

## 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

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for periods commencing on or after 1st July 2000)
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

The effect of adopting these new standards is set out in the accounting policies below.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March, 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 impairment losses, as more fully explained in note 13 to the accounts.

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital, or by way of having the power to govern its financial and operating policies so that the Group obtains benefits from these activities.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies *(continued)*

#### (b) Consolidation *(continued)*

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 appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously taken to reserves has not been restated. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill taken to reserves to the extent it has not previously been realised in the profit and loss account.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies *(continued)*

#### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation, accumulated impairment losses 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 less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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%

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss accounts.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in the profit and loss accounts.

#### (e) 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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies *(continued)*

#### (f) Investment securities

Investment securities are held for long-term and are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (g) 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.

#### (h) 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.

#### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

#### (j) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies *(continued)*

#### (k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (l) 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.

#### (m) 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 balance sheet of subsidiaries expressed in foreign currencies are translated at the exchange rates ruling at the date whilst the profit and loss is translated at an average rate. Exchange differences are taken to the profit and loss account.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies *(continued)*

#### (n) 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.

#### (o) 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.

Commencing 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.

#### (p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 11).

No analysis of segment information by business segment is presented as the Group has been engaged in the manufacturing and sale of footwear products only.

## NOTES TO THE ACCOUNTS

### 2. Turnover, Revenues and Segment Information

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:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Sales of goods	713,924	967,064
Other revenues		
Bank interest income	3,472	3,116
Rental income	3,779	2,617
Net gain on disposal of fixed assets	599	470
Interest on rental advances	130	156
Dividend income from unlisted investment securities	477	—
Exchange gain, net	—	2,281
Subcontracting income	4,461	1,993
Others	4,106	2,272
	<u>17,024</u>	<u>12,905</u>
Total revenues	<u><u>730,948</u></u>	<u><u>979,969</u></u>

## NOTES TO THE ACCOUNTS

### 2. Turnover, Revenues and Segment Information *(continued)*

The Group is currently marketed to four major geographical segments based on the locations of its customers. An analysis of the Group's results by geographical segment based on the country in which the customer is located and geographical analysis on segment assets, liabilities, capital expenditure and depreciation based on the locations of assets are as follows:—

	Turnover	Segment	Segment	Segment
	2002	result	assets	liabilities
	HK\$'000	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	334,688	21,006	—	—
Europe	123,102	7,726	—	—
Asia (other than Mainland China and Hong Kong)	142,154	8,922	2,224	6,965
Canada	15,599	979	—	—
Mainland China	61,613	3,867	276,364	97,532
Hong Kong	—	—	37,237	9,599
Others	36,768	2,308	—	—
		44,808		
Unallocated costs		(13,818)		
Operating profit before finance cost		30,990		
Finance cost		(18)		
Provision for impairment loss on investment securities		(7,499)		
Profit before taxation		23,473		
Taxation		(51)		
Profit attributable to shareholders		23,422		
Total	713,924		315,825	114,096



## NOTES TO THE ACCOUNTS

### 2. Turnover, Revenues and Segment Information *(continued)*

	Turnover	Segment result	Segment assets	Segment liabilities
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	546,259	38,781	—	—
Europe	192,601	13,673	—	—
Asia (other than Mainland China and Hong Kong)	90,995	6,460	11,285	9,786
Canada	13,920	988	—	—
Mainland China	86,308	6,127	332,270	114,709
Hong Kong	—	—	114,047	1,523
Others	36,981	2,626	—	—
		<u>68,655</u>		
Unallocated costs		<u>(17,852)</u>		
Operating profit before finance cost		50,803		
Finance cost		<u>(96)</u>		
Profit before taxation		50,707		
Taxation		<u>(247)</u>		
Profit attributable to shareholders		<u>50,460</u>		
Total	<u>967,064</u>		<u>457,602</u>	<u>126,018</u>

## NOTES TO THE ACCOUNTS

### 2. Turnover, Revenues and Segment Information *(continued)*

	Capital expenditure		Depreciation	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Mainland China	4,801	10,444	23,192	31,715
Hong Kong	—	—	398	397
	<u>4,801</u>	<u>10,444</u>	<u>23,590</u>	<u>32,112</u>

No analysis of segment information by business segment is presented as the Group has been engaged in the manufacturing and sale of footwear products only.

### 3. Operating Profit before Finance Cost

	2002 HK\$'000	2001 HK\$'000
Operating profit before finance cost is stated after charging the following:		
Staff costs (including directors' emoluments)	133,926	154,250
Depreciation	23,590	32,112
Exchange loss, net	447	—
Operating lease rentals for land and buildings	3,611	3,204
Contributions to retirement scheme less forfeiture of HK\$103,000 (2001: HK\$19,000)	1,151	1,345
Auditors' remuneration		
— Underprovision in prior years	—	382
— Current year	757	908
Loss on disposal of fixed assets	—	60
Legal and professional fees	<u>1,896</u>	<u>1,332</u>

### 4. Finance cost

	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts	<u>18</u>	<u>96</u>

## NOTES TO THE ACCOUNTS

### 5. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the year (2001: Nil). 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:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Overseas taxation		
— Current year	—	154
— Underprovision in prior years	51	93
	<u>51</u>	<u>93</u>
	<u>51</u>	<u>247</u>

There was no material unprovided deferred taxation for the year (2001: Nil).

### 6. Directors' and Senior Management's Emoluments

#### (a) Director's remuneration

The aggregate amounts of the emoluments payable to the directors of the Company during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	500	2,408
Basic salaries, housing allowances, other allowances and benefits-in-kind	3,670	4,036
Discretionary bonuses	2,040	400
Retirement benefit costs	311	336
	<u>6,521</u>	<u>7,180</u>

Directors' fees disclosed above include HK\$300,000 (2001: HK\$153,000) paid to independent non-executive directors.

## NOTES TO THE ACCOUNTS

### 6. Directors' and Senior Management's Emoluments (continued)

#### (a) Directors' remuneration (continued)

The emoluments of the directors fall within the following bands:

Emoluments band	Number of directors	
	2002	2001
HK\$Nil — HK\$1,000,000	12	12
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$1,500,001 — HK\$2,000,000	2	—
	15	13
	15	13

No directors waived their emoluments in respect of the years ended 31st March 2002 and 2001.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2001: five) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining individual (2001: Nil) during the year, which fall within the range of HK\$1,500,001-HK\$2,000,000 is as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	497	—
Discretionary bonuses	1,041	—
Retirement benefit costs	31	—
	1,569	—
	1,569	—

### 7. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$75,353,000 (2001: loss of HK\$7,507,000).

## NOTES TO THE ACCOUNTS

### 8. Distributions to Shareholders

	2002 HK\$'000	2001 HK\$'000
First distribution, paid of HK\$0.3 (2001: HK\$ Nil) per ordinary share ( <i>note a</i> )	102,185	—
Second distribution, paid of HK\$0.15 (2001: HK\$ Nil) per ordinary share ( <i>note a</i> )	<u>51,092</u>	<u>—</u>
	153,277	—
Final dividend, proposed of HK\$0.03 (2001: Nil) per ordinary share ( <i>note b</i> )	<u>10,219</u>	<u>—</u>
	<u><u>163,496</u></u>	<u><u>—</u></u>

*Note:*

- (a) Pursuant to ordinary resolutions passed on 12th December 2001 and 4th February 2002, the first and second distributions were paid in cash out of the contributed surplus account of the Company (Note 21(b)).
- (b) At a board meeting held on 26th July 2002, the directors recommended a final dividend of HK\$0.03 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2003.

### 9. Earnings per Share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$23,422,000 (2001: HK\$50,460,000) and the weighted average number of 340,616,934 (2001: 340,616,934) shares in issue during the year.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 31st March 2002 and 2001.

## NOTES TO THE ACCOUNTS

### 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\$103,000 were utilised during the year (2001: HK\$19,000).

Commencing 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 "relevant income" of such employee or HK\$1,000, whichever is lower, to the Mandatory Provident Fund.

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

### 11. Fixed Assets

#### (a) Group

	Medium term leasehold land and buildings		Leasehold improve- ments	Plant, machinery and tools	Furniture, fixtures and equipment	Motor vehicles	Total
	Outside Hong Kong	In Hong Kong					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1st April 2001	54,493	7,945	11,973	182,929	2,545	1,456	261,341
Additions	—	—	1,958	1,888	754	201	4,801
Disposals/written off	—	—	(8,029)	(35,575)	(1,325)	(1,452)	(46,381)
At 31st March 2002	54,493	7,945	5,902	149,242	1,974	205	219,761
Accumulated depreciation							
At 1st April 2001	13,199	2,052	8,951	113,860	2,224	1,200	141,486
Charge for the year	2,349	398	2,099	17,730	811	203	23,590
Disposals/written off	—	—	(8,029)	(34,992)	(1,316)	(1,373)	(45,710)
At 31st March 2002	15,548	2,450	3,021	96,598	1,719	30	119,366
Net book value							
At 31st March 2002	<u>38,945</u>	<u>5,495</u>	<u>2,881</u>	<u>52,644</u>	<u>255</u>	<u>175</u>	<u>100,395</u>
At 31st March 2001	<u>41,294</u>	<u>5,893</u>	<u>3,022</u>	<u>69,069</u>	<u>321</u>	<u>256</u>	<u>119,855</u>

## NOTES TO THE ACCOUNTS

### 11. Fixed Assets (continued)

#### (b) Company

	Medium term leasehold land and building in Hong Kong <i>HK\$'000</i>
Cost	
At 1st April 2001 and 31st March 2002	7,945
Accumulated depreciation	
At 1st April 2001	2,052
Charge for the year	398
At 31st March 2002	2,450
Net book value	
At 31st March 2002	5,495
At 31st March 2001	5,893

### 12. Investments in Subsidiaries

	Company	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	304,296	304,296
Amounts due from subsidiaries	590,178	510,178
Amounts due to subsidiaries	(165,421)	(15,837)
	729,053	798,637
Less: Provision for impairment loss	(529,904)	(529,904)
	199,149	268,733

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 as at 31st March 2002:

Name	Place of incorporation/ operations	Principal activity	Issued share capital/ registered capital	Group equity interest
KTP (BVI) Company Limited	British Virgin Islands/ Hong Kong	Investment holding	100 ordinary shares of US\$1 each	100%*
TP Industrial Limited	Hong Kong/ People's Republic of China	Investment holding	10,000 ordinary shares of HK\$1 each, 10,300,000 non-voting deferred shares of HK\$1 each and 800,000 non-voting ordinary "A" shares of HK\$1 each	100%
Kong Tai Shoes Manufacturing Company Limited	Hong Kong/ 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/ People's Republic of China 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/ 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/ 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/ operations	Principal activity	Issued share capital/ 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	Dormant	Registered capital of HK\$86,290,000	100%

\* Directly held by the Company

Note: As at 31st March 2002, 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 (2001: HK\$112,510,047 and HK\$76,331,226) respectively.

### 13. Non-consolidated Subsidiaries

	Group	
	2002 HK\$'000	2001 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 impairment loss	(122,247)	(122,247)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

## NOTES TO THE ACCOUNTS

### 13. Non-consolidated Subsidiaries (continued)

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%

The Group's control of both KTI and WRI has been significantly impaired by severe restriction since February 1999 and they have been excluded from consolidation since 1st February 1999.

Both KTI and WRI have ceased operations since October 1999 and January 1998 respectively and full provision had been made against the Group's total investment exposure in prior years. The directors are not optimistic that these two companies can be successfully dissolved or sold in a short period of time considering the current economic situation in Indonesia and the loss of control of these companies. The directors 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.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity securities outside Hong Kong, at cost	13,313	13,313
Less: Provision for impairment loss	(13,313)	(5,814)
	<u>—</u>	<u>7,499</u>

## NOTES TO THE ACCOUNTS

### 14. Investment Securities (continued)

Details of the investee companies which are incorporated in Indonesia are as follows:

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

### 15. Rental Advances

	2002 HK\$'000	Group 2001 HK\$'000
Balance of rental advances	1,998	3,743
Less: Amounts to be set off in the next twelve months included in current assets	<u>(1,998)</u>	<u>(2,025)</u>
	<u>—</u>	<u>1,718</u>

Rental advances represent payments advanced to Bao An Xian provincial government to finance the construction of the factory premises which are being used by the Group in Mainland 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\$1,879,550 (2001: HK\$2,374,473) which carries interest at 6% per annum.

## NOTES TO THE ACCOUNTS

### 16. Inventories

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	45,890	53,625
Work-in-progress	20,532	20,269
Finished goods	28,139	30,133
	<u>94,561</u>	<u>104,027</u>

At 31st March 2002 and 2001, all inventories were stated at cost.

### 17. Accounts Receivable and Deposits

	Group		Company	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable ( <i>Note</i> )	74,338	94,378	—	—
Prepayments and deposits	2,992	3,980	29	28
	<u>77,330</u>	<u>98,358</u>	<u>29</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) is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	37,765	67,504
31-60 days	33,667	24,576
Over 60 days	2,906	2,298
	<u>74,338</u>	<u>94,378</u>

### 18. Bank Balances and Cash

Included in the bank balances and cash of the Group are Renminbi deposits and cash in Mainland China of HK\$3,906,000 (2001: HK\$3,159,000). Renminbi is not a freely convertible currency.

## NOTES TO THE ACCOUNTS

### 19. Accounts Payable and Accruals

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable (Note)	69,384	75,805	—	—
Accruals	39,703	44,014	9,543	1,326
	<u>109,087</u>	<u>119,819</u>	<u>9,543</u>	<u>1,326</u>

Note: The ageing analysis of accounts payable is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current to 30 days	31,633	35,036
31-60 days	25,282	26,632
Over 60 days	12,469	14,137
	<u>69,384</u>	<u>75,805</u>

### 20. Share Capital

	Note	Par value of shares HK\$	Number of ordinary shares	Value HK\$
<i>Authorised:</i>				
At 1st April 2000 and 31st March 2001		0.45 each	<u>800,000,000</u>	<u>360,000,000</u>
At 1st April 2001		0.45 each	800,000,000	360,000,000
Subdivision of unissued shares	(a)		<u>35,200,000,000</u>	—
At 31st March 2002		0.01 each	<u>36,000,000,000</u>	<u>360,000,000</u>
<i>Issued and fully paid:</i>				
At 1st April 2000 and 31st March 2001		0.45 each	<u>340,616,934</u>	<u>153,277,620</u>
At 1st April 2001		0.45 each	340,616,934	153,277,620
Reduction of par value of issued shares	(a)		—	(149,871,451)
At 31st March 2002		0.01 each	<u>340,616,934</u>	<u>3,406,169</u>

## NOTES TO THE ACCOUNTS

### 20. Share Capital *(continued)*

Notes:

- (a) Pursuant to a special resolution passed on 29th November 2001:
- (i) the nominal value of each existing issued ordinary share of HK\$0.45 each was reduced to HK\$0.01 each by canceling HK\$0.44 of the paid up capital on each of the ordinary share in issue, totalling HK\$149,871,451 (the "Capital Reduction") and each unissued ordinary share of HK\$0.45 was subdivided into 45 unissued shares of HK\$0.01 each. Accordingly, the authorised share capital of the Company of HK\$360,000,000 is divided into 36,000,000,000 shares of HK\$ 0.01 each ("Adjusted Shares"), of which 340,616,934 Adjusted Shares are in issue and credited as fully paid.
- (ii) the credit arising from the Capital Reduction of HK\$149,871,451 was applied to eliminate part of the accumulated losses of the Company (Note 21(a)).
- (b) Pursuant to a resolution passed at the board meeting on 25th July 2001, the share option scheme adopted on 2nd December 1993 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. After such date, the subscription rights attached to the unexercised share option lapsed and no share options shall be granted or exercised under the scheme.

### 21. Reserves

Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profit/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2000	272,516	164,639	(309,308)	127,847
Profit for the year	—	—	50,460	50,460
At 31st March 2001	272,516	164,639	(258,848)	178,307
Reduction of share premium <i>(Note 21(a))</i>	(272,516)	—	272,516	—
Reduction of par value of issued shares <i>(Note 21(a))</i>	—	—	149,871	149,871
2001 Distribution to the shareholders, paid <i>(Note 21(b))</i>	—	(153,277)	—	(153,277)
Profit for the year	—	—	23,422	23,422
At 31st March 2002	—	11,362	186,961	198,323
Representing:—				
Reserves	—	11,362	176,742	188,104
Proposed final dividend <i>(Note 8)</i>	—	—	10,219	10,219
Total reserves as at 31st March 2002	—	11,362	186,961	198,323

## NOTES TO THE ACCOUNTS

### 21. Reserves (continued)

#### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st April 2000	272,516	397,766	(542,435)	127,847
Loss for the year	—	—	(7,507)	(7,507)
At 31st March 2001	272,516	397,766	(549,942)	120,340
Reduction of share premium (Note 21(a))	(272,516)	—	272,516	—
Reduction of par value of issued shares (Note 21(a))	—	—	149,871	149,871
Reduction of contributed surplus (Note 21(a))	—	(127,555)	127,555	—
2001 Distribution to the shareholders, paid (Note 21(b))	—	(153,277)	—	(153,277)
Profit for the year	—	—	75,353	75,353
At 31st March 2002	<u>—</u>	<u>116,934</u>	<u>75,353</u>	<u>192,287</u>
Representing:—				
Reserves	—	116,934	65,134	182,068
Proposed final dividend (Note 8)	—	—	10,219	10,219
Total reserves as at 31st March 2002	<u>—</u>	<u>116,934</u>	<u>75,353</u>	<u>192,287</u>

#### Notes:

- (a) Pursuant to a special resolution passed on 29th November 2001, the entire balance of the share premium account of the Company of HK\$272,516,000, HK\$127,555,000 standing to the credit of the contributed surplus account of the Company and HK\$149,871,000 arising from the Capital Reduction (Note 20 (a)) were applied to eliminate the Company's accumulated losses of HK\$549,942,000 as at 31st March 2001.
- (b) Under the Companies Act 1981 of Bermuda (as amended) (the "Act"), the Company's contributed surplus is distributable to shareholders under certain circumstances as provided in the Act. Pursuant to an ordinary resolution passed respectively on 12th December 2001 and 4th February 2002, a distribution of HK\$0.3 and HK\$0.15 per ordinary share each out of the contributed surplus account of the Company, totalling HK\$153,277,000 was paid to the shareholders on 20th December 2001 and 9th February 2002 respectively.
- (c) The reserve of the Company available for distribution to shareholders as calculated under the Act as at 31st March 2002 amounted to HK\$192,287,000 (2001:Nil).

## NOTES TO THE ACCOUNTS

### 22. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to net cash inflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit before taxation	23,473	50,707
Provision for impairment loss on investment securities	7,499	—
Depreciation	23,590	32,112
Interest income	(3,472)	(3,116)
Interest expenses	18	96
Dividend income from unlisted investment securities	(477)	—
(Gain)/loss on disposal of fixed assets	(599)	60
Decrease in inventories	9,466	18,457
Decrease in accounts receivable and deposits	21,028	4,921
Decrease/(increase) in amount due from a related company	1,318	(284)
Decrease in rental advances - non-current portion	1,718	1,805
Decrease/(increase) in rental advances - current portion	27	(236)
Decrease/(increase) in bills receivable	5,271	(9,457)
Decrease in accounts payable and accruals	(10,732)	(13,189)
(Decrease)/increase in bills payable	(1,152)	473
Net cash inflow from operating activities	<u>76,976</u>	<u>82,349</u>

### 23. Contingent Liabilities

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Guarantees executed in favour of banks to secure banking and loan facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>24,331</u>	<u>22,173</u>

### 24. Commitments

#### (a) Capital commitments

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracted but not provided for — Acquisition of fixed assets	<u>—</u>	<u>204</u>



## NOTES TO THE ACCOUNTS

### 24. Commitments (continued)

#### (b) Commitments under operating leases

At 31st March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year (Note)	3,458	2,837
Later than one year and not later than five years (Note)	13,833	12,453
Later than five years (Note)	90,284	58,590
	<u>107,575</u>	<u>73,880</u>

Note:

Included in the balances were operating lease commitments in respect of rentals payable to Bao An Xian provincial government for the use of factory premises by the Group pursuant to a non-cancellable operating lease for a lease term of fifty years (Note 15). These balances, which are stated at the present value of the future aggregate minimum lease payments at the applicable prevailing prime rate of 5.125% (2001: 8%), are as follows:

	Group	
	2002	2001
	<i>HK'000</i>	<i>HK'000</i>
Not later than one year	2,776	2,636
Later than one year and not later than five years	11,104	11,425
Later than five years	89,322	58,070
	<u>103,202</u>	<u>72,131</u>

The Company did not have any commitments at 31st March 2002 (2001:Nil).

### 25. Approval of Accounts

The accounts were approved by the board of directors on 26th July 2002.