

## 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 2002:

|                   |   |                                      |
|-------------------|---|--------------------------------------|
| SSAP 1 (revised)  | : | Presentation of financial statements |
| SSAP 11 (revised) | : | Foreign currency translation         |
| SSAP 15 (revised) | : | Cash flow statements                 |
| SSAP 34           | : | Employee benefits                    |

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

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (the "Group") 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 Company 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 Company obtains benefits from these activities.

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.



1 **PRINCIPAL ACCOUNTING POLICIES** (continued)

**(b) Consolidation** (continued)

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.

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 written off against reserves to the extent it has not previously been realised in the profit and loss account.

**(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% — 25%                             |
| Furniture, fixtures and equipment | 25%                                   |
| Motor vehicles                    | 25%                                   |

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

**(d) Fixed assets** *(continued)*

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 account.

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

**(e) Operating leases**

Leases where substantially all the risks and rewards 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 .

**(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 investments 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.



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

**(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 and bank overdrafts.

**(j) Provisions**

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.

**(k) Employee benefits**

**(i) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

**(ii) Bonus plan**

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

**(iii) Pension obligations**

The Group operates defined contribution plans. 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.

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

**(k) Employee benefits** *(continued)*

**(iii) Pension obligations** *(continued)*

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.

**(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) 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.

**(n) 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.

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

**(n) Translation of foreign currencies** *(continued)*

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with in the profit and loss account.

**(o) 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.

Dividend income is recognised when the right to receive payment is established.

Subcontracting income is recognised when service is rendered.

**(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:

|   | <b>2003</b><br><b>HK\$'000</b> | 2002<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Turnover  |                                |                         |
| Sales of goods                                      | <b>892,948</b>                 | 713,924                 |
| Other revenues                                      |                                |                         |
| Bank interest income                                | <b>44</b>                      | 3,472                   |
| Rental income                                       | <b>3,867</b>                   | 3,779                   |
| Net gain on disposal of fixed assets                | <b>622</b>                     | 599                     |
| Interest on rental advances                         | <b>58</b>                      | 130                     |
| Dividend income from unlisted investment securities | —                              | 477                     |
| Subcontracting income                               | <b>755</b>                     | 4,461                   |
| Others  | <b>5,503</b>                   | 4,106                   |
|   | <b>10,849</b>                  | 17,024                  |
| Total revenues                                      | <b>903,797</b>                 | 730,948                 |



**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 result 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:

|  | 2003                 |                               |                               |                                    |
|--|----------------------|-------------------------------|-------------------------------|------------------------------------|
|  | Turnover<br>HK\$'000 | Segment<br>result<br>HK\$'000 | Segment<br>assets<br>HK\$'000 | Segment<br>liabilities<br>HK\$'000 |
| North America  | 567,149              | 37,583                        | —                             | —                                  |
| Europe   | 155,893              | 10,330                        | —                             | —                                  |
| Asia (other than Mainland<br>China and Hong Kong)      | 44,645               | 2,958                         | 1,945                         | —                                  |
| Mainland China   | 87,404               | 5,792                         | 342,626                       | 139,959                            |
| Hong Kong  | 6,568                | 435                           | 42,861                        | 5,610                              |
| Others   | 31,289               | 2,073                         | —                             | —                                  |
|  |                      | 59,171                        |                               |                                    |
| Unallocated costs                                      |                      | (2,403)                       |                               |                                    |
| Operating profit before<br>finance cost                |                      | 56,768                        |                               |                                    |
| Finance cost   |                      | (9)                           |                               |                                    |
| Provision for impairment<br>loss on land and buildings |                      | (3,000)                       |                               |                                    |
| Profit before taxation                                 |                      | 53,759                        |                               |                                    |
| Taxation   |                      | —                             |                               |                                    |
| Profit attributable to<br>shareholders                 |                      | <u>53,759</u>                 |                               |                                    |
| Total  | <u>892,948</u>       |                               | <u>387,432</u>                | <u>145,569</u>                     |



## NOTES TO THE ACCOUNTS



### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

|   | 2002                        |                                      |                                      |   |
|---|-----------------------------|--------------------------------------|--------------------------------------|---|
|   | Turnover<br><i>HK\$'000</i> | Segment<br>result<br><i>HK\$'000</i> | Segment<br>assets<br><i>HK\$'000</i> | Segment<br>liabilities<br><i>HK\$'000</i> |
| North America   | 350,287                     | 21,985                               | —                                    | —   |
| Europe  | 123,102                     | 7,726                                | —                                    | —   |
| Asia (other than Mainland<br>China and Hong Kong)         | 142,154                     | 8,922                                | 2,224                                | 6,965                                     |
| 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<br>finance cost                   |                             | 30,990                               |                                      |   |
| Finance cost  |                             | (18)                                 |                                      |   |
| Provision for impairment<br>loss on investment securities |                             | (7,499)                              |                                      |   |
| Profit before taxation                                    |                             | 23,473                               |                                      |   |
| Taxation  |                             | (51)                                 |                                      |   |
| Profit attributable to<br>shareholders                    |                             | <u>23,422</u>                        |                                      |   |
| Total   | <u>713,924</u>              |                                      | <u>315,825</u>                       | <u>114,096</u>                            |

|                | Capital expenditure     |                         | Provision for<br>impairment loss |                         | Depreciation            |                         |
|----------------|-------------------------|-------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|
|                | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i>          | 2002<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
| Mainland China | 13,238                  | 4,801                   | —                                | —                       | 18,954                  | 23,192                  |
| Hong Kong      | —                       | —                       | 3,000                            | —                       | 397                     | 398                     |
| Others         | —                       | —                       | —                                | 7,499                   | —                       | —                       |
|                | <u>13,238</u>           | <u>4,801</u>            | <u>3,000</u>                     | <u>7,499</u>            | <u>19,351</u>           | <u>23,590</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**

Operating profit before finance cost is stated after charging/(crediting) the following:

|  | <b>2003</b>              | 2002                     |
|--|--------------------------|--------------------------|
|  | <b>HK\$'000</b>          | HK\$'000                 |
| Staff costs (including directors' emoluments) (Note 9) | <b>149,760</b>           | 133,926                  |
| Depreciation   | <b>19,351</b>            | 23,590                   |
| Exchange (gain)/loss, net                              | <b>(1,224)</b>           | 447                      |
| Operating lease rentals for land and buildings         | <b>4,255</b>             | 3,611                    |
| Auditors' remuneration                                 | <b>558</b>               | 757                      |
|  | <u><b>          </b></u> | <u><b>          </b></u> |

**4 FINANCE COST**

|                             | <b>2003</b>              | 2002                     |
|-----------------------------|--------------------------|--------------------------|
|                             | <b>HK\$'000</b>          | HK\$'000                 |
| Interest on bank overdrafts | <b>9</b>                 | 18                       |
|                             | <u><b>          </b></u> | <u><b>          </b></u> |

**5 TAXATION**

No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits for the year (2002: Nil). No provision for overseas taxation has been made in the accounts as the Group has no assessable overseas profits for the year. Last year overseas taxation represented Taiwan income tax which was calculated based on the estimated assessable profits for the year at the rates of taxation prevailing in Taiwan.

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

|                                 | <b>2003</b>              | 2002                     |
|---------------------------------|--------------------------|--------------------------|
|                                 | <b>HK\$'000</b>          | HK\$'000                 |
| Overseas taxation               |                          |                          |
| — Underprovision in prior years | <b>—</b>                 | 51                       |
|                                 | <u><b>          </b></u> | <u><b>          </b></u> |

There was no material unprovided deferred taxation for the year (2002: Nil).

## 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$59,053,000 (2002: HK\$75,353,000).

## 7 DISTRIBUTIONS TO SHAREHOLDERS

|   | <b>2003</b><br><b>HK\$'000</b> | 2002<br>HK\$'000      |
|---|--------------------------------|-----------------------|
| First distribution, paid of Nil (2002: HK\$0.3) per ordinary share (Note 21(b))   | —                              | 102,185               |
| Second distribution, paid of Nil (2002: HK\$0.15) per ordinary share (Note 21(b)) | —                              | 51,092                |
|   | —                              | 153,277               |
| Interim dividend, paid of HK\$0.01 (2002: Nil) per ordinary share                 | <b>3,406</b>                   | —                     |
| Final dividend, proposed of HK\$0.03 (2002: HK\$0.03) per ordinary share (Note)   | <b>10,219</b>                  | 10,219                |
|   | <b><u>13,625</u></b>           | <b><u>163,496</u></b> |

Note:

At a board meeting held on 23rd July 2003, 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 2004.

## 8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$53,759,000 (2002: HK\$23,422,000) and the weighted average number of 340,616,934 (2002: 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 2003 and 2002.



**9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)**

|  | <b>2003</b>           | 2002           |
|--|-----------------------|----------------|
|  | <b>HK\$'000</b>       | HK\$'000       |
| Wages and salaries   | <b>146,402</b>        | 131,910        |
| Termination benefits   | <b>729</b>            | 865            |
| Pension costs less forfeited contributions<br>— defined contribution plans ( <i>Note</i> ) | <b>2,629</b>          | 1,151          |
|  | <b><u>149,760</u></b> | <u>133,926</u> |

*Note:*

The Group contributes to a defined contribution retirement scheme for those eligible employees who have elected to participate in the scheme. Contributions to the scheme by the Group and employees are calculated at 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\$403,000 were utilised during the year (2002: HK\$103,000).

Commencing from 1st December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund Scheme ("MPF"). Both employer and employee have to contribute 5% of the "relevant income" of such employee or HK\$1,000, whichever is lower, to the MPF.

The Group is also required to make contributions to defined contribution schemes managed by the local municipal governments of various cities in Mainland China at certain percentages of the employee's salaries and bonus.

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

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

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

|  | <b>2003</b>         | 2002         |
|--|---------------------|--------------|
|  | <b>HK\$'000</b>     | HK\$'000     |
| Fees   | <b>160</b>          | 500          |
| Basic salaries, housing allowances, other allowances<br>and benefits-in-kind | <b>1,680</b>        | 3,670        |
| Discretionary bonuses  | <b>—</b>            | 2,040        |
| Retirement benefit costs   | <b>177</b>          | 311          |
|  | <b><u>2,017</u></b> | <u>6,521</u> |

Directors' fees disclosed above include HK\$160,000 (2002: HK\$300,000) paid to independent non-executive directors.



**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)

**(a) Directors' emoluments** (continued)

The emoluments of the directors fall within the following bands:

| Emoluments band               | Number of directors |           |
|-------------------------------|---------------------|-----------|
|                               | 2003                | 2002      |
| HK\$Nil — HK\$1,000,000       | 3                   | 12        |
| HK\$1,000,001 — HK\$1,500,000 | —                   | 1         |
| HK\$1,500,001 — HK\$2,000,000 | 1                   | 2         |
|                               | <u>4</u>            | <u>15</u> |

No directors waived their emoluments in respect of the years ended 31st March 2003 and 2002.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2002: four) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2002: one) during the year, which fall within the range of HK\$Nil — HK\$1,000,000 (2002: HK\$1,500,001 — HK\$2,000,000), are as follows:

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 2,005            | 497              |
| Discretionary bonuses   | 985              | 1,041            |
| Retirement benefit costs  | 158              | 31               |
|   | <u>3,148</u>     | <u>1,569</u>     |

11 FIXED ASSETS

(a) Group

|   | Medium term leasehold<br>land and buildings |                 |                           | Plant,<br>machinery<br>and tools | Furniture,<br>fixtures<br>and<br>equipment | Motor<br>vehicles | Total          |
|---|---|-----------------|---------------------------|----------------------------------|--|-------------------|----------------|
|   | Outside<br>Hong Kong                        | In Hong<br>Kong | Leasehold<br>improvements |                                  |  |                   |                |
|   | HK\$'000                                    | HK\$'000        | HK\$'000                  |                                  |  |                   |                |
| Cost  |   |                 |                           |                                  |  |                   |                |
| At 1st April 2002                               | 54,493                                      | 7,945           | 5,902                     | 149,242                          | 1,974                                      | 205               | 219,761        |
| Additions                                       | —   | —               | 905                       | 9,839                            | 1,330                                      | 1,164             | 13,238         |
| Disposals/written off                           | —   | —               | (2,142)                   | (34,770)                         | (888)                                      | —                 | (37,800)       |
| <b>At 31st March 2003</b>                       | <b>54,493</b>                               | <b>7,945</b>    | <b>4,665</b>              | <b>124,311</b>                   | <b>2,416</b>                               | <b>1,369</b>      | <b>195,199</b> |
| Accumulated depreciation and<br>impairment loss |   |                 |                           |                                  |  |                   |                |
| At 1st April 2002                               | 15,548                                      | 2,450           | 3,021                     | 96,598                           | 1,719                                      | 30                | 119,366        |
| Charge for the year                             | 2,349                                       | 397             | 1,216                     | 14,490                           | 812  | 87                | 19,351         |
| Provision for impairment loss                   | —   | 3,000           | —                         | —                                | —  | —                 | 3,000          |
| Disposals/written off                           | —   | —               | (2,142)                   | (34,630)                         | (888)                                      | —                 | (37,660)       |
| <b>At 31st March 2003</b>                       | <b>17,897</b>                               | <b>5,847</b>    | <b>2,095</b>              | <b>76,458</b>                    | <b>1,643</b>                               | <b>117</b>        | <b>104,057</b> |
| Net book value                                  |   |                 |                           |                                  |  |                   |                |
| <b>At 31st March 2003</b>                       | <b>36,596</b>                               | <b>2,098</b>    | <b>2,570</b>              | <b>47,853</b>                    | <b>773</b>                                 | <b>1,252</b>      | <b>91,142</b>  |
| At 31st March 2002                              | 38,945                                      | 5,495           | 2,881                     | 52,644                           | 255  | 175               | 100,395        |



**11 FIXED ASSETS** (continued)

**(b) Company**

|  | <b>Medium term<br/>leasehold land<br/>and building<br/>In Hong Kong<br/>HK\$'000</b> |
|--|--|
| Cost   |  |
| <b>At 1st April 2002 and 31st March 2003</b> | <b>7,945</b>   |
| Accumulated depreciation and impairment loss |  |
| At 1st April 2002                            | 2,450  |
| Charge for the year                          | 397  |
| Provision for impairment loss                | 3,000  |
| <b>At 31st March 2003</b>                    | <b>5,847</b>   |
| Net book value                               |  |
| <b>At 31st March 2003</b>                    | <b>2,098</b>   |
| At 31st March 2002                           | 5,495  |

**12 INVESTMENTS IN SUBSIDIARIES**

|                                     | <b>Company</b>   |           |
|-------------------------------------|------------------|-----------|
|                                     | <b>2003</b>      | 2002      |
|                                     | <b>HK\$'000</b>  | HK\$'000  |
| Unlisted shares, at cost            | <b>304,296</b>   | 304,296   |
| Amounts due from subsidiaries       | <b>531,466</b>   | 590,178   |
| Amounts due to subsidiaries         | <b>(65,406)</b>  | (165,421) |
|                                     | <b>770,356</b>   | 729,053   |
| Less: Provision for impairment loss | <b>(529,904)</b> | (529,904) |
|                                     | <b>240,452</b>   | 199,149   |

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

**12 INVESTMENTS IN SUBSIDIARIES** (continued)

The following is a list of the principal subsidiaries at 31st March 2003:

| Name  | Place of incorporation/<br>operations    | Principal activity              | Issued share capital/<br>registered capital   | Group equity interest |
|---|--|---------------------------------|---|-----------------------|
| KTP (BVI) Company Limited                     | British Virgin Islands/Hong Kong         | Investment holding              | 100 ordinary shares of US\$1 each   | 100%*                 |
| Kong Tai Shoes Manufacturing Company Limited  | Hong Kong/<br>People's Republic of China | Manufacture of footwear         | 1,000 ordinary shares of HK\$1 each and 31,500,000 non-voting deferred shares of HK\$1 each   | 100%                  |
| Brave Win Industries Limited                  | Hong Kong/<br>People's Republic of China | Manufacture of sole units       | 21,000,000 ordinary shares of HK\$1 each and 9,000,000 non-voting deferred shares of HK\$1 each   | 100%                  |
| Choy Fung Industrial Limited                  | Hong Kong/<br>People's Republic of China | Provision of poly-clothing work | 100 ordinary shares of HK\$1 each and 4,500,000 non-voting deferred shares of HK\$1 each  | 100%                  |
| Dongguan Hungyip Shoes Manufacturing Co. Ltd. | People's Republic of China               | Manufacture of footwear         | Registered capital of HK\$125,480,000   | 100%                  |
| TP Industrial Limited                         | Hong Kong                                | Investment holding              | 10,000 ordinary shares of HK\$1 each,<br>10,300,000 non-voting deferred shares of HK\$1 each and 800,000 non-voting ordinary "A" shares of HK\$1 each | 100%                  |

\* *directly held by the Company*

*Note:*

As at 31st March 2003, the issued/registered capital of each of the above subsidiaries has been fully paid up except for Dongguan Hungyip Shoes Manufacturing Co. Ltd. whose paid up capital is HK\$112,510,047 (2002: HK\$112,510,047).



## NOTES TO THE ACCOUNTS



### 13 NON-CONSOLIDATED SUBSIDIARIES

|  | <b>Group</b>     |                 |
|--|------------------|-----------------|
|  | <b>2003</b>      | 2002            |
|  | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Unlisted shares, at cost               | <b>35,568</b>    | 35,568          |
| Attributable post-acquisition reserves | <b>(422,604)</b> | (422,604)       |
|  | <b>(387,036)</b> | (387,036)       |
| Amounts receivable                     | <b>509,283</b>   | 509,283         |
|  | <b>122,247</b>   | 122,247         |
| Less: Provision for impairment loss    | <b>(122,247)</b> | (122,247)       |
|  | <b>—</b>         | —               |

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<br>Shoes Manufacturing ("KTI") | Dormant            | 4,000 ordinary shares of<br>US\$1,000 each | 80%                   |
| P T Worldbest Raya Industry<br>("WRI")                | Dormant            | 1,700 ordinary shares of<br>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.

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-deconsolidation results of these subsidiaries pursuant to paragraph 24 of the Tenth Schedule to the Hong Kong Companies Ordinance, would involve delay and expense out of proportion to the benefit of the shareholders of the Company. Accordingly, the required information is not disclosed.

### 14 INVESTMENT SECURITIES

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2003</b>     | 2002            |
|   | <b>HK\$'000</b> | <b>HK\$'000</b> |
| Unlisted equity securities outside Hong Kong, at cost | <b>13,313</b>   | 13,313          |
| Less: Provision for impairment loss                   | <b>(13,313)</b> | (13,313)        |
|   | <b>—</b>        | —               |



#### 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          | Dormant                   | 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 INVENTORIES

|                  | Group            |                  |
|------------------|------------------|------------------|
|                  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Raw materials    | 52,734           | 45,890           |
| Work-in-progress | 27,667           | 20,532           |
| Finished goods   | 45,185           | 28,139           |
|                  | <b>125,586</b>   | <b>94,561</b>    |

At 31st March 2003 and 2002, all inventories were stated at cost.

#### 16 ACCOUNTS RECEIVABLE AND DEPOSITS

|                            | Group            |                  | Company          |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Accounts receivable (Note) | 123,579          | 74,338           | —                | —                |
| Prepayments and deposits   | 3,854            | 2,992            | 29               | 29               |
|                            | <b>127,433</b>   | <b>77,330</b>    | <b>29</b>        | <b>29</b>        |

## NOTES TO THE ACCOUNTS



### 16 ACCOUNTS RECEIVABLE AND DEPOSITS (continued)

Note:

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

|                    | <b>Group</b>    |          |
|--------------------|-----------------|----------|
|                    | <b>2003</b>     | 2002     |
|                    | <b>HK\$'000</b> | HK\$'000 |
| Current to 30 days | <b>66,242</b>   | 37,765   |
| 31-60 days         | <b>53,038</b>   | 33,667   |
| Over 60 days       | <b>4,299</b>    | 2,906    |
|                    | <b>123,579</b>  | 74,338   |
|                    | <b>123,579</b>  | 74,338   |

### 17 RENTAL ADVANCES

|                                    | <b>Group</b>    |          |
|------------------------------------|-----------------|----------|
|                                    | <b>2003</b>     | 2002     |
|                                    | <b>HK\$'000</b> | HK\$'000 |
| Current portion of rental advances | <b>—</b>        | 1,998    |
|                                    | <b>—</b>        | 1,998    |
|                                    | <b>—</b>        | 1,998    |

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 interest-bearing at 6% per annum, and are set off against rentals and management fees payable by the Group on leasing the premises. During the year, these rental advances have been fully offset.

### 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\$2,694,000 (2002: HK\$3,906,000). Renminbi is not a freely convertible currency.

### 19 ACCOUNTS PAYABLE AND ACCRUALS

|                            | <b>Group</b>    |          | <b>Company</b>  |          |
|----------------------------|-----------------|----------|-----------------|----------|
|                            | <b>2003</b>     | 2002     | <b>2003</b>     | 2002     |
|                            | <b>HK\$'000</b> | HK\$'000 | <b>HK\$'000</b> | HK\$'000 |
| Accounts payable (Note)    | <b>95,526</b>   | 69,384   | <b>—</b>        | —        |
| Accruals and other payable | <b>46,433</b>   | 39,703   | <b>1,970</b>    | 9,543    |
|                            | <b>141,959</b>  | 109,087  | <b>1,970</b>    | 9,543    |
|                            | <b>141,959</b>  | 109,087  | <b>1,970</b>    | 9,543    |



## 19 ACCOUNTS PAYABLE AND ACCRUALS (continued)

Note:

At 31st March 2003, the ageing analysis of accounts payables was as follows:

|                    | <b>2003</b>          | <b>Group</b>         |
|--------------------|----------------------|----------------------|
|                    | <b>HK\$'000</b>      | <b>2002</b>          |
|                    |                      | <b>HK\$'000</b>      |
| Current to 30 days | <b>32,984</b>        | 31,633               |
| 31-60 days         | <b>40,877</b>        | 25,282               |
| Over 60 days       | <b>21,665</b>        | 12,469               |
|                    | <b><u>95,526</u></b> | <b><u>69,384</u></b> |

## 20 SHARE CAPITAL

|  | <i>Note</i> | <b>Par value<br/>of shares</b> | <b>Number of<br/>ordinary<br/>shares</b> | <b>Value</b>         |
|--|-------------|--------------------------------|--|----------------------|
|  |             | <i>HK\$</i>                    |  | <i>HK\$</i>          |
| Authorised:                                |             |                                |  |                      |
| 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>   |
| At 1st April 2002 and<br>31st March 2003   |             | 0.01 each                      | <u>36,000,000,000</u>                    | <u>360,000,000</u>   |
| Issued and fully paid:                     |             |                                |  |                      |
| At 1st April 2001                          |             | 0.45 each                      | 340,616,934                              | 153,277,620          |
| Reduction of par value of<br>issued shares | (a)         |                                | —  | <u>(149,871,451)</u> |
| At 31st March 2002                         |             | 0.01 each                      | <u>340,616,934</u>                       | <u>3,406,169</u>     |
| At 1st April 2002 and<br>31st March 2003   |             | 0.01 each                      | <u>340,616,934</u>                       | <u>3,406,169</u>     |

Note:

- (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 was reduced to HK\$0.01 each by cancelling 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 Share"), 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)).

## 21 RESERVES

### Group

|  | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>profits/<br>(accumulated<br>losses)<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|---|--|--------------------------|
| At 1st April 2002  | —                                   | 11,362                                    | 186,961  | 198,323                  |
| Profit for the year  | —                                   | —   | 53,759   | 53,759                   |
| 2002 final dividend, paid ( <i>Note 7</i> )                      | —                                   | —   | (10,219)   | (10,219)                 |
| 2003 interim dividend, paid ( <i>Note 7</i> )                    | —                                   | —   | (3,406)  | (3,406)                  |
|  | <u>—</u>                            | <u>—</u>                                  | <u>(13,625)</u>  | <u>(13,625)</u>          |
| At 31st March 2003   | <u>—</u>                            | <u>11,362</u>                             | <u>227,095</u>   | <u>238,457</u>           |
| Representing:  |                                     |   |  |                          |
| Reserves   | —                                   | 11,362                                    | 216,876  | 228,238                  |
| Proposed final dividend ( <i>Note 7</i> )                        | —                                   | —   | 10,219   | 10,219                   |
|  | <u>—</u>                            | <u>—</u>                                  | <u>10,219</u>  | <u>10,219</u>            |
| Total reserves as at 31st March 2003                             | <u>—</u>                            | <u>11,362</u>                             | <u>227,095</u>   | <u>238,457</u>           |
| At 1st April 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<br>issued shares ( <i>Note 21(a)</i> ) | —                                   | —   | 149,871  | 149,871                  |
| Distributions to the<br>shareholders, paid ( <i>Note 21(b)</i> ) | —                                   | (153,277)                                 | —  | (153,277)                |
| Profit for the year  | —                                   | —   | 23,422   | 23,422                   |
|  | <u>—</u>                            | <u>—</u>                                  | <u>23,422</u>  | <u>23,422</u>            |
| At 31st March 2002   | <u>—</u>                            | <u>11,362</u>                             | <u>186,961</u>   | <u>198,323</u>           |
| Representing:  |                                     |   |  |                          |
| Reserves   | —                                   | 11,362                                    | 176,742  | 188,104                  |
| Proposed final dividend ( <i>Note 7</i> )                        | —                                   | —   | 10,219   | 10,219                   |
|  | <u>—</u>                            | <u>—</u>                                  | <u>10,219</u>  | <u>10,219</u>            |
| Total reserves as at 31st March 2002                             | <u>—</u>                            | <u>11,362</u>                             | <u>186,961</u>   | <u>198,323</u>           |



21 RESERVES (continued)

**Company**

|   | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>profits/<br>(accumulated<br>losses)<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---|--|--------------------------|
| At 1st April 2002                                       | —                                   | 116,934                                   | 75,353   | 192,287                  |
| Profit for the year                                     | —                                   | —   | 59,053   | 59,053                   |
| 2002 final dividend, paid (Note 7)                      | —                                   | —   | (10,219)   | (10,219)                 |
| 2003 interim dividend, paid (Note 7)                    | —                                   | —   | (3,406)  | (3,406)                  |
|   | <u>—</u>                            | <u>116,934</u>                            | <u>75,353</u>  | <u>192,287</u>           |
| At 31st March 2003                                      | <u>—</u>                            | <u>116,934</u>                            | <u>120,781</u>   | <u>237,715</u>           |
| Representing:   |                                     |   |  |                          |
| Reserves  | —                                   | 116,934                                   | 110,562  | 227,496                  |
| Proposed final dividend (Note 7)                        | —                                   | —   | 10,219   | 10,219                   |
|   | <u>—</u>                            | <u>116,934</u>                            | <u>120,781</u>   | <u>237,715</u>           |
| Total reserves as at 31st March 2003                    | <u>—</u>                            | <u>116,934</u>                            | <u>120,781</u>   | <u>237,715</u>           |
| At 1st April 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<br>issued shares (Note 21(a)) | —                                   | —   | 149,871  | 149,871                  |
| Reduction of contributed<br>surplus (Note 21(a))        | —                                   | (127,555)                                 | 127,555  | —                        |
| Distributions to the<br>shareholders, paid (Note 21(b)) | —                                   | (153,277)                                 | —  | (153,277)                |
| Profit for the year                                     | —                                   | —   | 75,353   | 75,353                   |
|   | <u>—</u>                            | <u>116,934</u>                            | <u>75,353</u>  | <u>192,287</u>           |
| 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 7)                        | —                                   | —   | 10,219   | 10,219                   |
|   | <u>—</u>                            | <u>116,934</u>                            | <u>75,353</u>  | <u>192,287</u>           |
| Total reserves as at 31st March 2002                    | <u>—</u>                            | <u>116,934</u>                            | <u>75,353</u>  | <u>192,287</u>           |

## 21 RESERVES (continued)

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 ordinary resolutions passed on 12th December 2001 and 4th February 2002 respectively, a distribution of HK\$0.30 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 2003 amounted to HK\$237,715,000 (2002: HK\$192,287,000).

## 22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

|   | 2003<br>HK\$'000     | 2002<br>HK\$'000     |
|---|----------------------|----------------------|
| Profit before taxation                                  | 53,759               | 23,473               |
| Provision for impairment loss on land and buildings     | 3,000                | —                    |
| Provision for impairment loss on investment securities  | —                    | 7,499                |
| Depreciation  | 19,351               | 23,590               |
| Gain on disposal of fixed assets                        | (622)                | (599)                |
| Interest income   | (44)                 | (3,472)              |
| Interest expenses                                       | 9                    | 18                   |
| Dividend income from unlisted investment securities     | —                    | (477)                |
| Operating profit before working capital changes         | <b>75,453</b>        | 50,032               |
| (Increase)/decrease in inventories                      | <b>(31,025)</b>      | 9,466                |
| (Increase)/decrease in accounts receivable and deposits | <b>(50,103)</b>      | 21,028               |
| Decrease in amount due from a related company           | —                    | 1,318                |
| Decrease in rental advances — non-current portion       | —                    | 1,718                |
| Decrease in rental advances — current portion           | 1,998                | 27                   |
| Decrease in bills receivable                            | 3,080                | 5,271                |
| Increase/(decrease) in accounts payable and accruals    | 32,872               | (10,732)             |
| Decrease in bills payable                               | <b>(1,336)</b>       | (1,152)              |
| Net cash inflow generated from operations               | <b><u>30,939</u></b> | <b><u>76,976</u></b> |



### 23 CONTINGENT LIABILITIES

|  | Group           |                 | Company         |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003            | 2002            | 2003            | 2002            |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Guarantees executed in favour of banks to secure banking and loan facilities granted to subsidiaries | <u>—</u>        | <u>—</u>        | <u>26,530</u>   | <u>24,331</u>   |

### 24 COMMITMENTS UNDER OPERATING LEASES

At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2003            | 2002            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year ( <i>Note</i> )                           | 3,552           | 3,458           |
| Later than one year and not later than five years ( <i>Note</i> ) | 14,087          | 13,833          |
| Later than five years ( <i>Note</i> )                             | <u>93,091</u>   | <u>90,284</u>   |
|   | <u>110,730</u>  | <u>107,575</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. These balances, which are stated at the present value of the future aggregate minimum lease payments at the applicable prevailing prime rate of 5% (2002: 5.125%), are as follows:

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2003            | 2002            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year                           | 2,856           | 2,776           |
| Later than one year and not later than five years | 11,425          | 11,104          |
| Later than five years                             | <u>92,782</u>   | <u>89,322</u>   |
|   | <u>107,063</u>  | <u>103,202</u>  |

The Company did not have any commitments at 31st March 2003 (2002: Nil).

### 25 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23rd July 2003.