

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

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

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 27 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the date of the translations, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 2 and in note 26(a) to the financial statements.

31 March 2003

## 1. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures thereof. The adoption of this SSAP has had no material effect on the financial statements. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

31 March 2003

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

### Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

### Fixed assets and depreciation

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

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

Leasehold land	2% or over the term of the leases, whichever is shorter
Buildings	5%
Machinery, furniture, equipment, leasehold improvements and motor vehicles	10% to 25%

31 March 2003

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

### **Fixed assets and depreciation** *(continued)*

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs incurred during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

### **Long term investments**

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis. Long term investments are stated at cost less any provision for impairment losses.

When impairments in values have occurred, the carrying value of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise.

### **Inventories**

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

### **Deferred tax**

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

31 March 2003

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

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 1 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously reported cash flows of the prior year.

31 March 2003

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

### Revenue recognition

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

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

### Related parties

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

### Employee benefits

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34, the Group did not provide for the liabilities in respect of its employees' vested annual leave entitlement. SSAP 34 requires that obligations in respect of such entitlement should be accrued as soon as services are rendered. The adoption of this SSAP, however, has not had a material effect on the financial statements.

31 March 2003

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

### **Employee benefits** *(continued)*

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance. The adoption of this SSAP has not had a material effect on the financial statements.

#### *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

31 March 2003

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

### Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 1 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans which were included under interest-bearing bank borrowings of the consolidated financial statements, further details of which are included in note 26(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.



31 March 2003

### 3. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The principal activity of the Company is investment holding. During the year, the Group was involved in the manufacture, trading and distribution of footwear as well as the trading and distribution of sportswear and sports shoes.

The Company is a subsidiary of King Strike Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

During the year, the Group paid rental expenses of HK\$949,200 (2002: HK\$936,600) to Kingmaker Footwear Company Limited, a related company in which Chen Ming-hsiung, Mickey, Chen Cheng-hsiung, Lee Kung and Huang Hsiu-duan, Helen, certain directors and shareholders of the Company, are also directors and shareholders. The rental expenses were determined with reference to the market conditions existing at the time when the rental agreement was entered into.

### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the rugged footwear segment represents the manufacture and trading of rugged footwear;
- (b) the casual footwear segment represents the manufacture and trading of casual footwear;
- (c) the baby and children's footwear segment represents the manufacture and trading of baby and children's footwear; and
- (d) the sportswear and sports shoes segment represents the trading and distribution of sportswear and sports shoes.

In determining the Group's geographical segments and revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's geographical segments include United States of America, Europe and others. Europe mainly includes United Kingdom and the Netherlands.

31 March 2003

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

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

## Group

	Rugged footwear		Casual footwear		Baby and children's footwear		Sportswear and sports shoes		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	283,611	265,322	388,742	327,274	547,742	418,853	20,556	24,260	1,240,651	1,035,709
Segment results	37,684	33,994	44,959	38,057	59,605	50,903	(9,247)	(10,578)	133,001	112,376
Unallocated income									5,299	14,461
Unallocated expenses									(12,358)	(7,328)
Profit from operating activities									125,942	119,509
Finance costs									(837)	(2,011)
Profit before tax									125,105	117,498
Tax									(4,184)	(6,576)
Net profit from ordinary activities attributable to shareholders									120,921	110,922
Segment assets	158,384	68,173	180,157	112,774	193,592	115,765	15,145	15,772	547,278	312,484
Unallocated assets									360,240	520,945
Total assets									907,518	833,429
Unallocated liabilities									278,520	254,356

31 March 2003

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Rugged footwear		Casual footwear		Baby and children's footwear		Sportswear and sports shoes		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Capital expenditure										
Segment	24,176	5,470	34,832	7,082	33,854	5,658	443	985	93,305	19,195
Unallocated									26,250	95,612
									119,555	114,807
Depreciation										
Segment	6,282	3,530	8,692	6,863	8,658	6,937	704	569	24,336	17,899
Unallocated									1,578	1,704
									25,914	19,603
Impairment of/(reversal of impairment of) long term listed investments	-	-	-	-	-	-	-	-	177	(77)

31 March 2003

4. SEGMENT INFORMATION *(continued)*

## (b) Geographical segments

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments.

## Group

	United States		Europe		Others		Consolidated	
	of America							
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external								
customers	784,499	688,770	378,298	288,379	77,854	58,560	1,240,651	1,035,709
Segment assets	79,396	31,942	42,327	24,928	619,337	472,848	741,060	529,718
Unallocated assets							166,458	303,711
Total assets							907,518	833,429
Other segment								
information:								
Capital expenditure	–	–	–	–	119,555	114,807	119,555	114,807

## 5. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of intra-Group transactions.

31 March 2003

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	975,200	807,767
Depreciation	25,914	19,603
Minimum lease payments under operating leases for		
land and buildings	3,527	3,206
Auditors' remuneration	1,170	1,134
Loss on disposal of fixed assets	11	223
Staff costs ( <i>excluding directors' remuneration, note 8</i> )		
Wages and salaries	140,230	134,756
Pension scheme contributions	236	271
	<hr/> 140,466	135,027
Impairment of/(reversal of impairment of) long term listed		
investments	177	(77)
Interest income	(2,926)	(12,949)
	<hr/>	<hr/>

Cost of inventories sold includes HK\$114,261,000 (2002: HK\$101,561,000) relating to direct staff costs, minimum lease payments under operating leases for land and buildings, and depreciation of manufacturing facilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

31 March 2003

## 7. FINANCE COSTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	837	2,011
	<hr/>	

## 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	300	300
	<hr/>	
	300	300
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	6,969	7,003
Bonuses	696	651
Pension scheme contributions	12	12
Non-executive directors	–	–
	<hr/>	
	7,977	7,966
	<hr/>	

31 March 2003

**8. DIRECTORS' REMUNERATION** *(continued)*

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$2,500,001 – HK\$3,000,000	1	1
	<b>8</b>	<b>8</b>

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

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included five (2002: five) directors, details of whose remuneration are set out in note 8 above.

**10. TAX**

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	257	205
Overseas	8,321	8,702
Overprovision in prior year	(4,394)	(2,331)
	<b>4,184</b>	<b>6,576</b>
Tax charge for the year	4,184	6,576

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No deferred tax has been provided for the Company or the Group because there were no significant timing differences at the balance sheet date (2002: Nil).

31 March 2003

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is HK\$76,213,000 (2002: HK\$114,578,000).

## 12. DIVIDENDS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interim – HK3.5 cents (2002: HK3.5 cents) per ordinary share	22,916	22,777
Proposed final – HK7 cents (2002: proposed final and special – HK7 cents and HK2.5 cents, respectively) per ordinary share	45,838	61,717
Adjustment to 2002 final and special dividends	496	–
	<hr/> 69,250	<hr/> 84,494

The proposed final dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The adjustment to the 2002 final and special dividends of approximately HK\$496,000 represents a portion of the 2002 final and special dividends declared on the shares issued pursuant to the exercise of the share options, subsequent to the approval of the Company's audited financial statements for the year ended 31 March 2002. These new shares were also entitled to the dividend for the period concerned.



31 March 2003

**13. EARNINGS PER SHARE**

The calculations of basic and diluted earnings per share are based on:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	120,921,000	110,922,000
<hr/>		
	<b>Number of shares</b>	
	<b>2003</b>	2002
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	652,576,985	636,377,009
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	1,605,218	8,973,911
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Weighted average number of ordinary shares used in diluted earnings per share calculation	654,182,203	645,350,920
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31 March 2003

## 14. FIXED ASSETS

## Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Machinery, furniture, equipment, leasehold improvements and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	246,597	63,041	122,091	431,729
Additions	26,553	45,393	47,609	119,555
Disposal	–	–	(12)	(12)
Reclassification	4,178	(4,178)	–	–
<b>At 31 March 2003</b>	<b>277,328</b>	<b>104,256</b>	<b>169,688</b>	<b>551,272</b>
Accumulated depreciation:				
At beginning of year	36,803	–	67,844	104,647
Provided during the year	11,497	–	14,417	25,914
Disposal	–	–	(1)	(1)
<b>At 31 March 2003</b>	<b>48,300</b>	<b>–</b>	<b>82,260</b>	<b>130,560</b>
Net book value:				
<b>At 31 March 2003</b>	<b>229,028</b>	<b>104,256</b>	<b>87,428</b>	<b>420,712</b>
At 31 March 2002	209,794	63,041	54,247	327,082

31 March 2003

**14. FIXED ASSETS** *(continued)*

An analysis of the Group's land and buildings is as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Land and buildings held in Hong Kong under medium term leases	40,996	30,996
Land and buildings held outside Hong Kong under medium term leases	236,332	215,601
	<hr/> 277,328	<hr/> 246,597

Included in leasehold land and buildings of HK\$277,328,000 is a parcel of land located in Vietnam acquired by the Group during the year of approximately HK\$12.2 million, of which the Group is in the process of applying for the land use right certificate.

**15. INVESTMENTS IN SUBSIDIARIES**

	Company	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Unlisted shares, at cost	67,190	67,190

The balances with subsidiaries are unsecured, interest-free and are repayable on demand.

31 March 2003

## 15. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up shares/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
<b>Directly held</b>					
MJ Haig Industries Limited *	British Virgin Islands/Taiwan	Ordinary US\$10,000	100	100	Sourcing of raw materials for footwear
Ready Luck Limited	British Virgin Islands	Ordinary US\$5,000	100	100	Investment holding
<b>Indirectly held</b>					
Discovery Star Development Limited	Hong Kong	Ordinary HK\$2	100	–	Property holding
King Maker International (Import and Export) Limited	Macau	Registered MOP100,000	100	100	Footwear manufacturing and property holding
Kingmaker (Vietnam) Footwear Co., Ltd.	Vietnam	US\$3,000,000	100	100	Subcontracting of footwear
Lightening Star Corporation	British Virgin Islands	Ordinary US\$1,000	100	100	Investment holding
Lightening Star (H.K.) Limited	Hong Kong	Ordinary HK\$2	100	100	Footwear and sportswear trading
Lightening Star Limited**	PRC	RMB500,000	100	100	Footwear and sportswear trading

31 March 2003

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up shares/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
<i>Indirectly held (continued)</i>					
Maystar Footwear Company Limited ("Maystar")**	PRC	US\$29,471,689	100	100	Footwear manufacturing
Miri Footwear International Inc.	British Virgin Islands/Taiwan	Ordinary US\$1	100	100	Sourcing of raw materials for footwear and footwear trading
Miri International Limited	Hong Kong	Ordinary HK\$2	100	100	Provision of administrative services
Profit Success Investment Limited	Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
King Star Footwear (Zhong Shan) Co., Ltd. ("King Star")**	PRC	US\$20,970,095	100	100	Footwear manufacturing
Sanford Resources Limited	British Virgin Islands/Vietnam	Ordinary US\$1	100	100	Trading of footwear products
Transcommerce International Inc.	British Virgin Islands/Taiwan	Ordinary US\$1	100	100	Sourcing and trading of raw materials for footwear

31 March 2003

**15. INVESTMENTS IN SUBSIDIARIES** *(continued)*

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

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

\*\* Maystar, King Star and Lightening Star Limited are registered as wholly foreign owned enterprises under the PRC law.

**16. LONG TERM INVESTMENTS**

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong listed investments, at cost	1,621	1,621
Provision for impairment	(1,333)	(1,156)
	<hr/> 288	<hr/> 465
Market value of listed investments	<hr/> 288	<hr/> 465

**17. INVENTORIES**

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	101,918	68,243
Work in progress	38,682	34,703
Finished goods	47,299	31,185
	<hr/> 187,899	<hr/> 134,131

As at 31 March 2003, no inventories (2002: Nil) were stated at net realisable value.

31 March 2003

**18. ACCOUNTS AND BILLS RECEIVABLE**

Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well established customers, where the terms are extended to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the Group's senior management.

An aged analysis of the Group's accounts and bills receivable as at the balance sheet date, based on the date of goods delivered, is as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within 90 days	124,724	63,094
Between 91 and 180 days	932	744
Between 181 and 365 days	1,939	78
Over 365 days	141	–
<hr/>		
Total after provision	127,736	63,916
<hr/>		

**19. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	49,027	51,770	18	16
Time deposits	117,143	251,476	69,399	–
<hr/>				
	166,170	303,246	69,417	16
<hr/>				

31 March 2003

**20. ACCOUNTS PAYABLE**

An aged analysis of the Group's accounts payable as at the balance sheet date, based on the date of goods received, is as follows:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within 90 days	80,860	76,969
Between 91 and 180 days	2,976	325
	<hr/>	<hr/>
	83,836	77,294

**21. INTEREST-BEARING BANK BORROWINGS**

	<b>2003</b> <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Trust receipt loans, unsecured	2,455	5,848
Bank overdrafts, unsecured	12,714	–
Bank loan, unsecured	26,700	19,500
	<hr/>	<hr/>
	41,869	25,348
	<hr/>	<hr/>
Trust receipt loans repayable within one year	2,455	5,848
	<hr/>	<hr/>
Bank overdrafts repayable on demand	12,714	–
	<hr/>	<hr/>
Bank loan repayable:		
Within one year	20,850	19,500
In the second year	5,850	–
	<hr/>	<hr/>
	26,700	19,500
	<hr/>	<hr/>
	41,869	25,348
	<hr/>	<hr/>
Portion classified as current liabilities	(36,019)	(25,348)
	<hr/>	<hr/>
Long term portion	5,850	–



31 March 2003

## 22. BANKING FACILITIES

At 31 March 2003, the Group had available banking facilities amounting to HK\$486,200,000 (2002: HK\$459,500,000) of which approximately HK\$41,869,400 (2002: HK\$25,348,000) was utilised. The banking facilities were supported by corporate guarantees executed by the Company and certain of its subsidiaries.

## 23. SHARE CAPITAL

### Shares

	Number of ordinary shares of HK\$0.10 each		HK\$'000	
	2003	2002	2003	2002
<i>Authorised:</i>				
Balance at beginning and end of year	1,000,000,000	1,000,000,000	100,000	100,000
<hr/>				
<i>Issued and fully paid:</i>				
Balance at beginning of year	638,926,375	574,163,750	63,893	57,416
Exercise of share options	15,952,750	6,727,500	1,595	673
Bonus shares issued	–	58,035,125	–	5,804
Shares repurchased and cancelled	(122,000)	–	(12)	–
<hr/>				
Balance at end of year	654,757,125	638,926,375	65,476	63,893
<hr/>				

During the year, the movements in share capital were as follows:

### (a) Exercise of share options

During the year ended 31 March 2003, 9,064,000 and 6,888,750 share options were exercised at exercise prices of HK\$0.918 and HK\$0.742, respectively for a total cash consideration of HK\$13,432,205. The premium of HK\$11,836,930 received on the exercise of the 15,952,750 share options was credited directly to the share premium account during the year ended 31 March 2003.

31 March 2003

## 23. SHARE CAPITAL *(continued)*

### (b) Repurchase of shares

During the year ended 31 March 2003, the Company repurchased and cancelled 122,000 of its ordinary shares of HK\$0.10 each from the market at a total consideration of HK\$237,900.

The premium of HK\$225,700 paid on the repurchase of such shares has been debited to the share premium account and an amount of HK\$12,200 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 25 to the financial statements.

Subsequent to the balance sheet date, in April 2003, the Company repurchased 410,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange at a total purchase consideration of HK\$749,400.

### Share options

Details of the Company's share option schemes are included in note 24 to the financial statements.

## 24. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 1 and under the heading "Employee benefits" in note 2 to the financial statements. As a result, these detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 28 August 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 3 September 1994 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. The options granted under the Old Scheme will remain in force and effect. The New Scheme became effective on 28 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme included the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, person or entity that provides research, development or other technological support to the Group, and any shareholder of the Group.

31 March 2003

## 24. SHARE OPTION SCHEMES *(continued)*

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates in excess of 0.1% of the shares of the Company in issue on that date or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

The period within which the options must exercise will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK\$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

31 March 2003

## 24. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Old Scheme during the year:

Name or category of participants	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares at exercise date of options* HK\$
	At 1 April 2002	Exercised during the year	Lapsed during the year@	At 31 March 2003				
<b>Directors</b>								
Chen Ming-hsiung, Mickey	2,200,000	(2,200,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.100
Chen Cheng-hsiung*	1,320,000	(1,320,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.100
Huang Hsiu-duan, Helen	1,100,000	(1,100,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.100
Lee Kung	556,875	(556,875)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.742	2.025
	385,000	(385,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.025
Chan Ho-man, Daniel	605,000	(605,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.350
	6,166,875	(6,166,875)	-	-				

\* Mr. Chen Cheng-hsiung resigned as a director subsequent to the balance sheet date.

31 March 2003

## 24. SHARE OPTION SCHEMES (continued)

Name or category of participants	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares at exercise date of options* HK\$
	At 1 April 2002	Exercised during the year	Lapsed during the year@	At 31 March 2003				
Other employees								
In aggregate	82,500	-	-	82,500	31 December 1996	31 December 1996 to 2 September 2004	0.429	-
	6,331,875	(6,331,875)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.742	2.025
	3,942,500	(3,454,000)	(92,500)	396,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	2.025
	10,356,875	(9,785,875)	(92,500)	478,500				
	16,523,750	(15,952,750)	(92,500)	478,500				

@ The share options previously granted to certain employees lapsed upon their resignation.

\* The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

The 15,952,750 share options exercised during the year resulted in the issue of 15,952,750 ordinary shares of the Company and new share capital of HK\$1,595,275 and share premium of HK\$11,836,930 (before issue expenses), as detailed in note 23 to the financial statements.

At the balance sheet date, the Company had 82,500 and 396,000 share options at exercise prices of HK\$0.429 and HK\$0.918, respectively, outstanding under the Old Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 478,500 additional ordinary shares of the Company and additional share capital of HK\$47,850 and share premium of HK\$351,071 (before issue expenses).

31 March 2003

## 24. SHARE OPTION SCHEMES *(continued)*

Subsequent to the balance sheet date, on 16 May 2003 and 19 May 2003, 82,500 and 396,000 share options were exercised at exercise prices of HK\$0.429 and HK\$0.918, respectively. Accordingly, 478,500 new ordinary shares were issued and allotted by the Company.

Up to the date of this report, no share options have been granted by the Company under the New Scheme.

## 25. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

31 March 2003

## 25. RESERVES (continued)

## (b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001	60,636	135	66,982	(27,783)	99,970
Exercise of share options	4,911	–	–	–	4,911
Bonus shares issued	(5,669)	(135)	–	–	(5,804)
Net profit for the year (note 11)	–	–	–	114,578	114,578
Interim 2002 dividend (note 12)	–	–	–	(22,777)	(22,777)
Proposed final and special 2002 dividends (note 12)	–	–	–	(61,717)	(61,717)
<hr/>					
At 31 March 2002 and 1 April 2002	59,878	–	66,982	2,301	129,161
Exercise of share options	11,837	–	–	–	11,837
Repurchase of shares	(226)	12	–	(12)	(226)
Net profit for the year (note 11)	–	–	–	76,213	76,213
Interim 2003 dividend (note 12)	–	–	–	(22,916)	(22,916)
Proposed final 2003 dividends (note 12)	–	–	–	(45,838)	(45,838)
Adjustment to final and special 2002 dividends (note 12)	–	–	–	(496)	(496)
<hr/>					
<b>At 31 March 2003</b>	<b>71,489</b>	<b>12</b>	<b>66,982</b>	<b>9,252</b>	<b>147,735</b>

The proposed final and special dividend account within the capital and reserves section of the balance sheet represent an appropriation from retained profits and therefore forms part of the total of such reserves until the dividend is declared and paid.

31 March 2003

## 25. RESERVES *(continued)*

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in September 1994, over the nominal value of the Company's shares issued in exchange therefor.

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reclassifications and prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 1 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the changes in presentation are that taxes paid are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

Moreover, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 2 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK\$5,848,000, previously included at that date. The current year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

### (b) Major non-cash transaction

For the year ended 31 March 2002, 58,035,125 bonus shares were issued by the capitalisation of approximately HK\$5,669,000 of the share premium account and of approximately HK\$135,000 of the capital redemption reserve.



31 March 2003

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

## (c) Acquisition of subsidiaries

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Net assets acquired:		
Fixed assets	–	14,736
Other receivables	–	115
Cash and bank balances	–	126
Other payables	–	(71)
	–	14,906
Satisfied by:		
Cash	–	14,906

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Cash consideration	–	14,906
Cash and bank balances acquired	–	(126)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	14,780

31 March 2003

**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***(c) Acquisition of subsidiaries** *(continued)*

On 7 August 2001, the Group acquired a 100% interest in Profit Success Investment Limited and King Star Footwear (Zhong Shan) Co., Ltd. from independent third parties. Profit Success Investment Limited and King Star Footwear (Zhong Shan) Co., Ltd. are engaged in investment holding and footwear manufacturing, respectively. The purchase consideration for the acquisition of HK\$14,906,000 was settled in the form of cash, and was paid on 13 August 2001.

The subsidiaries acquired in last year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated net profit from ordinary activities to shareholders for that year.

**27. CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31 March 2003 (2002: Nil).

As at 31 March 2003, the Company has provided corporate guarantees in respect of banking facilities granted to certain of its subsidiaries which were utilised to the extent of HK\$41,869,400 (2002: HK\$25,348,000).

**28. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	937	1,491
In the second to fifth years, inclusive	100	992
	<hr/>	<hr/>
	1,037	2,483
	<hr/>	<hr/>

31 March 2003

## 29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had contracted for the following capital commitments:

- (i) At 31 March 2003, the Group had commitments in respect of management fees payable falling due as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	306	290
In the second to fifth years, inclusive	1,240	1,547
After five years	21,083	21,335
	<hr/>	<hr/>
	22,629	23,172
	<hr/>	<hr/>

- (ii) At 31 March 2003, the Group had commitments in respect of an investment in a wholly foreign owned enterprise in the PRC amounting to HK\$46,064,000 (2002: HK\$48,385,000).

- (ii) At 31 March 2003, the Group had commitments in respect of the construction of a factory building in the PRC amounting to HK\$10,249,000 (2002: HK\$25,559,000).

The Company had no significant commitments as at 31 March 2003 (2002: Nil).

## 30. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company repurchased certain of its own shares through the Stock Exchange as further described in note 23 to the financial statements.

*31 March 2003*

### **31. COMPARATIVE AMOUNTS**

As further explained in note 1 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### **32. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 16 July 2003.