

Notes to Financial Statements

For the Year Ended 31st December, 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 31 and 14, respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, the Group did not recognise any deferred tax and the unrecognised deferred tax was calculated using the income statement liability method i.e. timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the balance of accumulated profits at 1st January, 2002 has been increased by HK\$765,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The change has also resulted in an increase in the profit for the year ended 31st December, 2003 by HK\$823,000 (2002: a decrease of HK\$488,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investment in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Joint ventures

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, plus the goodwill/less the negative goodwill in so far as it has not already been written off/amortised/released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Certain of the land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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For the Year Ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on the revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Land held for development is carried at cost, less any identified impairment loss.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment other than land held for development over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Land use rights held on medium-term lease	Over the term of the lease
Buildings	2% – 5%
Leasehold improvements	9% – 45%
Moulds	18% – 20%
Plant and machinery	9% – 45%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	16% – 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to those properties is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Notes to Financial Statements

For the Year Ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities (continued)

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

A golf club membership is stated at cost less any impairment loss.

Foreign currencies

Transactions in such currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Operating leases

Rentals receivables/payables under operating leases are credited/charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expenses as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold, after allowances for returns and trade discounts, by the Group to outside customers and gross rental income received and receivable from investment properties during the year.

Business segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and marketing of footwear products.

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For the Year Ended 31st December, 2003

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)
2003 (continued)

	United States of America HK\$'000	Canada HK\$'000	Europe HK\$'000	Asia HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	402,026	83,611	194,762	39,347	21,294	44,308	785,348
Interest in a jointly controlled entity							1,095
Unallocated corporate assets							381,885
Consolidated total assets							1,168,328
LIABILITIES							
Segment liabilities	156,684	32,586	75,906	15,335	8,299	17,270	306,080
Tax payable							17,296
Deferred tax liabilities							1,944
Unallocated corporate liabilities							3,593
Consolidated total liabilities							328,913
OTHER INFORMATION							
Capital additions	70,324	14,626	34,069	6,883	3,725	7,750	137,377
Depreciation and amortisation	15,194	3,160	7,360	1,487	805	1,675	29,681
Loss on disposal of property, plant and equipment	187	39	90	10	18	21	365
Allowances for bad and doubtful debts	1,866	388	904	98	183	206	3,645

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

2002 (continued)

	United States of America HK\$'000	Canada HK\$'000	Europe HK\$'000	Asia HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	371,540	42,289	105,798	22,356	15,800	34,152	591,935
Deferred tax assets							277
Interest in a jointly controlled entity							43,682
Unallocated corporate assets							164,439
Consolidated total assets							800,333
LIABILITIES							
Segment liabilities	164,528	18,727	46,850	9,900	6,997	15,123	262,125
Tax payable							12,465
Unallocated corporate liabilities							7,532
Consolidated total liabilities							282,122
OTHER INFORMATION							
Capital additions	18,562	2,113	5,286	1,117	788	1,706	29,572
Depreciation and amortisation	14,195	1,616	4,042	854	604	1,305	22,616
Loss on disposal of property, plant and equipment	50	6	14	3	2	5	80
Allowance for bad and doubtful debts	2,417	275	688	145	103	222	3,850

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For the Year Ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	350,482	244,013	5,784	473
The People's Republic of China (the "PRC")	385,631	298,442	131,551	28,904
Others	49,235	49,480	42	195
	785,348	591,935	137,377	29,572

5. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 6)	4,418	2,872
Other staff costs	222,282	194,077
Retirement benefits schemes contributions, excluding directors	186	346
Less: forfeited contributions	–	(174)
	226,886	197,121
Auditors' remuneration	1,080	1,043
Allowances for bad and doubtful debts	3,645	3,850
Cost of inventories recognised as expense	638,592	495,683
Depreciation and amortisation	29,681	22,616
Research and development expenditure	19,861	17,342
Net exchange loss	1,845	–
Amortisation of goodwill of a subsidiary, included in other operating expenses	139	–
and after crediting:		
Dividend income from investments in securities	40	17
Gross rental income from investment properties	1,116	1,470
Less: outgoings	(176)	(135)
	940	1,335
Interest income from:		
Bank deposits	1,873	1,506
Investments in securities	1,979	1,087
Trade debtors (note)	6,926	4,999
Net exchange gain	–	1,450

Note: Interest income was received from trade debtors with extended credit terms.

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6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

A. Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	325	–
Non-executive directors	90	–
Independent non-executive directors	130	332
	545	332
Other emoluments of executive directors:		
Salaries and other benefits	3,873	2,649
Discretionary bonus	–	–
Retirement benefits schemes contributions	–	57
Less: forfeited contributions	–	(166)
	3,873	2,540
Other emoluments of non-executive and independent non-executive directors:		
Salaries	–	–
Benefits	–	–
	–	–
Total directors' emoluments	4,418	2,872

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Nil – HK\$1,000,000	10	18
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	2	–

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Notes to Financial Statements

For the Year Ended 31st December, 2003

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (continued)**B. Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, two (2002: two) were directors of the Company whose emoluments are disclosed in (A) above. The emoluments of the remaining three (2002: three) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	2,942	1,988
Retirement benefits schemes contributions	31	57
	2,973	2,045

The aggregate emolument of one of the employees was within the emoluments band ranging from HK\$1,500,001 to HK\$2,000,000 and the remaining two were within the emoluments band ranging from Nil to HK\$1,000,000.

7. TAXATION

	2003 HK\$'000	2002 HK\$'000
Current tax:		
Hong Kong		
– current year	6,316	5,594
– (over)underprovision in prior years	(293)	790
Other jurisdictions		
– Current year	10,886	2,203
– Underprovision in prior years	14	–
	16,923	8,587
Deferred tax (note 17)		
– current year	(797)	488
– attributable to a change in tax rate	(26)	–
	(823)	488
Taxation attributable to the Company and its subsidiaries	16,100	9,075

7. TAXATION (continued)

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The Hong Kong Profits Tax rate has been increased with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

PRC income tax is calculated at 27% of the estimated assessable profit for the year. The Company's subsidiary operating in the PRC is eligible for certain tax holidays and concessions and was exempted from PRC income tax for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	275,244		95,735	
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	48,168	17.5	15,318	16.0
Tax effect of expenses not deductible for tax purpose	2,211	0.8	1,344	1.4
Tax effect of income not taxable for tax purpose	(3,746)	(1.4)	(7,161)	(7.5)
Tax effect of share of results of a jointly controlled entity (Over)underprovision in respect of prior year	(24,016)	(8.7)	(690)	(0.7)
Tax effect of deferred tax assets not recognised	(279)	(0.1)	790	0.8
Tax effect of deferred tax assets not recognised	(416)	(0.1)	3,646	3.8
Utilisation of tax losses previously not recognised	(8)	–	(46)	–
Effect of tax exemptions granted to certain subsidiaries	(7,591)	(2.8)	(6,736)	(7.0)
Increase in opening deferred tax asset resulting from an increase in applicable tax rate	(26)	–	–	–
Effect of different tax rates of subsidiaries and a jointly controlled entity operating in other jurisdictions	1,065	0.4	2,376	2.5
Others	738	0.3	234	0.2
Tax expense and effective tax rate for the year	16,100	5.9	9,075	9.5

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 17).

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8. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:		
Interim, paid – HK\$0.02 per share (2002: HK\$0.015 per share)	19,934	12,490
Final, proposed – HK\$0.06 per share (2002: HK\$0.0175 per share)	60,295	14,572
Special, proposed – Nil (2002: HK\$0.025 per share)	–	20,817
	80,229	47,879

For the year ended 31st December, 2002, dividend per share has been adjusted for the effect of the share subdivision as set out in note 22 (b).

The proposed final dividend per share has been proposed by the directors and is subject to the approval by the shareholders in general meeting.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003	2002
Earnings:		
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	HK\$256,763,000	HK\$86,713,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	912,658,066	832,679,984
Effect of dilutive potential ordinary shares in respect of share options	–	861,460
Weighted average number of ordinary shares for the purposes of diluted earnings per share	912,658,066	833,541,444

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31st December, 2002 has been adjusted for the share subdivision as set out in note 22(b).

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding during the year ended 31st December, 2003.

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10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Land held for development HK\$'000	Leasehold improvements HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST OR VALUATION								
At 1st January, 2003	33,089	25,234	29,871	44,606	96,781	10,703	7,041	247,325
Acquisition of a subsidiary	-	-	3,063	-	11,363	1,279	768	16,473
Additions	26,036	-	4,172	18,263	10,361	2,479	2,132	63,443
Transfer from deposits paid for acquisition of land and buildings (note 16)	73,934	-	-	-	-	-	-	73,934
Surplus arising on revaluation	9,992	-	-	-	-	-	-	9,992
Disposals	-	-	-	(69)	(1,946)	(2,149)	(310)	(4,474)
Write-off	-	-	-	(44,457)	-	-	-	(44,457)
Exchange realignment	40	-	(117)	(149)	(422)	(26)	(21)	(695)
At 31st December, 2003	143,091	25,234	36,989	18,194	116,137	12,286	9,610	361,541
Comprising:								
At cost	-	-	36,989	18,194	116,137	12,286	9,610	193,216
At valuation	143,091	25,234	-	-	-	-	-	168,325
	143,091	25,234	36,989	18,194	116,137	12,286	9,610	361,541
DEPRECIATION AND AMORTISATION								
At 1st January, 2003	184	25,234	13,010	11,424	43,925	6,964	3,172	103,913
Provided for the year	3,796	-	4,633	8,945	9,880	1,138	1,289	29,681
Write back on revaluation	(3,704)	-	-	-	-	-	-	(3,704)
Eliminated on disposals	-	-	-	(9)	(1,688)	(1,808)	(67)	(3,572)
Eliminated on write-off	-	-	-	(18,368)	-	-	-	(18,368)
Exchange realignment	1	-	(36)	(50)	(178)	(13)	(8)	(284)
At 31st December, 2003	277	25,234	17,607	1,942	51,939	6,281	4,386	107,666
NET BOOK VALUES								
At 31st December, 2003	142,814	-	19,382	16,252	64,198	6,005	5,224	253,875
At 31st December, 2002	32,905	-	16,861	33,182	52,856	3,739	3,869	143,412

In the current year, the directors conducted a review of the manufacturing assets and identify that a number of the moulds cannot be used due to physical damage. Accordingly, the carrying amount of HK\$26,089,000 were fully written off.

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For the Year Ended 31st December, 2003

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Land and buildings outside Hong Kong		
Freehold	8,602	8,655
Medium-term lease	108,962	–
Land and buildings in Hong Kong		
Medium-term lease	25,250	24,250
	142,814	32,905

The leasehold land and buildings of the Group in Hong Kong and outside Hong Kong which were held under medium-term lease were valued at 31st December, 2003 by Prudential Surveyors International Limited, an independent firm of professional property valuers, Chartered Surveyors, on an open market existing use basis and a depreciated replacement cost basis, respectively.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical costs less accumulated depreciation of HK\$164,210,000 (2002: HK\$59,174,000).

The land held for development represents the Group's 68% interest in land with an area of approximately 353,333 square metres for a term of 50 years from 12th December, 1997 in Zhongshan, the PRC for the construction of factory buildings and facilities (the "Project") thereon. During the year ended 31st December, 2001, the Group decided to suspend the Project indefinitely. In the opinion of the directors, after taking into consideration the conditions as stated in the land grant contracts and the suspension of the Project for an indefinite period of time, the recoverability of the carrying value of the land was considered to be remote. Accordingly, full provision in respect of the carrying value of the land of HK\$25,234,000 was made for the year ended 31st December, 2001. During the year, no progress in respect of the Project was made and, accordingly, no write back of the provision is considered.

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11. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2003	61,500
Surplus arising on revaluation	3,500
At 31st December, 2003	65,000

The investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were valued at 31st December, 2003 by Prudential Surveyors International Limited, an independent firm of professional property valuers, Chartered Surveyors, on an open market existing use basis. The revaluation surplus has been credited to the income statement.

Investment properties with a total carrying value of HK\$20,500,000 at 31st December, 2003 (2002: HK\$20,000,000) are rented out under operating leases. Details of operating lease arrangements are referred to in note 26. The remaining investment properties with a balance of HK\$44,500,000 at 31st December, 2003 (2002: HK\$41,500,000) were not rented out at that date.

12. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of a subsidiary and at 31st December, 2003	2,786
AMORTISATION	
Provided for the year and at 31st December, 2003	(139)
NET BOOK VALUE	
At 31st December, 2003	2,647

The amortisation period adopted for goodwill is ten years.

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	141,213	141,213
Less: impairment loss	(140,225)	(140,225)
	988	988

Details of the Company's principal subsidiaries at 31st December, 2003 are set out in note 31.

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For the Year Ended 31st December, 2003

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net asset	1,095	4,654
Amount due from a jointly controlled entity	-	39,028
	1,095	43,682

At 31st December, 2002, the amount due from a jointly controlled entity was unsecured and interest-free. The amount was fully repaid during the year ended 31st December, 2003.

At 31st December, 2003, the Group had interest in the following jointly controlled entity:

Name of jointly controlled entity	Place of incorporation and operation	Class of share held	Proportion of nominal value of issued capital indirectly held by the Group	Principal activity
Union Overseas Holdings Limited ("UOHL")	British Virgin Islands	Ordinary	50%	Investment holdings

The following details have been extracted from the management accounts of the Group's jointly controlled entity:

	2003 HK\$'000	2002 HK\$'000
Results for the year		
Turnover	-	-
Profit from ordinary activities before taxation	274,463	8,626
Profit from ordinary activities before taxation attributable to the Group	137,232	4,313
Financial position		
Non-current assets	-	86,608
Current assets	2,327	896
Current liabilities	(136)	(140)
Non-current liabilities	-	(78,057)
Net assets	2,191	9,307
Net assets attributable to the Group	1,095	4,654

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15. INVESTMENTS IN SECURITIES

	Investment securities		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The Group						
Equity securities, at cost						
Listed	2,333	2,026	–	–	2,333	2,026
Unlisted	760	760	–	–	760	760
Less: Impairment loss recognised	(1,936)	(1,967)	–	–	(1,936)	(1,967)
	1,157	819	–	–	1,157	819
Listed debt securities	29,317	22,991	–	–	29,317	22,991
Less: Impairment loss recognised	–	(2,525)	–	–	–	(2,525)
	29,317	20,466	–	–	29,317	20,466
Golf club membership in the PRC, at cost	–	–	880	880	880	880
Less: Impairment loss recognised	–	–	(430)	(430)	(430)	(430)
	–	–	450	450	450	450
Total:						
Listed						
Hong Kong	20	20	–	–	20	20
Elsewhere	30,378	21,189	–	–	30,378	21,189
Unlisted	76	76	450	450	526	526
	30,474	21,285	450	450	30,924	21,735
Market value of listed securities	30,638	21,222	–	–	30,638	21,222
Carrying amount analysed for reporting purposes as:						
Current	–	–	–	–	–	–
Non-current	30,474	21,285	450	450	30,924	21,735
	30,474	21,285	450	450	30,924	21,735

Notes to Financial Statements

For the Year Ended 31st December, 2003

16. DEPOSITS PAID FOR THE ACQUISITION OF LAND AND BUILDINGS

At 31st December, 2002 the amounts represented deposits paid for the purchase of four lots of land situated in Zhongshan, the PRC (the "Land") and the buildings thereon (the "Buildings") for a total consideration of HK\$102,370,000.

During the year ended 31st December, 2003, the Group obtained all the relevant title certificates in respect of the Land and Buildings. Accordingly, the deposits were transferred to property, plant and equipment.

17. DEFERRED TAX**The Group**

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Allowance for bad and doubtful debts HK\$'000	Unrealised profit on inventories HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2002					
- as previously reported	-	-	-	-	-
- adjustment on adoption of SSAP 12 (Revised)	991	(1,112)	(476)	(168)	(765)
- as restated	991	(1,112)	(476)	(168)	(765)
Charge (credit) to income	741	(616)	255	108	488
At 1st January, 2003	1,732	(1,728)	(221)	(60)	(277)
(Credit) charge to income	(270)	68	(321)	(274)	(797)
Charge to equity for the year	3,044	-	-	-	3,044
Effect of change in tax rate - credit to income statement	162	(162)	(21)	(5)	(26)
At 31st December, 2003	4,668	(1,822)	(563)	(339)	1,944

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For the Year Ended 31st December, 2003

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17. DEFERRED TAX (continued)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003	2002
	HK\$'000	HK\$'000
Deferred tax liabilities	4,525	1,732
Deferred tax assets	(2,581)	(2,009)
	1,944	(277)

At 31st December, 2003, the Group has unused tax losses of HK\$24,976,000 (2002: HK\$26,532,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,937,000 (2002: HK\$375,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$23,039,000 (2002: HK\$26,157,000) due to the unpredictability of future profit streams.

At the balance sheet date, the Group has deductible temporary differences of HK\$5,679,000 (2002: HK\$6,387,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Temporary differences arising in connection with interests in a jointly controlled entity are insignificant.

18. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	52,234	39,675
Work in progress	45,773	27,949
Finished goods	57,233	39,961
	155,240	107,585

All inventories were carried at cost at the balance sheet date.

Notes to Financial Statements

For the Year Ended 31st December, 2003

19. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 60 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$268,454,000 (2002: HK\$208,814,000) and an aged analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	153,933	135,885
31 to 60 days	33,937	52,517
61 to 90 days	36,620	26,458
Over 90 days	58,069	72,458
	282,559	287,318
Less: Allowances for bad and doubtful debts	(14,105)	(78,504)
	268,454	208,814

20. AMOUNTS DUE FROM SUBSIDIARIES

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

21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$179,233,000 (2002: HK\$146,994,000) and an aged analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	85,553	59,970
31 to 60 days	59,370	56,231
61 to 90 days	11,300	9,671
Over 90 days	23,010	21,122
	179,233	146,994

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22. SHARE CAPITAL

	Number of shares 2003 '000	Amount 2003 HK\$'000
Authorised:		
At 1st January, 2002 and 1st January, 2003, at HK\$1.00 each	2,000,000	2,000,000
Share subdivision (note b)	6,000,000	–
At 31st December, 2003, at HK\$0.25 each	8,000,000	2,000,000
Issued and fully paid:		
At 1st January, 2002 and 1st January, 2003, at HK\$1.00 each	208,170	208,170
Issue of shares on subscription (note a)	41,000	41,000
Share subdivision (note b)	747,510	–
At 31st December, 2003 (shares of HK\$0.25 each)	996,680	249,170

Notes:

- (a) On 27th May, 2003, the Company entered into a subscription agreement with Ko Shing Limited (the "Subscriber") and Mr. Chang Tsung Yuan ("Mr. Chang") (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company agreed to issue and the Subscriber agreed to subscribe for 41,000,000 ordinary shares of HK\$1.00 each in the share capital of the Company (the "Subscription Shares") at a price of HK\$2.38 each per Subscription Share in cash, and Mr. Chang undertook to the Company to ensure the performance by the Subscriber of its obligations under the Subscription Agreement (the "Subscription").

The sole owner of the Subscriber is Mr. Chang, who is the chairman and director of various subsidiaries of the Company and is therefore a connected person of the Company as defined under the Rules Governing the Listing of Securities on the Stock Exchange. A special general meeting of the Company was held on 2nd July, 2003 where the shareholders of the Company passed resolutions, inter alia, approving the Subscription which was completed on 7th July, 2003. The net proceeds have been used to enhance the footwear production facilities and to finance the Group's general working capital and future expansion in related footwear business. The Subscription Shares rank pari passu with the existing shares in all respects.

Notes to Financial Statements

For the Year Ended 31st December, 2003

22. SHARE CAPITAL (continued)

Notes: (continued)

- (b) Pursuant to an announcement dated 5th August, 2003 (the "Announcement") and a circular dated 18th August, 2003 (the "Circular"), the board of directors (the "Board") proposed that each of the existing issued and unissued shares of HK\$1.00 each in the share capital of the Company be subdivided (the "Share Subdivision") into four shares of HK\$0.25 each in the share capital of the Company (the "Subdivided Shares"). On 14th August, 2003 (being the latest practicable date for the purpose of ascertaining certain information referred to in the Circular), the authorised share capital of the Company was HK\$2,000,000,000 which was divided into 2,000,000,000 shares, of which 249,169,996 shares were in issue. Immediately following the implementation of the Share Subdivision and on the basis of 249,169,996 shares in issue, 996,679,984 Subdivided Shares were in issue. The Share Subdivision was approved by shareholders at a special general meeting on 3rd September, 2003 and became effective on 4th September, 2003.

23. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 22nd October, 2001, a new share option scheme (the "2001 Scheme") was adopted by the Company. The 2001 Scheme replaced the share option scheme adopted on 9th February, 1995 (as amended on 9th December, 1997) (the "1997 Scheme"). After the adoption of the 2001 Scheme, no further options can be granted under the 1997 Scheme.

The Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholder's approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

23. SHARE OPTIONS SCHEME (continued)

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must 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 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

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 quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of directors at the time the option is offered to the participants.

No options may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

At 31st December, 2003, no share option of the 1997 Scheme and 2001 Scheme was outstanding. During the year ended 31st December, 2003, there was no option granted under the 1997 Scheme and the 2001 Scheme.

The following tables disclose details of the 1997 Scheme held by employees (including directors) and movements in such holdings during the year ended 31st December, 2002:

Name	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Outstanding at 1.1.2002	Cancelled during the year	Outstanding at 31.12.2002
Category I:						
Director	14th August, 2000	14th February, 2001 to 13th February, 2003	HK\$1.00	1,320,000	(1,320,000)	-
Category II:						
Employees	14th August, 2000	14th February, 2001 to 13th February, 2003	HK\$1.00	220,000	(220,000)	-

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For the Year Ended 31st December, 2003

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January, 2002	28,057	63,561	51,939	143,557
Net profit for the year	–	–	48,383	48,383
Dividends paid	–	–	(12,490)	(12,490)
At 31st December, 2002	28,057	63,561	87,832	179,450
Premium arising on issue of shares	56,580	–	–	56,580
Net profit for the year	–	–	61,223	61,223
Dividends paid	–	–	(55,323)	(55,323)
At 31st December, 2003	84,637	63,561	93,732	241,930

The contributed surplus of the Company represents the excess of the fair value of the shares of the acquired subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation on 9th February, 1995.

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account and the share premium of the Company is also available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus and share premium if:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders were as follows:

	2003 HK\$'000	2002 HK\$'000
Share premium	84,637	28,057
Contributed surplus	63,561	63,561
Accumulated profits	93,732	87,832
	241,930	179,450

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25. ACQUISITION OF A SUBSIDIARY

On 1st July, 2003, the Group acquired 80% of the issued share capital of Nice Well Holdings Limited and its subsidiary for consideration of HK\$20,474,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$2,786,000.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	16,473	–
Inventories	21,148	–
Trade and other receivables	34,204	–
Bank balances and cash	4,252	–
Trade and other payables	(47,004)	–
Minority interests	(11,385)	–
Net assets	17,688	–
Goodwill arising on acquisition	2,786	–
Total consideration	20,474	–
Satisfied by:		
Cash	20,474	–
Net cash outflow arising on acquisition:		
Cash consideration paid	20,474	–
Bank balances and cash acquired	(4,252)	–
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	16,222	–

The subsidiary acquired during the year contributed approximately HK\$136,429,000 to the Group's turnover and approximately HK\$12,159,000 to the Group's profit from operations.

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26. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum leases payments paid under operating leases for land and buildings during the year was HK\$12,505,000 (2002: HK\$9,203,000)

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	14,707	5,831
In the second to fifth year inclusive	51,104	3,470
After five years	12,864	1,459
	78,675	10,760

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated and rentals are fixed for terms ranging from two to eight years.

At 31st December, 2003 the Company had no operating lease commitments (2002: Nil).

The Group as lessor

Property rental income earned during the year was approximately HK\$1,116,000 (2002: HK\$1,470,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 5% (2002: 7%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,424	828
In the second to fifth year inclusive	1,065	558
	2,489	1,386

27. CAPITAL COMMITMENTS

At 31st December, 2003, the Group was committed to capital expenditure of HK\$39,000 (2002: HK\$613,000) in respect of leasehold improvements of land and buildings.

At 31st December, 2002, the Group was committed to:

- (a) capital expenditure of HK\$28,436,000 in respect of the acquisition of the Land and Buildings as set out in note 16.
- (b) capital expenditure of HK\$93,600,000 in respect of an investment in a subsidiary in the PRC.

The Company did not have any commitments at the balance sheet date (2002: Nil).

28. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities at the balance sheet date (2002: Nil).

At 31st December, 2003, the Company had outstanding corporate guarantees amounting to HK\$39,000,000 (2002: HK\$39,000,000) issued in favour of a bank to secure general banking facilities made available to the Company and certain of its subsidiaries.

29. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

30. RELATED PARTY TRANSACTION

On 27th May, 2003, the Company entered into a subscription agreement with Ko Shing Limited and Mr. Chang Tsung Yuan ("Mr. Chang") for the subscription by Ko Shing Limited of 41,000,000 new ordinary shares of HK\$1.00 each in the share capital of the Company ("Subscription Share(s)") for a subscription price of HK\$2.38 per Subscription Share. The subscription price represented a discount of approximately 23.23% to HK\$3.10 per share, being the last traded price per share immediately before trading in the shares was suspended at the request of the Company with effect from 2:30pm on 27th May, 2003.

Ko Shing Limited is wholly beneficially owned by Mr. Chang who is a chairman and director of various subsidiaries of the Company and has been so for many years. Therefore, Mr. Chang is a connected person of the Company. Mr. Chang is one of the key founders of the footwear business of the Group and the subscription serves as an incentive for Mr. Chang to continue to contribute to the growth of the Group.

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31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Canray Int'l Limited	British Virgin Islands	Ordinary US\$1	-	100%	Footwear trading
Cashmaster Profits Limited	British Virgin Islands	Ordinary US\$1	-	100%	Footwear trading
Chi Yuen Developments Limited	British Virgin Islands/PRC	Ordinary US\$1	-	100%	Footwear manufacturing
Cosmo Group Holdings Limited	British Virgin Islands	Ordinary US\$10,000	100%	-	Investment holding
Continuance Enterprises Limited	British Virgin Islands	Ordinary US\$1	-	100%	Investment holding
廣州番禺興泰鞋業有限公司	PRC (Co-operative joint venture)	Registered capital RMB68,260,876	-	92.78%	Footwear manufacturing
Holey Trading Limited	Hong Kong	Ordinary HK\$2	-	100%	Footwear trading
Liang Shing Industries Limited	Hong Kong	Ordinary HK\$72,000 Non-voting deferred * HK1,428,000	-	100%	Provision of management services
Liang Shing Industries (HK) Limited	Hong Kong	Ordinary HK\$10,000	-	100%	Footwear marketing and trading

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31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Lucky Port Trading Limited	Hong Kong	Ordinary US\$2	-	100%	Footwear marketing and trading
Muspole International Limited	British Virgin Islands	Ordinary US\$1	-	100%	Investment holding
New Year Prosperity Corporation	British Virgin Islands	Ordinary US\$1	-	100%	Investment holding
Nice Well Holdings Limited	British Virgin Islands	Ordinary US\$50,000	-	80%	Investment holding
Power Plus Limited	British Virgin Islands	Ordinary US\$1	-	100%	Investment holding
Sunrise Footwear Limited	Macau	MOP1,000,000	-	100%	Footwear manufacturing
Takson Asia Limited	Hong Kong	Ordinary HK\$10,000	-	100%	Footwear purchasing
Uprise Group Limited	British Virgin Islands	Ordinary US\$50,000	-	80%	Footwear manufacturing
Zenith Billion Trading Limited	Hong Kong	Ordinary HK\$2	-	100%	Footwear trading
中山精美鞋業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital US\$21,500,000	-	100%	Footwear manufacturing

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31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

- * The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividend and are, on a winding-up, only entitled out of the surplus assets of the Company, to a return of the capital after a total sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company.

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

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.