

# NOTES TO THE 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 directors consider Pegasus Footgear Management Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

These financial statements are presented in United States dollars because that is the currency in which the majority of the Group's transactions are denominated.

The Group is engaged principally in the manufacture and sale of footwear products.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

### SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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 amounts 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. Opening deferred tax liabilities for 2002 have been increased by US\$3,551,000, which is the cumulative effect of the changes in policy on the results for periods prior to 2002. The balance on the Group's assets revaluation reserve at 1st January, 2002 has been reduced by US\$3,551,000, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's land use rights and buildings in the PRC as at that date. This change has also resulted in a decrease in the assets revaluation reserve by US\$259,000 for the year ended 31st December, 2003 (2002: US\$232,000).

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land use rights and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## **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 an associate 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 an associate is included within the carrying amount of the associate.

On disposal of an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### **Investments in subsidiaries**

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

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill on acquisition in so far as it has not already been amortised to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### **Interests in jointly controlled entities**

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

### **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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in securities (Continued)

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

### Turnover

Turnover represents the amounts received and receivable for goods sold by the Group to customers, less returns and allowances, during the year.

### Revenue recognition

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

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

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and any accumulated impairment losses.

Medium-term land use rights 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.

Any revaluation increase arising on revaluation of land use rights and buildings is credited to the assets 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 the net carrying amount arising on 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 previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Medium-term land use rights and buildings	Over the term of the lease
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33 $\frac{1}{3}$ %
Motor vehicles	20%

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## **3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

### **Property, plant and equipment** *(Continued)*

The gain or loss arising from disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress is stated at cost which includes all development expenditure and the direct costs attributable to such projects. Construction in progress is not depreciated or amortised until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

### **Leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### **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. An impairment loss is recognised as an expense immediately, unless the relevant asset carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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.

### **Foreign currencies**

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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 items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Retirement benefits schemes**

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes and state-managed retirement benefits schemes.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 4. GEOGRAPHICAL SEGMENTS

### Geographical segments

For management purposes, the Group is currently organised into three major geographical segments based on the location of its customers. These segments are the bases on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

### 2003

	<b>North America US\$'000</b>	<b>Asia US\$'000</b>	<b>Europe US\$'000</b>	<b>Others US\$'000</b>	<b>Consolidated US\$'000</b>
<b>REVENUE</b>					
Turnover					
External sales	<b>93,062</b>	<b>21,553</b>	<b>10,109</b>	<b>4,828</b>	<b>129,552</b>
<b>RESULTS</b>					
Segment results	<b>9,100</b>	<b>2,108</b>	<b>988</b>	<b>473</b>	<b>12,669</b>
Other operating income					<b>1,393</b>
Unallocated corporate expenses					<b>(6,703)</b>
Profit from operations					<b>7,359</b>
Interest on bank borrowings wholly repayable within five years					<b>(725)</b>
Amortisation of goodwill of an associate	-	<b>(79)</b>	-	-	<b>(79)</b>
Impairment loss recognised in investment security	-	<b>(2,493)</b>	-	-	<b>(2,493)</b>
Share of results of associates	-	<b>191</b>	-	-	<b>191</b>
Share of results of jointly controlled entities	-	<b>136</b>	-	-	<b>136</b>
Profit before taxation					<b>4,389</b>
Taxation					<b>(172)</b>
Net profit attributable to shareholders					<b>4,217</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 4. GEOGRAPHICAL SEGMENTS (Continued)

	<b>North America US\$'000</b>	<b>Asia US\$'000</b>	<b>Europe US\$'000</b>	<b>Others US\$'000</b>	<b>Consolidated US\$'000</b>
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	<b>100,798</b>	<b>23,351</b>	<b>10,946</b>	<b>5,233</b>	<b>140,328</b>
Investments in associates	-	<b>598</b>	-	-	<b>598</b>
Investment in jointly controlled entities	-	<b>2,135</b>	-	-	<b>2,135</b>
Investment security	-	<b>2,328</b>	-	-	<b>2,328</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	
Unallocated corporate assets					<u><b>16,312</b></u>
Consolidated total assets					<u><b>161,701</b></u>
<b>LIABILITIES</b>					
Segment liabilities	<u><b>12,739</b></u>	<u><b>2,951</b></u>	<u><b>1,383</b></u>	<u><b>662</b></u>	<b>17,735</b>
Unallocated corporate liabilities					<u><b>37,622</b></u>
Consolidated total liabilities					<u><b>55,357</b></u>
<b>OTHER INFORMATION</b>					
	<b>North America US\$'000</b>	<b>Asia US\$'000</b>	<b>Europe US\$'000</b>	<b>Others US\$'000</b>	<b>Consolidated US\$'000</b>
Capital additions	<b>1,510</b>	<b>350</b>	<b>164</b>	<b>78</b>	<b>2,102</b>
Depreciation and amortisation of property, plant and equipment	<u><b>6,985</b></u>	<u><b>1,618</b></u>	<u><b>759</b></u>	<u><b>363</b></u>	<u><b>9,725</b></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 4. GEOGRAPHICAL SEGMENTS (Continued)

2002

	North America <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
<b>REVENUE</b>					
Turnover					
External sales	<u>75,755</u>	<u>21,808</u>	<u>11,507</u>	<u>6,335</u>	<u>115,405</u>
<b>RESULTS</b>					
Segment results	<u>7,388</u>	<u>2,127</u>	<u>1,122</u>	<u>619</u>	11,256
Other operating income					1,715
Unallocated corporate expenses					<u>(6,158)</u>
Profit from operations					6,813
Interest on bank borrowings wholly repayable within five years					(967)
Amortisation of goodwill of an associate	–	(135)	–	–	(135)
Share of results of associates	–	10	–	–	10
Share of results of jointly controlled entities	–	(6)	–	–	<u>(6)</u>
Profit before taxation					5,715
Taxation					<u>(223)</u>
Net profit attributable to shareholders					<u>5,492</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 4. GEOGRAPHICAL SEGMENTS (Continued)

	North America <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i> (Restated)
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	92,531	26,643	14,054	7,739	140,967
Investments in associates	–	5,307	–	–	5,307
Investment in jointly controlled entities	–	1,999	–	–	1,999
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	
Unallocated corporate assets					<u>14,591</u>
Consolidated total assets					<u>162,864</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>14,743</u>	<u>4,245</u>	<u>2,239</u>	<u>1,234</u>	22,461
Unallocated corporate liabilities					<u>37,190</u>
Consolidated total liabilities					<u>59,651</u>
<b>OTHER INFORMATION</b>					
	North America <i>US\$'000</i>	Asia <i>US\$'000</i>	Europe <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
Capital additions	2,672	769	406	223	4,070
Depreciation and amortisation of property, plant and equipment	<u>7,015</u>	<u>2,020</u>	<u>1,065</u>	<u>587</u>	<u>10,687</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 4. GEOGRAPHICAL SEGMENTS (Continued)

The Group's operations are located in Mainland China ("PRC"), Hong Kong and Taiwan.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, as analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
PRC	121,597	123,801	2,066	3,987
Hong Kong	18,431	16,831	28	23
Taiwan	300	335	8	60
	<u>140,328</u>	<u>140,967</u>	<u>2,102</u>	<u>4,070</u>

No analysis of financial information by business segment is presented as all the Group's turnover and trading results are generated from the manufacture and sale of footwear products.

## 5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

Directors' emoluments (note 6)	1,041	1,191
Other staff costs	27,597	22,298
Retirement benefits scheme contributions (excluding contributions in respect of directors)	1,789	1,235
Total staff costs	30,427	24,724
Auditors' remuneration	97	89
Depreciation and amortisation of property, plant and equipment	9,725	10,687
Loss on disposal of property, plant and equipment	4	1
and after crediting:		
Interest income	123	168

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	<b>2003</b> <b>US\$'000</b>	2002 <i>US\$'000</i>
Directors' fees:		
Executive	<b>73</b>	73
Non-executive	<b>8</b>	8
Independent non-executive	<b>15</b>	15
Other emoluments (executive directors):		
Basic salaries and allowances	<b>512</b>	566
Retirement benefits scheme contributions	<b>-</b>	-
Bonus	<b>433</b>	529
Total	<b>1,041</b>	1,191

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>4</b>	4
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>-</b>	-
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	-
HK\$3,500,001 to HK\$4,000,000	<b>-</b>	1

The five highest paid individuals of the Group included 4 executive directors (2002: 4 executive directors) of the Company, details of whose emoluments are included in the amounts disclosed above. The emoluments of the remaining highest paid individual (2002: 1 employee), other than directors of the Company, were as follows:

	<b>2003</b> <b>US\$'000</b>	2002 <i>US\$'000</i>
Basic salaries and other benefits	<b>144</b>	127
Retirement benefits scheme contributions	<b>-</b>	3
	<b>144</b>	130

The emoluments of this highest paid employee were within the band of HK\$1,000,001 to HK\$1,500,000.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 7. TAXATION

	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	<b>10</b>	5
– Under (over) provision in prior year	<b>3</b>	(3)
Taxation in other jurisdictions		
– PRC	<b>152</b>	213
– Taiwan	<b>7</b>	8
	<hr/> <b>172</b> <hr/>	<hr/> 223 <hr/>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year.

PRC income is charged at 33% on the assessable profits of the PRC subsidiaries.

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

Save as disclosed above, in the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 7. TAXATION (Continued)

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

	2003		2002	
	US\$'000	%	US\$'000	%
Profit before taxation	<b>4,389</b>		5,715	
Tax at the domestic income tax rate of 33% (2002: 33%)	<b>1,448</b>	<b>33.0</b>	1,886	33.0
Tax effect of results of associates/ jointly controlled entities	<b>(108)</b>	<b>(2.5)</b>	(1)	(0.1)
Tax effect of expenses not deductible for tax purpose	<b>3,229</b>	<b>73.6</b>	2,515	44.0
Tax effect of income not taxable for tax purpose	<b>(933)</b>	<b>(21.3)</b>	(1,890)	(33.0)
Under (over) provision in respect of prior year	<b>3</b>	<b>0.1</b>	(3)	(0.1)
Tax effect of tax losses/deferred tax assets not recognised	<b>447</b>	<b>10.2</b>	350	6.1
Utilisation of tax losses previously not recognised	-	-	(74)	(1.3)
Effect of tax exemptions granted to PRC subsidiaries	<b>(24)</b>	<b>(0.6)</b>	(38)	(0.6)
Tax effect on net income not taxable in any jurisdiction	<b>(3,879)</b>	<b>(88.4)</b>	(2,532)	(44.3)
Overprovision of current year taxation	-	-	(6)	(0.1)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(11)</b>	<b>(0.2)</b>	(6)	(0.1)
Others components	-	-	22	0.4
Tax effect and effective tax rate for the year	<b>172</b>	<b>3.9</b>	223	3.9

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. DIVIDENDS

	<b>2003</b> <b>US\$'000</b>	2002 <i>US\$'000</i>
Interim, paid – HK1 cent per ordinary share (2002: HK1 cent)	<b>943</b>	931
Final, proposed – HK1.5 cent per ordinary share (2002: HK1 cent)	<b>1,414</b>	931
Underprovision of final dividend ( <i>note</i> )	<b>12</b>	–
	<b><u>2,369</u></b>	<u>1,862</u>

The final dividend of HK1.5 cent (2002: HK1 cent) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

*Note: The amount represents final dividend payable to shares issued subsequent to the approval of the financial statements for the year ended 31st December, 2002 by the Directors.*

## 9. EARNINGS PER SHARE

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

	<b>Earnings</b>	
	<b>2003</b> <b>US\$'000</b>	2002 <i>US\$'000</i>
Net profit attributable to shareholders	<b><u>4,217</u></b>	<u>5,492</u>

  

	<b>Number of shares</b>	
	<b>2003</b> <b>'000</b>	2002 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>727,841</b>	721,300
Effect of dilutive potential ordinary shares for share options	<b><u>1,647</u></b>	<u>4,171</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>729,488</u></b>	<u>725,471</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 10. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights and buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>THE GROUP</b>							
<b>COST OR VALUATION</b>							
At 1st January, 2003	48,423	46	1,468	81,328	13,940	818	146,023
Additions	–	134	–	1,507	369	92	2,102
Transfers	–	(54)	–	–	54	–	–
Disposals	–	–	–	–	(58)	–	(58)
Revaluation	(791)	–	–	–	–	–	(791)
<b>At 31st December, 2003</b>	<b>47,632</b>	<b>126</b>	<b>1,468</b>	<b>82,835</b>	<b>14,305</b>	<b>910</b>	<b>147,276</b>
Comprising:							
At cost	–	126	1,468	82,835	14,305	910	99,644
At valuation – December 2003	47,632	–	–	–	–	–	47,632
	47,632	126	1,468	82,835	14,305	910	147,276
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2003	–	–	1,461	44,097	9,548	680	55,786
Provided for the year	1,123	–	2	7,379	1,135	86	9,725
Eliminated on disposals	–	–	–	–	(45)	–	(45)
Eliminated on revaluation	(1,123)	–	–	–	–	–	(1,123)
<b>At 31st December, 2003</b>	<b>–</b>	<b>–</b>	<b>1,463</b>	<b>51,476</b>	<b>10,638</b>	<b>766</b>	<b>64,343</b>
<b>NET BOOK VALUE</b>							
<b>At 31st December, 2003</b>	<b>47,632</b>	<b>126</b>	<b>5</b>	<b>31,359</b>	<b>3,667</b>	<b>144</b>	<b>82,933</b>
At 31st December, 2002	48,423	46	7	37,231	4,392	138	90,237

The medium-term land use rights and buildings and the construction in progress are situated in the PRC.

The medium-term land use rights and buildings were revalued as at 31st December, 2003 by Sallmanns (Far East) Limited, on an open market value basis. Sallmanns (Far East) Limited are not connected with the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

If the medium-term land use rights and buildings in the PRC had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation as follows:

	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
Cost at beginning of year	<b>42,383</b>	42,383
Accumulated depreciation and amortisation	<b>(5,419)</b>	(4,541)
Net book value at end of year	<b><u>36,964</u></b>	<u>37,842</u>

## 11. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
Unlisted shares, at cost	<b>26,465</b>	26,465
Amounts due from subsidiaries	<b>26,447</b>	24,911
	<b><u>52,912</u></b>	<u>51,376</u>

The carrying value of the unlisted shares is based on the net book values of the underlying net assets of the subsidiary attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1996.

Details of the Company's principal subsidiaries at 31st December, 2003 are set out in note 28.

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

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date and the balances are therefore shown as non-current.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 12. INVESTMENTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Overseas listed shares, at cost	–	–	5,000	5,000
Share of net assets of associates	2,926	2,735	–	–
Goodwill of an associate	2,493	2,572	–	–
	<b>5,419</b>	5,307	<b>5,000</b>	5,000
Transfer to investment security (note 14)	<b>(4,821)</b>	–	<b>(5,000)</b>	–
At 31st December	<b>598</b>	5,307	–	5,000
Market value at 31st December	<b>N/A</b>	3,902	<b>N/A</b>	3,902
Amount due from an associate	–	32	–	–
Amount due to an associate	<b>222</b>	64	–	–

The amounts due from (to) an associate are unsecured, interest-free, and have no fixed repayment terms.

Particulars of the Group's associates at 31st December, 2003 are as follows:

Name of associate	Place of incorporation/ establishment	Principal place of operation	Class of shares held	Proportion of nominal value of issued share capital held by the Group *		Principal activities
				2003	2002	
Hi-Tech Pacific Limited	British Virgin Islands	Hong Kong	Ordinary	40%	40%	Trading in footwear and investment holding
廣州和仁化學塑料有限公司	PRC	PRC	PRC	40%	40%	Manufacturing of footwear materials
Secaicho Corporation ("Secaicho")	Japan	Japan	Ordinary	–	23.83%	Marketing and trading of footwear products

\* Secaicho was held by the Company directly. The other companies were held by the Company indirectly.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 12. INVESTMENTS IN ASSOCIATES (Continued)

Note: On 30th July, 2003, Secaicho filed an application to the Osaka Court for corporate reorganisation (the "Reorganisation") as it was in short supply of short-term working capital. According to the application for the Reorganisation, Secaicho's assets are under protection and negotiation with its creditor banks for debt-alleviation and interest reduction will take place. Upon the Reorganisation, the directors considered that the Group no longer has significant influence over the financial and operating decisions of Secaicho and therefore Secaicho should no longer be regarded as an associate. Therefore, the Group's share of net assets of Secaicho together with the unamortised goodwill have been reclassified to investment security (see Note 14).

The goodwill of an associate arose on the acquisition of Secaicho in 2002. The goodwill was amortised on a straight-line basis over a period of 20 years. The goodwill of US\$2,707,000 had been amortised to the extent of US\$135,000 at 1st January, 2003. Amortisation charged in the current year amounting to US\$79,000 has been included in the consolidated income statement.

The results of Secaicho incorporated into the Group's financial statements in the current year are derived from its audited financial statements made up to 31st March, 2003 (2002: 30th September, 2002).

The results of associates other than Secaicho incorporated into the Group's financial statements are derived from the audited financial statements made up to 31st December, each year.

## 13. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Share of net assets of jointly controlled entities	<b>2,135</b>	1,999

Particulars of the principal jointly controlled entity at 31st December, 2003 are as follows:

<b>Name of jointly controlled entity</b>	<b>Place of incorporation</b>	<b>Principal place of operation</b>	<b>Class of share held</b>	<b>Proportion of nominal value of issued share capital held by the Group</b>	<b>Principal activities</b>
C.P.L. International Company Limited ("C.P.L.")	British Virgin Islands	PRC	Ordinary	30%	Manufacture of leather materials

The results of C.P.L. incorporated into the Group's financial statements are derived from the audited financial statements made up to 31st December, each year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 14. INVESTMENT SECURITY

	THE GROUP		THE COMPANY	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Listed equity securities	4,821	–	5,000	–
Impairment loss recognised (note i)	(2,493)	–	(2,672)	–
	<u>2,328</u>	<u>–</u>	<u>2,328</u>	<u>–</u>
Market value (note ii)	<u>N/A</u>	<u>–</u>	<u>N/A</u>	<u>–</u>

The investment security represents an investment in Secaicho, a company incorporated in Japan. The investment represents a holding of 23.83% of the ordinary shares of Secaicho. Secaicho is not an associate of the Company because the Company has no significant influence over its affairs since 30th July, 2003 (see Note 12).

The amount due from an investee is unsecured, interest-free and has no fixed repayment terms. The amount has been settled subsequent to the balance sheet date.

Notes:

- (i) Based on a review of Secaicho's latest financial information and a projection of its operating results with reference to market information, the directors determined that an impairment loss which represented the unamortised amount of goodwill arising on the acquisition of Secaicho (note 12) has been recognised in the income statement for the current year.
- (ii) The investment security, which its shares are listed on the Osaka Securities Exchange of Japan, has been suspended trading since 30th July, 2003.

## 15. INVENTORIES

	THE GROUP	
	2003 US\$'000	2002 US\$'000
Raw materials	27,645	24,281
Work in progress	8,421	9,523
Finished goods	5,763	3,653
	<u>41,829</u>	<u>37,457</u>

At the balance sheet date, all inventories were carried at cost.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
0 - 30 days	<b>9,910</b>	8,009
31 - 60 days	<b>196</b>	8
> 60 days	<b>1,000</b>	2,071
Total trade receivables	<b>11,106</b>	10,088
Other receivables	<b>4,460</b>	3,185
	<b>15,566</b>	13,273

## 17. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
0 - 30 days	<b>2,813</b>	5,736
31 - 60 days	<b>2,816</b>	1,456
> 60 days	<b>4,304</b>	6,623
Total trade payables	<b>9,933</b>	13,815
Other payables	<b>7,802</b>	8,646
	<b>17,735</b>	22,461

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 18. UNSECURED BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Bank loans	<b>32,340</b>	30,833
Trust receipt loans	<b>947</b>	2,344
	<b>33,287</b>	33,177
<p>The maturity profile of the above bank borrowings which carry interest at prevailing market rates is as follows:</p>		
On demand or within one year	<b>18,584</b>	21,238
More than one year, but not exceeding two years	<b>10,177</b>	9,028
More than two years, but not exceeding five years	<b>4,526</b>	2,911
	<b>33,287</b>	33,177
<i>Less: Amounts due within one year shown under current liabilities</i>	<b>(18,584)</b>	(21,238)
	<b>14,703</b>	11,939

## 19. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b>
		US\$'000
<b>Authorised</b>		
<i>Ordinary shares of HK\$0.10 each</i>		
At 1st January, 2002, 31st December, 2002 and 31st December, 2003	1,500,000,000	19,355
<i>Convertible non-voting preference shares of US\$100,000 each (note)</i>		
At 1st January, 2002, 31st December, 2002 and 31st December, 2003	150	15,000
		34,355

*Note:* Convertible non-voting preference shares, when issued and outstanding, carry fixed cumulative dividend. Under certain circumstances, they are entitled to additional dividend and are convertible into shares of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 19. SHARE CAPITAL (Continued)

	Number of shares		Amount	
	2003 '000	2002 '000	2003 US\$'000	2002 US\$'000
<b>Issued and fully paid</b>				
Ordinary shares of HK\$0.10 each				
At beginning of year	<b>721,300</b>	721,300	<b>9,307</b>	9,307
Shares issued on exercise of share options	<b>9,400</b>	–	<b>121</b>	–
At end of year	<b>730,700</b>	721,300	<b>9,428</b>	9,307

## 20. RESERVES

	Share premium US\$'000	Contributed surplus US\$'000	Dividend reserve US\$'000	Accumulated profits US\$'000	Total US\$'000
<b>THE COMPANY</b>					
At 1st January, 2002	21,038	19,486	931	7,754	49,209
Net profit for the year	–	–	–	2,710	2,710
Dividends paid for 2001	–	–	(931)	–	(931)
Dividends declared for 2002	–	–	1,862	(1,862)	–
Dividends paid for 2002	–	–	(931)	–	(931)
At 31st December, 2002 and 1st January, 2003	21,038	19,486	931	8,602	50,057
Issue of shares on exercise of share options	606	–	–	–	606
Net loss for the year	–	–	–	(969)	(969)
Dividends paid for 2002	–	–	(931)	–	(931)
Dividends declared for 2003	–	–	2,357	(2,357)	–
Underprovision of final dividend (note 8)	–	–	12	(12)	–
Dividends paid for 2003	–	–	(955)	–	(955)
<b>At 31st December, 2003</b>	<b>21,644</b>	<b>19,486</b>	<b>1,414</b>	<b>5,264</b>	<b>47,808</b>

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under a corporate reorganisation undertaken in 1996.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## **20. RESERVES** *(Continued)*

The accumulated profits of the Group include profits of US\$233,000 (2002: a profit of US\$42,000) and US\$35,000 (2002: a loss of US\$101,000) attributable to the Group's associates and jointly controlled entities, respectively.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) 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.

The Company's reserves available for distribution to shareholders as at 31st December, 2003 are represented by its accumulated profits, dividend reserve and contributed surplus, totalling US\$26,164,000 (2002: US\$29,019,000).

## **21. SHARE OPTIONS SCHEME**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25th September, 1996 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 24th September, 2006. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31st December, 2003, no share option remained outstanding under the Scheme. At 31st December, 2002, the number of shares in respect of which options had been granted under the Scheme was 14.6 million, representing 2.02% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

No consideration is payable on the grant of an option. Options may be exercised at any time for a period of three years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant an option.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 21. SHARE OPTIONS SCHEME (Continued)

Details of the Group's share options held by employees (including directors) under the Scheme are as follows:

	Date of grant	Vesting period	Exercisable period	Exercise price per share	Number of share options			
					Outstanding at 1.1.2002, 31.12.2002 and 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
				HK\$				
Directors	23.4.1999	23.4.1999 to 22.4.2000	23.4.2000 to 22.4.2003	0.60	14,300,000	9,200,000	5,100,000	–
Employees	23.4.1999	23.4.1999 to 22.4.2000	23.4.2000 to 22.4.2003	0.60	300,000	200,000	100,000	–
					<u>14,600,000</u>	<u>9,400,000</u>	<u>5,200,000</u>	<u>–</u>

No share options were granted during both years.

The fair value of the shares issued at the date of issue was HK\$8,084,000.

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 22. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior reporting period:

### THE GROUP

**Revaluation of  
medium-term  
land use rights and  
buildings in the PRC**  
*US\$'000*

At 1st January, 2002	
– as previously reported	–
– adjustment on adoption of SSAP 12 (Revised) (note 2)	3,551
	<hr/>
– as restated	3,551
Charge to equity	232
	<hr/>
At 31st December, 2002 and 1st January, 2003	3,783
Charge to equity	259
	<hr/>
At 31st December, 2003	<u>4,042</u>

At the balance sheet date, the Group has unused tax losses of US\$2,396,000 (2002: US\$1,051,000) available for offset against future profits, and deductible temporary difference of US\$20,000 (2002: US\$10,000) in respect of accelerated tax depreciation. No deferred tax assets have been recognised in respect of such assets due to the unpredictability of future profit streams.

### THE COMPANY

The Company has no significant provided or unprovided deferred taxation for the year or at the balance sheet date.

## 23. CONTINGENT LIABILITIES

### THE GROUP

	<b>2003</b> <b>US\$'000</b>	2002 <i>US\$'000</i>
Bills discounted with recourse	<u>196</u>	<u>1,511</u>

### THE COMPANY

The Company has given corporate guarantees to certain banks in respect of general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2003 amounted to approximately US\$33,292,000 (2002: US\$33,632,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 24. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>14</b>	117

At the respective balance sheet dates, the Company did not have any significant capital commitment.

## 25. OPERATING LEASE COMMITMENTS

### The Group as lessee

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Property rentals paid by the Group under operating leases during the year in respect of:		
Minimum lease payments	<b>474</b>	462
Contingent rent	<b>84</b>	–
	<b>558</b>	462

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Within one year	<b>446</b>	306
In the second to fifth year inclusive	<b>418</b>	386
Over five years	<b>993</b>	1,032
	<b>1,857</b>	1,724

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 25. OPERATING LEASE COMMITMENTS (Continued)

Operating lease payments represent rentals payable by the Group for its factories and office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

In addition to the above, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of certain outlets which are based on a fixed percentage of the annual gross turnover of the outlets.

At the respective balance sheet dates, the Company had no commitments under non-cancellable operating leases.

## 26. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme 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 scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the PRC. These subsidiaries are required to contribute 11% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

## 27. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had the following transactions with its related parties:

Nature of transactions	THE GROUP	
	2003 US\$'000	2002 US\$'000
Sales by the Group to Secaicho	6,390	3,309
Purchases by the Group from Secaicho	366	427
Purchases by the Group from an associate	431	178
Purchases by the Group from a jointly controlled entity	1,047	95

In the opinion of the directors, the transactions were entered into at terms determined by reference to market prices.

Details of the balance with the associates and the investee as at 31st December, 2003 are set out in the consolidated balance sheet and notes 12 and 14, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

## 28. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
W.P.T. Development Inc.	British Virgin Islands/Hong Kong	Ordinary US\$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/Hong Kong	Ordinary US\$1	–	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands/Hong Kong	Ordinary US\$8	–	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands/Hong Kong	Ordinary US\$11	–	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Provision of administrative services to group companies
Pan Yu Fang Chun Footwear Co., Ltd. * 番禺豐群鞋業有限公司 *	PRC	US\$10,600,000	–	100%	Manufacture of footwear and footwear materials
Panyu Pegasus Footwear Co. Ltd. * 番禺創信鞋業有限公司 *	PRC	US\$27,100,000	–	100%	Manufacture of footwear and footwear materials
Topstair International (Taiwan) Ltd. 台灣松鄰國際有限公司	Taiwan	NT\$5,000,000	–	99.92%	Trading in raw materials of footwear

\* Wholly-owned foreign enterprises

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2003*

## **28. PRINCIPAL SUBSIDIARIES** *(Continued)*

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.