(825)	-	-	-	-	-	-	-	(825)
Exchange realignment	-	-	-	18	22	200	(35)	(26)	179
At 31 December 2001	93	-	25,234	8,162	5,190	35,406	5,885	2,178	82,148
Net book value:									
At 31 December 2001	38,577	-	-	20,111	22,550	52,249	4,080	4,081	141,648
At 31 December 2000	50,909	10,846	25,234	3,860	14,108	50,316	3,120	3,275	161,668

Notes to Financial Statements (continued)

31 December 2001

14. 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	–	8,920	8,920
At valuation:			
Medium term leases	29,750	–	29,750
	<u>29,750</u>	<u>8,920</u>	<u>38,670</u>

The medium term leasehold land and buildings of the Group in Hong Kong were revalued on 31 December 2001 by DTZ Debenham Tie Leung Limited, independent professional valuers, on an open market value, existing use basis.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK\$60,489,000 (2000: HK\$63,808,000).

Land held for development represents the Group's 68% interest in land (the "Land") with an area of approximately 353,333 square metres for a term of 50 years from 12 December 1997 in Zhongshan, The People's Republic of China (the "PRC"), for the construction of factory buildings and facilities (the "Project") thereon. During the year, the Group decided to suspend the Project indefinitely. In the opinion of the directors, after taking into consideration the conditions as stated in the land grant contracts and the suspension of the Project for an indefinite period of time, considered that the recoverability of the carrying value of the Land to be remote. Accordingly, full provision in respect of the carrying value of the Land of HK\$25,234,000 has been made for this year.

Certain leasehold land and buildings, and investment properties (note 15) held by the Group, with an aggregate net book value of approximately HK\$105,450,000 (2000: HK\$139,200,000) as at 31 December 2001, were pledged to secure banking facilities of approximately HK\$90,700,000 (2000: HK\$141,400,000) granted to the Group (note 28).

Notes to Financial Statements (continued)

31 December 2001

15. INVESTMENT PROPERTIES

	2001 HK\$'000	Group 2000 HK\$'000
Valuation:		
At beginning of year	101,450	42,000
Additions	–	62,736
Revaluation deficit	(24,450)	(3,286)
At 31 December	<u>77,000</u>	<u>101,450</u>

The investment properties held by the Group as at 31 December 2001 were pledged to secure banking facilities granted to the Group (notes 14 and 28).

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 2001 by DTZ Debenham Tie Leung Limited, independent professional valuers, on an open market, existing use basis. Investment properties with total carrying value of HK\$24,500,000 (2000: HK\$33,150,000) are leased to third parties under operating leases, further summary details of which are included in note 34 to the financial statements, and the investment properties with the remaining balance of HK\$52,500,000 (2000: HK\$68,300,000) were vacant at 31 December 2001.

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

Location	Approximate gross floor area	Existing use	Attributable interest of the Group
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 2001

16. INVESTMENTS**(a) Long term investments**

	2001	Group
	HK\$'000	2000
		HK\$'000
<i>Investment securities</i>		
Overseas listed dated debt securities, at cost [#]	28,118	177,897
Less: Provision for impairment	(1,105)	–
	27,013	177,897
Listed equity securities, at cost [#]		
– Hong Kong	20	20
– Overseas	1,638	1,888
Less: Provision for impairment	(664)	–
	994	1,908
Overseas unlisted equity securities, at cost	760	760
Less: Provision for impairment	(684)	(684)
	76	76
<i>Others</i>		
Golf club membership in the PRC, at cost	880	880
Less: Provision for impairment	(430)	(430)
	450	450
Total long term investments	28,533	180,331

[#] The aggregate market value of the overseas listed dated debt securities and listed equity securities totalled approximately HK\$27,013,000 (2000: HK\$182,509,000) and HK\$996,000 (2000: HK\$1,074,000), respectively, at 31 December 2001.

Notes to Financial Statements (continued)

31 December 2001

16. INVESTMENTS *(continued)***(b) Short term investments**

	2001 HK\$'000	Group 2000 HK\$'000
<i>Other investments</i>		
Listed equity securities, at fair value – Hong Kong	4,455	27,695

17. DEPOSITS PAID

The deposits represent payments for the purchase of a plot of leasehold land in Zhongshan, the PRC.

18. PREPAID RENTAL

This represents prepaid rental for the leasing of certain leasehold buildings in the PRC for lease terms of ten years.

19. INVESTMENTS IN SUBSIDIARIES

	2001 HK\$'000	Company 2000 HK\$'000
Unlisted shares, at cost	141,213	141,213
Less: Provision for impairment	(140,225)	(140,225)
	988	988

Notes to Financial Statements (continued)

31 December 2001

19. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company**		Principal activities
			2001	2000	
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
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%	100%	Footwear marketing and trading

Notes to Financial Statements (continued)

31 December 2001

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company**		Principal activities
			2001	2000	
Zenith Billion Trading Limited	Hong Kong	Ordinary HK\$2	100%	100%	Footwear trading
Cashmaster Profits Limited	British Virgin Islands/PRC	Ordinary US\$1	100%	100%	Footwear trading
Sunrise Footwear Limited	Macau	MOP1,000,000	100%	100%	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
Muspole International Limited #	British Virgin Islands	Ordinary US\$1	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 a winding-up, only entitled out of the surplus assets of the company, to a return of the capital after a total sum of HK\$100,000,000,000,000 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.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

@ This subsidiary was acquired during the year.

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 2001

20. DUE FROM SUBSIDIARIES

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

21. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets	341	–
Due from a jointly-controlled entity	42,928	–
	43,269	–

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

The Group's share of net profit retained by a jointly-controlled entity for the year amounted to HK\$118,000. The Group's share of the post-acquisition retained profits of a jointly-controlled entity at 31 December 2001 was HK\$118,000.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Nominal value of issued ordinary share	Percentage of equity attributable to the Group		Principal activity
				2001	2000	
Union Overseas Holdings Limited ("UOHL") #	Corporate	British Virgin Islands	Ordinary US\$100	50% [@]	–	Investment holding

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

@ On 15 August 2001, the Group disposed of 50% of its interest in UOHL and UOHL became a jointly-controlled entity of the Group thereafter. Prior to the partial disposal of interest in UOHL, UOHL was a wholly-owned subsidiary of the Group.

Notes to Financial Statements (continued)

31 December 2001

22. INVENTORIES

	2001	Group
	HK\$'000	2000
		HK\$'000
Raw materials	33,577	30,688
Work in progress	21,684	24,630
Finished goods	44,993	36,322
	100,254	91,640

At the balance sheet date, no inventories were stated at net realisable value (2000: Nil).

23. TRADE RECEIVABLES

The Group generally grants a credit term of 60 to 90 days to its customers. An estimate for doubtful debts is made and deducted when collection of the amount is no longer probable. Bad debts are written off as incurred.

An ageing analysis of the trade receivables as at 31 December was as follows:

	Group			
	2001		2000	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to 30 days	98,475	47%	71,587	49%
31 days to 60 days	24,795	12%	4,721	3%
61 days to 90 days	10,207	5%	198	–
Over 90 days	75,864	36%	70,116	48%
	209,341	100%	146,622	100%
Less: Provision for doubtful debts	(77,252)		(68,141)	
	132,089		78,481	

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

Notes to Financial Statements (continued)

31 December 2001

24. OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Prepayments	781	871	256	579
Deposits and other debtors	8,236	21,139	30	997
	<u>9,017</u>	<u>22,010</u>	<u>286</u>	<u>1,576</u>

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	70,949	58,829	19,162	1,361
Time deposits	29,721	233,419	26,892	214,128
	<u>100,670</u>	<u>292,248</u>	<u>46,054</u>	<u>215,489</u>

26. TRADE PAYABLES

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

	Group			
	2001		2000	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to 30 days	58,916	50%	53,221	51%
31 days to 60 days	32,284	28%	31,499	30%
61 days to 90 days	7,111	6%	4,739	4%
Over 90 days	18,759	16%	15,694	15%
	<u>117,070</u>	<u>100%</u>	<u>105,153</u>	<u>100%</u>

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

Notes to Financial Statements (continued)

31 December 2001

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000 (Restated)	2001 HK\$'000	2000 HK\$'000 (Restated)
Accruals	45,703	35,417	1,245	1,210
Other liabilities	53,001	50,799	46	602
	98,704	86,216	1,291	1,812

28. BANK LOAN AND OVERDRAFTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts:				
Secured	–	709	–	–
Bank loan:				
Secured	–	50,700	–	50,700
	–	51,409	–	50,700
Bank overdrafts repayable within one year or on demand	–	709	–	–
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
	–	51,409	–	50,700
Portion classified as current liabilities	–	(10,849)	–	(10,140)
Long term portion	–	40,560	–	40,560

Notes to Financial Statements (continued)

31 December 2001

28. BANK LOAN AND OVERDRAFTS *(continued)*

At 31 December 2001, the Group's banking facilities were supported by the following:

- (i) legal charges over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$77,000,000 (2000: HK\$101,450,000);
- (ii) legal charges over certain of the Group's land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK\$28,450,000 (2000: HK\$37,750,000); and
- (iii) corporate guarantees from the Company and certain of its subsidiaries.

29. DEFERRED TAX

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

	2001 HK\$'000	Group 2000 HK\$'000
Accelerated capital allowances	3,038	2,120
Tax losses available for future relief	(838)	(1,020)
	2,200	1,100

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 (2000: Nil).

Notes to Financial Statements (continued)

31 December 2001

30. SHARE CAPITAL**Shares**

	2001 HK\$'000	Company 2000 HK\$'000
Authorised:		
2,000,000,000 (2000: 20,000,000,000) ordinary shares of HK\$1.00 (2000: HK\$0.10) each	2,000,000	2,000,000
Issued and fully paid:		
208,169,996 (2000: 5,131,749,907) ordinary shares of HK\$1.00 (2000: HK\$0.10) each	208,170	513,175

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

- (a) In October 2001, before the capital restructuring in (b) below, 3,700,000 (2000: 108,648,653) fully paid shares of the Company were issued at a subscription price of HK\$0.10 per share (2000: HK\$0.10 or HK\$0.117 per share), upon the exercise of the share options, resulting in total cash proceeds to the Company, before expenses, of HK\$370,000 (2000: HK\$11,408,000).
- (b) Pursuant to the special and ordinary resolutions passed on 22 October 2001 in relation to capital reduction, capital return and share consolidation (the "Capital Restructuring"), with effect from 23 October 2001, the authorised capital of the Company was adjusted from HK\$2,000,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.10 each to HK\$2,000,000,000 divided into 2,000,000,000 ordinary shares of HK\$1.00 each, and the issued share capital was also adjusted from HK\$513,545,000 divided into 5,135,450,000 ordinary shares of HK\$0.10 each to HK\$205,418,000 divided into 205,418,000 ordinary shares of HK\$1.00 each.

The implementation of the Capital Restructuring involves the following procedures:

- (i) a reduction in the issued share capital and return of capital in the amount of HK\$0.06 for every issued share at nominal value of HK\$0.10 each of the Company to the shareholders of the Company;
- (ii) a reduction in the nominal value of the issued and unissued shares of the Company from HK\$0.10 each to HK\$0.04 each; and
- (iii) a consolidation of every 25 shares of the Company of HK\$0.04 each created by the capital reduction in (i) and (ii) above into one share of HK\$1.00.

Details of the Capital Restructuring are also set out in a circular of the Company dated 28 September 2001.

Notes to Financial Statements (continued)

31 December 2001

30. SHARE CAPITAL (continued)**Shares (continued)**

- (c) In November 2001, after the Capital Restructuring in (b) above, 2,752,000 (2000: Nil) fully paid shares of the Company were issued at a subscription price of HK\$1.00 per share, upon the exercise of the share options, resulting in total cash proceeds to the Company, before expenses, of HK\$2,752,000 (2000: Nil).

A summary of the transactions with reference to the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued '000	Par value HK\$'000
At 1 January 2000		4,195,101	419,510
Placement of new shares		828,000	82,800
Exercise of share options		108,649	10,865
		<hr/>	<hr/>
At 31 December 2000 and 1 January 2001		5,131,750	513,175
Exercise of share options	(a)	3,700	370
		<hr/>	<hr/>
		5,135,450	513,545
Return of capital in the amount of HK\$0.06 for every issued share capital of HK\$0.10	(b)	–	(308,127)
Consolidation of 25 ordinary shares of HK\$0.04 each into 1 ordinary share of HK\$1.00 each	(b)	(4,930,032)	–
		<hr/>	<hr/>
		205,418	205,418
Exercise of share options	(c)	2,752	2,752
		<hr/>	<hr/>
At 31 December 2001		208,170	208,170
		<hr/>	<hr/>

Notes to Financial Statements (continued)

31 December 2001

30. SHARE CAPITAL (continued)**Share options**

The Company adopted a new share option scheme (the "New Scheme") during the year to replace the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) (the "Old Scheme"). Further details of the New Scheme and the Old Scheme are also set out under the heading "Share option scheme" in the Report of the Directors.

At the beginning of the year, there were 250,816,207 options outstanding under the Old Scheme, which entitled the holders to subscribe for shares of the Company 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 subscription price payable upon the exercise of these options was HK\$0.10, subject to adjustment.

During the period from 1 January 2001 to 22 October 2001 (the date immediately prior to the Capital Restructuring), 3,700,000 share options were exercised at an exercise price of HK\$0.10 per share, and 138,816,207 share options with an exercise price of HK\$0.10 per share were lapsed.

Immediately prior to the Capital Restructuring on 23 October 2001, the Company had 108,300,000 share options outstanding with an exercise price of HK\$0.10 per share. As a result of the Capital Restructuring, the subscription price of the outstanding share options has been adjusted from HK\$0.10 to HK\$1.00 per share and the total number of outstanding share options has been adjusted from 108,300,000 to 4,332,000.

Details of movements in the number of share options since the Capital Restructuring were as follows:

Exercise price per share	At 23 October 2001	Granted during the period	Exercised during the period	Lapsed during the period	At 31 December 2001
HK\$1.00	4,332,000	–	(2,752,000)	(40,000)	1,540,000

At 31 December 2001, the Company had 1,540,000 share options outstanding under the Old Scheme, with exercisable period from 14 February 2001 to 13 February 2003 and an exercise price of HK\$1.00 per share. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 1,540,000 additional ordinary shares of HK\$1.00 each and would generate cash proceeds, before the related issue expenses, of approximately HK\$1,540,000.

Notes to Financial Statements (continued)

31 December 2001

31. RESERVES**Group**

	Share premium account <i>HK\$'000</i>	Fixed assets revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	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
Net profit for the year	–	–	–	36,425	36,425
Proposed final dividend – note 12	–	–	–	(25,659)	(25,659)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	28,057	5,745	4,359	137,150	175,311
Reversal on impairment in value of fixed assets	–	(5,745)	–	–	(5,745)
Exchange realignment	–	–	468	–	468
Net profit for the year	–	–	–	58,413	58,413
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	28,057	–	4,827	195,563	228,447
Reserves retained by:					
Company and subsidiaries	28,057	–	4,827	195,222	228,106
Jointly-controlled entity	–	–	–	341	341
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	28,057	–	4,827	195,563	228,447

*Notes to Financial Statements (continued)**31 December 2001***31. 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 2000	191	63,561	33,190	96,942
Arising on private placement and exercise of share options	27,866	–	–	27,866
Net profit for the year	–	–	41,524	41,524
Proposed final dividend – note 12	–	–	(25,659)	(25,659)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	28,057	63,561	49,055	140,673
Net profit for the year	–	–	2,884	2,884
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>28,057</u>	<u>63,561</u>	<u>51,939</u>	<u>143,557</u>

The contributed surplus of the Company represents the excess of the fair 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. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

Notes to Financial Statements (continued)

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	60,178	38,179
Interest income	(11,009)	(22,409)
Interest income from listed investments	(11,822)	(15,807)
Dividend income from listed investments	(773)	(91)
Depreciation	16,761	11,305
Loss on disposal of fixed assets	385	69
Loss on write-off of fixed assets	1,342	4,380
Deficit on revaluation of investment properties	24,450	3,286
Provision for impairment in value of land held for development	16,786	1,875
Deficit on revaluation of leasehold land and buildings	9,175	8,832
Provision for impairment of long term investments	1,769	50
Net holding loss on short term investments	1,735	5,736
Gain on disposal of short term investments	(3,626)	(5,600)
Gain on disposal of long term investments	(23,049)	(4,375)
Increase in inventories	(8,614)	(29,044)
Decrease/(increase) in trade receivables	(53,608)	19,736
Increase in other receivables	(7,957)	(10,726)
Increase in trade payables	11,917	13,259
Increase in other payables and accruals	12,926	14,062
Exchange adjustments on consolidation of foreign subsidiaries	939	629
Net cash inflow from operating activities	37,905	33,346

Notes to Financial Statements (continued)

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Analysis of changes in financing during the years**

	Issued capital and share premium account <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2000	419,701	–	14,375
Cash inflow from financing, net	121,531	50,700	–
Share of loss for the year	–	–	(541)
	<hr/>	<hr/>	<hr/>
At 31 December 2000 and 1 January 2001	541,232	50,700	13,834
Cash outflow from financing, net	(305,005)	(50,700)	–
Share of loss for the year	–	–	(5,532)
Share of reversal on impairment in value of fixed assets	–	–	(2,703)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>236,227</u>	<u>–</u>	<u>5,599</u>

(c) Partial disposal of interest in a subsidiary

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets disposed of:		
Long term investments	108,042	–
Other receivables	93	–
Cash and cash equivalents	6	–
	<hr/>	<hr/>
	108,141	–
Transfer to interests in a jointly-controlled entity	(54,071)	–
	<hr/>	<hr/>
Consideration	54,070	–
	<hr/>	<hr/>
Satisfied by:		
Cash	54,070	–
	<hr/>	<hr/>

Notes to Financial Statements (continued)

31 December 2001

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(c) Partial disposal of interest in a subsidiary** *(continued)*

An analysis of the net cash inflow of cash and cash equivalents in respect of partial disposal of interest in a subsidiary is as follows:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	54,070	–
Cash and cash equivalents disposed of	(6)	–
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of partial disposal of interest in a subsidiary	54,064	–
	<hr/>	<hr/>

The subsidiary partially disposed of during the year ended 31 December 2001 had no significant impact in respect of the cash flows from operating activities, investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiary partially disposed of in the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover or profit after tax.

33. CONTINGENT LIABILITIES

As at 31 December 2001, the Company had provided corporate guarantees to a bank for banking facilities granted to the Company and certain of its subsidiaries which had not been utilised (2000: HK\$40,000,000) as at the balance sheet date.

Notes to Financial Statements (continued)

31 December 2001

34. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2001	Group
	HK\$'000	2000
		<i>HK\$'000</i>
Within one year	1,299	818
In the second to fifth years, inclusive	1,226	920
	2,525	1,738

(b) As lessee

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to ten years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2001	Group
	HK\$'000	2000
		<i>HK\$'000</i>
Within one year	8,676	1,505
In the second to fifth years, inclusive	7,555	3,379
After five years	2,245	3,009
	18,476	7,893

The Company did not have any operating lease arrangement at the balance sheet date (2000: Nil).

Notes to Financial Statements (continued)

31 December 2001

34. OPERATING LEASE ARRANGEMENTS (continued)

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments contracted for at the balance sheet date:

	2001	Group
	HK\$'000	2000
		<i>HK\$'000</i>
Capital contributions to subsidiaries in the PRC	1,841	58,001
Leasehold improvements	1,215	5,152
	3,056	63,153

The Company did not have any commitments at the balance sheet date (2000: Nil).

36. RELATED PARTY TRANSACTIONS

The Company issued 264,960,000 and 563,040,000 new ordinary shares of HK\$0.10 each to First Place Limited and Mercantile Diamond Corporation, which certain directors of the Company had beneficial interests therein, at a subscription price of HK\$0.133 per share during the year ended 31 December 2000. Except for the above, the Group did not have any material related party transactions during the current and prior years.

*Notes to Financial Statements (continued)**31 December 2001***37. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, on 18 February 2002, Well Success Investment Limited ("Well Success"), a company incorporated in the British Virgin Islands, announced that on 15 February 2002 it had acquired 39.74% of the issued share capital of the Company. Accordingly, in compliance with the Hong Kong Code on Takeovers and Mergers, a conditional cash offers was made by Well Success. Sze Sun Sun, Tony, Chan Ting Chuen and Li Kwok Lung, Alfred Ronald, three directors of the Company, have beneficial interests in Well Success. On 6 March 2002, Well Success announced that the offers became unconditional.

Details of the unconditional cash offers are also set out in the circular of the Company dated 26 March 2002.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified or revised to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.