

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of investment securities, trading investments, certain land and buildings, and plant and machinery.

In 2003, the Group adopted Statement of Standard Accounting Practice ("SSAP") No. 35 "Accounting for Government Grants and Disclosure of Government Assistance" and SSAP No. 12 (revised) "Income Taxes" which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively.

The adoption of SSAP 35 did not have significant impact to the accounts. The changes to the Group's accounting policy and the effect of adopting SSAP 12 (revised) are set out in the accounting policies below.

### (b) Basis of consolidation

The consolidated accounts include the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill and accumulated exchange difference taken to reserves and which were not previously charged in the consolidated profit and loss account.

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

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (c) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (d) Fixed assets

Fixed assets are stated at cost or valuation in 1995 less subsequent accumulated depreciation and accumulated impairment losses.

Effective from 1st September 1995, no further revaluations of the Group's leasehold land and buildings and plant and machinery have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations of such assets.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 3 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

Construction-in-progress represents buildings and plant under construction and equipment pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (d) Fixed assets *(Continued)*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Investment securities

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities/investments which are unlisted and not actively traded, fair value is determined by the Group using a variety of methods and techniques, such as estimated discounted value of future cash flows, with assumptions that are based on market conditions existing at each balance sheet date. Changes in the fair value of individual investments are credited or debited to the investment revaluation reserve until the investments are sold, or are determined to be impaired by the directors.

Where there is evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in the fair value is credited to the profit and loss account up to the amount previously debited.

Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

#### (g) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Gains or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (j) Cash and cash equivalents

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

#### (k) Contingent liabilities

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

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

#### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (l) **Deferred taxation** *(Continued)*

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

As detailed in note 24 to the accounts, opening retained profits at 1st January 2002 and 2003 have been increased by approximately HK\$10,359,000 and HK\$10,624,000, respectively, which represent the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by approximately HK\$10,769,000 and HK\$535,000, respectively. The profit and amount charged to equity for the year ended 31st December 2002 have been increased by approximately HK\$265,000 and reduced by approximately HK\$390,000, respectively.

#### (m) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and the associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate during the year. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of a foreign entity the related accumulative exchange differences are included in the profit and loss account as part of the gain or loss on disposal.

#### (n) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease rental income is recognised on a straight-line basis over the periods of the leases.

Subcontracting income is recognised when the services are rendered.

Agency fee income is recognised on an accrual basis.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (n) Revenue recognition *(Continued)*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

Export incentives from government are recognised on a systematic basis to match the related costs which they are intended to compensate.

#### (o) Employee benefits

##### (i) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within the next twelve months and are measured at the amounts expected to be paid when they are settled.

##### (ii) Pension obligations

The Group participated in a defined contribution retirement scheme which is available for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the scheme by the Group are expenses as incurred and/or are reduced by those employees who leave the scheme prior to vesting fully in the contributions.

The Group also participated in the defined contribution retirement schemes operated by the municipal governments of various cities in the People's Republic of China (the "PRC") where the Group operates. The relevant municipal governments are responsible for the entire pension obligations payable to retired employees of the respective cities. The only obligation of the Group is to pay the ongoing required contribution under these schemes. The contributions are charged to the profit and loss account as incurred.

##### (iii) Equity compensation benefits

Share options are granted to directors and to employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting format is by business segment and the secondary segment reporting is by geographical segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, investment securities, trading investments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate liabilities. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on the region in which the assets are located.

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of footwear products. Revenues recognised during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Sales of goods, net of discounts	<b>1,407,007</b>	1,180,669
Other revenues		
Income derived from an unlisted investment <i>(note 15(a))</i>	<b>3,000</b>	3,000
Export incentives from government	<b>918</b>	1,074
Agency fee income	<b>815</b>	–
Interest income	<b>636</b>	596
Subcontracting income	<b>234</b>	2,714
Gross rental income	<b>230</b>	–
Dividend income from investment securities	<b>118</b>	–
Others	<b>261</b>	108
	<b>6,212</b>	7,492
Total revenues	<b>1,413,219</b>	1,188,161

## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

#### Primary reporting format – business segments

The Group is organised into two main business segments:

OEM products – Manufacturing and distribution of footwear products under original-equipment manufacturing arrangements (“OEM”).

Own-brand products – Manufacturing and distribution of footwear products and accessories under “Daphne” and other brands owned by the Group.

There are no material transactions between the business segments.

	2003			2002		
	OEM products HK\$'000	Own- brand products HK\$'000	Group HK\$'000	OEM products HK\$'000	Own- brand products HK\$'000	Group HK\$'000
Turnover	<u>757,856</u>	<u>649,151</u>	<u>1,407,007</u>	685,969	494,700	<u>1,180,669</u>
Segment results	<u>46,811</u>	<u>53,620</u>	<u>100,431</u>	<u>14,737</u>	<u>19,556</u>	34,293
Income derived from an unlisted investment			<u>3,000</u>			3,000
Unrealised gains on forward exchange contracts			<u>4,465</u>			–
Surplus on valuation of an unlisted investment			–			13,000
Negative goodwill recognised			–			1,850
Unallocated revenues			<u>1,116</u>			24
Unallocated costs			<u>(1,203)</u>			(834)
Operating profit			<u>107,809</u>			<u>51,333</u>
Segment assets	<u>304,054</u>	<u>420,699</u>	<u>724,753</u>	321,082	389,841	710,923
Interest in an associated company			<u>2,163</u>			2,326
Investment securities			<u>37,437</u>			37,437
Other unallocated assets			<u>52,274</u>			21,520
Total assets			<u>816,627</u>			<u>772,206</u>
Segment liabilities	<u>213,765</u>	<u>155,499</u>	<u>369,264</u>	236,166	155,027	391,193
Other unallocated liabilities			<u>8,887</u>			8,554
Total liabilities			<u>378,151</u>			<u>399,747</u>
Capital expenditure	<u>13,976</u>	<u>20,144</u>	<u>34,120</u>	7,033	23,190	30,223
Depreciation	<u>6,928</u>	<u>11,583</u>	<u>18,511</u>	<u>7,695</u>	<u>13,153</u>	<u>20,848</u>



## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

#### Secondary reporting format – geographical segments

The Group's operations are divided into two main geographical areas, the United States of America (the "US") and the People's Republic of China (the "PRC"). In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

#### Turnover

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The US	<b>731,058</b>	650,164
The PRC	<b>649,151</b>	494,700
Others	<b>26,798</b>	35,805
	<b>1,407,007</b>	1,180,669

As the Group's assets are mainly located in the PRC, no segment assets and segment capital expenditures are presented.

### 3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Crediting</b>		
Negative goodwill recognised	–	1,850
Net exchange gains	–	56
Unrealised gains on forward exchange contracts	<b>4,465</b>	–
Reversal of provision for bad and doubtful debts	<b>988</b>	3,050
Reversal of write-down of inventories	–	7,636
<b>Charging</b>		
Auditors' remuneration	<b>1,224</b>	1,289
Depreciation	<b>18,511</b>	20,848
Staff costs <i>(note 9)</i>	<b>241,559</b>	231,072
Loss on disposal of fixed assets	<b>579</b>	189
Net exchange losses	<b>871</b>	–
Operating lease rentals		
– Land and buildings	<b>105,396</b>	75,887
– Plant and machinery	–	88
Provision for slow-moving inventories	<b>8,488</b>	–

## Notes to the Accounts

### 4. FINANCE COSTS

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Interest on bank loans and overdrafts	<u>5,780</u>	<u>9,009</u>

### 5. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions including tax holiday and reduced enterprise income tax rate. Accordingly, PRC enterprise income tax for such subsidiaries has been provided after taking account of these tax exemptions and concessions.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	<b>2003</b> <b>HK\$'000</b>	As restated 2002 HK\$'000
Current taxation		
– Taxation outside Hong Kong	<b>14,594</b>	10,643
– Under provision in prior years	<b>3,125</b>	600
Deferred taxation ( <i>note 25</i> )	<b>(2,337)</b>	(265)
	<u>15,382</u>	<u>10,978</u>
Share of taxation attributable to an associated company	<b>62</b>	66
	<u>15,444</u>	<u>11,044</u>

## Notes to the Accounts

### 5. TAXATION (Continued)

Reconciliation between taxation charge and profit before taxation at applicable tax rates is as follows:

	<b>2003</b> <b>HK\$</b>	2002 <b>HK\$</b>
Profit before taxation	<u>102,259</u>	<u>42,567</u>
Calculated at applicable tax rates from 12% to 33% to profits in the countries concerned	<b>21,221</b>	11,572
Income not subject to taxation	<b>(23,574)</b>	(19,216)
Expenses not deductible for taxation purposes	<b>13,947</b>	16,621
Tax losses not recognised	<b>531</b>	2,662
Under provision in prior years	<b>3,125</b>	600
Temporary differences not recognised	<u>194</u>	<u>(1,195)</u>
Taxation charge	<u><b>15,444</b></u>	<u>11,044</u>

### 6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of approximately HK\$33,354,000 (2002: HK\$35,085,000).

### 7. DIVIDENDS

	<b>2003</b> <b>HK\$'000</b>	2002 <b>HK\$'000</b>
Interim dividend, paid, of HK1.0 cent (2002: HK0.8 cent) per share	<b>15,289</b>	11,987
Final dividend, proposed, of HK\$1.5 cents (2002: HK1.2 cents) per share (Note)	<u><b>22,933</b></u>	<u>17,981</u>
	<u><b>38,222</b></u>	<u>29,968</u>

Note: At a meeting held on 20th April 2004, the board of directors recommends a final dividend of HK1.5 cents per share for the year ended 31st December 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

## Notes to the Accounts

### 8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$82,935,000 (Restated 2002: HK\$25,849,000). The basic earnings per share is based on the weighted average number of 1,504,118,411 (2002: 1,498,392,384) shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2003 is based on 1,507,682,404 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 3,563,993 shares deemed to be issued at no consideration if all outstanding options had been exercised.

As the respective prices of the share options outstanding during the period from 1st January 2002 to 28th March 2002 were greater than the average market prices of the Company's share, there was no dilution effect on the basic earnings per share for the year ended 31st December 2002.

### 9. STAFF COSTS

Staff costs including directors' emoluments represent:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Wages, salaries and bonuses	<b>234,364</b>	225,787
Termination benefits	–	442
Retirement benefit costs ( <i>Note</i> )	<b>7,195</b>	4,843
	<b>241,559</b>	231,072

*Note:* All Hong Kong employees of the Group have joined a Mandatory Provident Fund Scheme ("MPF Scheme") registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, both the employer and employees are required to contribute 5% of the employee's relevant income or HK\$1,000, whichever is lower, as mandatory contribution.

The Group is also required to make contributions to pension schemes operated by the municipal governments of various cities in the PRC at certain percentages of the salaries of its employees in the PRC. The municipal governments are responsible for the entire pension obligations payable to retired employees. The Group does not have other obligations under these pension schemes in the PRC other than the contribution payments.

As at 31st December 2003, no forfeited contribution is available to reduce the contribution payable in the future.

Contributions totalling approximately HK\$606,000 (2002: HK\$415,000) payable to the funds as at 31st December 2003 are included in other payables and accrued charges.

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

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

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	<b>240</b>	–
Other emoluments:		
Basic salaries, bonuses and benefits in kind	<b>10,549</b>	13,814
Performance related incentive payments	–	884
	<b>10,789</b>	14,698

Directors' fees disclosed above were paid to two independent non-executive directors (2002: Nil).

During the year, 43,500,000 options (2002: Nil) were granted to certain directors under the share option scheme approved by the shareholders at an extraordinary general meeting on 29th May 2003. Benefits in kind included the difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration paid by the directors under the option scheme during the year. More details of share options granted and exercised during the year are set out in note 23 to the accounts.

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Emolument bands		
HK\$nil to HK\$1,000,000	<b>2</b>	2
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	–
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	2
HK\$6,000,001 to HK\$6,500,000	<b>1</b>	–

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: three) executive director whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining four (2002: two) individuals during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Basic salaries and bonuses	<b>8,302</b>	3,276
Performance related incentive payments	<b>1,384</b>	546
	<b><u>9,686</u></b>	<u>3,822</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2003</b>	2002
Emolument bands		
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	<b>3</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	–
	<b><u>1</u></b>	<u>–</u>

- (c) No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors or the five highest paid individuals waived or agreed to waive any emoluments during the year.

## Notes to the Accounts

### 11. FIXED ASSETS

	<b>Group</b>						
	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Construction- in-progress</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation							
At 1st January 2003	126,351	18,246	–	92,089	29,437	13,382	279,505
Exchange adjustment	(134)	(19)	–	(106)	(28)	(19)	(306)
Additions	2,378	11,433	8,122	6,701	2,278	3,208	34,120
Disposals	–	(8,533)	–	(1,562)	(3,550)	(630)	(14,275)
<b>At 31st December 2003</b>	<b>128,595</b>	<b>21,127</b>	<b>8,122</b>	<b>97,122</b>	<b>28,137</b>	<b>15,941</b>	<b>299,044</b>
Accumulated depreciation							
At 1st January 2003	29,161	9,741	–	82,590	19,238	9,877	150,607
Exchange adjustment	(24)	(10)	–	(98)	(23)	(12)	(167)
Charge for the year	6,499	6,859	–	2,531	1,503	1,119	18,511
Disposals	–	(8,171)	–	(1,507)	(3,207)	(590)	(13,475)
<b>At 31st December 2003</b>	<b>35,636</b>	<b>8,419</b>	<b>–</b>	<b>83,516</b>	<b>17,511</b>	<b>10,394</b>	<b>155,476</b>
<b>Net book value</b>							
<b>At 31st December 2003</b>	<b>92,959</b>	<b>12,708</b>	<b>8,122</b>	<b>13,606</b>	<b>10,626</b>	<b>5,547</b>	<b>143,568</b>
At 31st December 2002	97,190	8,505	–	9,499	10,199	3,505	128,898

## Notes to the Accounts

### 11. FIXED ASSETS (Continued)

The analysis of the cost or valuation of the above assets is as follows:

	<b>Group</b>						
	<b>Leasehold land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Construction- in-progress</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost	109,095	21,127	8,122	54,537	28,137	15,941	236,959
At 1995 valuation (Note b)	19,500	-	-	42,585	-	-	62,085
<b>At 31st December 2003</b>	<b><u>128,595</u></b>	<b><u>21,127</u></b>	<b><u>8,122</u></b>	<b><u>97,122</u></b>	<b><u>28,137</u></b>	<b><u>15,941</u></b>	<b><u>299,044</u></b>
At cost	106,851	18,246	-	49,504	29,437	13,382	217,420
At 1995 valuation (Note b)	19,500	-	-	42,585	-	-	62,085
At 31st December 2002	<b><u>126,351</u></b>	<b><u>18,246</u></b>	<b><u>-</u></b>	<b><u>92,089</u></b>	<b><u>29,437</u></b>	<b><u>13,382</u></b>	<b><u>279,505</u></b>

- (a) At 31st December 2003 and 31st December 2002, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases of between 10 to 50 years.
- (b) Such leasehold land and buildings and plant and machinery were revalued at 31st August 1995 by Chesterton Petty Limited, an independent firm of chartered surveyors, on the basis of their open market value. The carrying amount of the leasehold land and buildings and plant and machinery would have been approximately HK\$10,106,000 (2002: HK\$11,878,000) and HK\$Nil (2002: HK\$Nil), respectively, had they been stated at cost less accumulated depreciation.
- (c) At 31st December 2003, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans amounted to approximately HK\$10,038,000 (2002: HK\$40,763,000).
- (d) During the year ended 31st December 2003, certain leasehold land and buildings were leased out under operating leases. The carrying amount of the leasehold land and buildings held for use in operating leases was approximately HK\$1,979,000 (2002: Nil).



## Notes to the Accounts

### 12. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted investments, at cost	<b>165,635</b>	165,635

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

<b>Name</b>	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued share capital/ paid-up capital</b>	<b>Interest held</b> %	<b>Principal activities and place of operation</b>
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	US\$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	US\$4,285,700	100	Manufacture of shoe components in the PRC
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	PRC; wholly-owned foreign enterprise	US\$1,199,925	100	Manufacture of footwear products in the PRC
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK\$1 each	51	Retail sales right holder of footwear and apparel products in the PRC
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK\$1 each 13,055,667 non-voting deferred shares of HK\$1 each (Note (b))	100	Export trading of footwear products, investment and trademarks holding in Hong Kong

## Notes to the Accounts

### 12. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/paid-up capital	Interest held %	Principal activities and place of operation
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US\$1 each	100	Export trading of footwear products in Hong Kong
Ji Wei Shoe Industrial Co., Ltd.	PRC; wholly-owned foreign enterprise	US\$730,000	100	Manufacture of footwear products in the PRC
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US\$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	PRC; equity joint venture	US\$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	US\$3,600,000	84.45	Manufacture of footwear products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	US\$30,000,000	100	Distribution of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	US\$5,000,000	100	Manufacture of footwear products in the PRC
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK\$1 each	100	Investment holding in Hong Kong

## Notes to the Accounts

### 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

- (a) Other than investment in Prime Success (BVI) Limited which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.
- (b) The non-voting deferred shares practically carry no rights to dividends, nor rights to receive notice, nor rights to attend and vote at any general meeting of the respective companies, nor rights to participate in any distributions on winding up.
- (c) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

### 13. AMOUNTS DUE FROM/TO SUBSIDIARIES – COMPANY

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

### 14. INTEREST IN AN ASSOCIATED COMPANY

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>2,163</b>	2,326
Unlisted investment, at cost	<b>2,340</b>	2,340

Particulars of the associated company at 31st December 2003 are as follows:

<b>Name</b>	<b>Place of establishment</b>	<b>Particulars of paid-up capital</b>	<b>Interest held indirectly</b>	<b>Principal activity</b>
			%	
Dayong Shoe Material Co., Ltd. Hanjiang Putian City	PRC	RMB5,457,000	30	Manufacture of shoe materials in the PRC

## Notes to the Accounts

### 15. INVESTMENT SECURITIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted investments ( <i>Note a</i> ), at fair value	<b>37,437</b>	37,437
Listed securities ( <i>Note b</i> ), at fair value	—	—
	<b>37,437</b>	37,437

*Note:*

- (a) Unlisted investments mainly comprise an investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") in which the Group holds 30% interest in its registered capital. Jingxing is a sino-foreign equity joint venture established in the PRC for a term of 70 years commencing November 1991. Jingxing is engaged in the manufacturing and distribution of footwear products.

The directors do not regard Jingxing as an associated company of the Group as they are of the opinion that the Group cannot exercise significant influence in the financial and operational decisions of Jingxing.

As at 31st December 2003, the carrying value of the investment in Jingxing was approximately HK\$37,000,000 (2002: HK\$37,000,000). The fair value of the investment in Jingxing as at 31st December 2003 and 31st December 2002 was valued by the directors and Chesterton Petty Limited, an independent professional valuer, respectively.

In 1999, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for annual payments by the Guarantor for each of the four years ended 31st December 2002, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. During the year, the Group extended the period of the above agreement with the Guarantor whereby in return for a minimum annual payment of HK\$3,000,000 by the Guarantor for each of the three years ending 31st December 2005, the Group has agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31st December 2003 was approximately HK\$3,000,000 (2002: HK\$3,000,000) and has been recognised in the profit and loss account.

- (b) At 31st December 2003, the Group held approximately 14.4% (2002: 14.4%) interest in Sun Home Leather Corporation Limited ("Sun Home"), a company engaged in the manufacturing and trading of leather materials.

On 30th November 2001, Sun Home was delisted from the Taiwan Stock Exchange Corporation and authorised to be traded on Over-The-Counter market on the same date. The directors considered that the fair value of investment in Sun Home was negligible. As a result, the carrying amount of the securities was written down to zero during the year ended 31st December 2001 and the loss recorded in the investment revaluation reserve of approximately HK\$10,581,000 was taken to the profit and loss account in that year as an impairment loss. Since the volume of transactions of the shares in Sun Home was infrequent and the volume of trade was low in 2003, the directors do not consider that there has been any material change in fair value of the investment in Sun Home as at 31st December 2003.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (note 22).

## Notes to the Accounts

### 16. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	49,842	50,051
Work-in-progress	24,514	22,202
Finished goods	230,700	205,837
	<u>305,056</u>	<u>278,090</u>

At 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$38,439,000 (2002: HK\$11,750,000).

### 17. TRADE RECEIVABLES

The ageing analysis of trade receivables by invoice date is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	55,213	55,193
31 – 60 days	14,715	31,147
61 – 90 days	9,689	18,892
91 – 120 days	3,511	8,802
121 – 180 days	152	5,186
181 – 360 days	343	12,040
Over 360 days	28	880
	<u>83,651</u>	<u>132,140</u>

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long established customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

## Notes to the Accounts

### 18. TRADING INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at fair value	<b>15,890</b>	–

Note: Unlisted investments represents investment funds traded in Taiwan.

### 19. TRADE PAYABLES

The ageing analysis of trade payables by invoice date is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	<b>106,653</b>	115,907
31 – 60 days	<b>53,013</b>	41,846
61 – 90 days	<b>23,847</b>	15,444
91 – 120 days	<b>8,482</b>	7,896
121 – 180 days	<b>4,467</b>	1,915
181 – 360 days	<b>2,517</b>	4,569
Over 360 days	<b>2,124</b>	580
	<b>201,103</b>	188,157

### 20. AMOUNT DUE TO AN ASSOCIATED COMPANY

The amount due to an associated company is unsecured, interest-free and repayable on demand.

### 21. AMOUNTS DUE TO investee COMPANIES

The amounts due to investee companies, are unsecured, interest-free and repayable according to trade terms agreed between both parties.

## Notes to the Accounts

### 22. BANK LOANS AND OVERDRAFTS

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bank loans and overdrafts		
– Secured ( <i>Note (b)</i> )	<b>49,602</b>	73,683
– Unsecured	<b>60,711</b>	76,897
	<b>110,313</b>	150,580

*Notes:*

- (a) As at 31st December 2003 and 2002, the Group's bank loans were repayable within one year.
- (b) As at 31st December 2003, the Group's short-term bank loans of approximately HK\$49,602,000 (2002: HK\$70,593,000) were secured by the following assets of the Group:
- (i) certain leasehold land and buildings of net book value of approximately HK\$10,038,000 (2002: HK\$40,763,000); and
  - (ii) listed investment securities of Sun Home with nil (2002: nil) carrying value.
- (c) As at 31st December 2002, an export value-added tax recoverable of approximately HK\$4,418,000 was pledged against the Group's short-term bank loan of approximately HK\$3,090,000.

## Notes to the Accounts

### 23. SHARE CAPITAL

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<b><u>1,000,000</u></b>	<u>1,000,000</u>

	<b>2003</b>		2002	
	<b>No. of ordinary shares of HK\$0.10 each</b>	<b>HK\$'000</b>	No. of ordinary shares of HK\$0.10 each	<i>HK\$'000</i>
<i>Issued and fully paid:</i>				
At 1st January	<b>1,498,392,384</b>	<b>149,839</b>	1,498,392,384	149,839
Exercise of share options	<b><u>30,500,000</u></b>	<b><u>3,050</u></b>	<u>–</u>	<u>–</u>
At 31st December	<b><u>1,528,892,384</u></b>	<b><u>152,889</u></b>	<u>1,498,392,384</u>	<u>149,839</u>

In accordance with the Company's share option scheme (the "Scheme") adopted on 29th May 2003 for a period of ten years, the board of directors may grant options to eligible employees, officers, agents or consultants of the Company and its subsidiaries (including any executive or non-executive directors), to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

Movements in the number of share options outstanding during the year are as follows:

	<b>Number of options</b>	
	<b>2003</b>	2002
At beginning of the year	–	80,000,000
Granted ( <i>Note (i)</i> )	<b>59,500,000</b>	–
Exercised ( <i>Note (ii)</i> )	<b>(30,500,000)</b>	–
Lapsed ( <i>Note (iii)</i> )	–	<u>(80,000,000)</u>
At end of the year	<b><u>29,000,000</u></b>	<u>–</u>



## Notes to the Accounts

### 23. SHARE CAPITAL (Continued)

Notes:

- (i) Share options were granted on 1st July 2003 and 28th July 2003 at the exercise price of HK\$0.16 and HK\$0.20 per share, respectively, and expire on 30th June 2009 and 27th July 2009, respectively. Consideration of HK\$5.00 was received in respect of the share options granted during the year.
- (ii) Options exercised on 23rd October 2003 and 25th October 2003 resulted in 16,000,000 and 14,500,000 shares being issued at HK\$0.16 and HK\$0.20 each, respectively, yielding the following proceeds:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Ordinary share capital – at par	<b>3,050</b>	–
Share premium	<b>2,410</b>	–
	<hr/>	<hr/>
Proceeds	<b>5,460</b>	–
	<hr/>	<hr/>
Fair value of shares issued at exercise date of:		
– 23rd October 2003		HK\$0.305
– 25th October 2003		HK\$0.310
		<hr/>

- (iii) As at 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 under the Company's share option scheme adopted on 9th October 1995 were outstanding. These share options entitle the holders thereof to subscribe for shares of HK\$0.10 each in the Company at a subscription price of HK\$0.20 per share (subject to adjustment) during the exercisable period from 29th March 2000 to 28th March 2002. No share option was exercised during the period and all the outstanding share options lapsed on 28th March 2002.

Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price	2003	2002	2003	2002
		No. of options		Vested percentages	
Directors					
27th July 2009	HK\$0.20	29,000,000	–	100%	–
		<hr/>	<hr/>	<hr/>	<hr/>

No share options were cancelled during the year (2002: Nil).

## Notes to the Accounts

### 24. RESERVES

	Group								
	Share premium	Capital redemption reserve	Property revaluation reserve	Exchange difference	Goodwill	Merger reserve	Other reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)				(Note b)	(Note c)		
At 1st January 2003, as previously reported	2,315	2,882	1,184	(9,594)	(36,782)	322	9,060	218,357	187,744
Effect of adopting SSAP 12 (revised) (Note 1 (ii))	-	-	(390)	-	-	-	-	10,624	10,234
At 1st January 2003, as restated	2,315	2,882	794	(9,594)	(36,782)	322	9,060	228,981	197,978
Exchange differences	-	-	-	(34)	-	-	-	-	(34)
Transfer	-	-	-	-	-	-	1,582	(1,582)	-
Share of an associated company's reserve	-	-	-	2	-	-	7	(7)	2
Profit for the year	-	-	-	-	-	-	-	82,935	82,935
Dividends	-	-	-	-	-	-	-	(33,270)	(33,270)
Issue of shares	2,410	-	-	-	-	-	-	-	2,410
<b>At 31st December 2003</b>	<b>4,725</b>	<b>2,882</b>	<b>794</b>	<b>(9,626)</b>	<b>(36,782)</b>	<b>322</b>	<b>10,649</b>	<b>277,057</b>	<b>250,021</b>
Representing:									
Reserves	4,725	2,882	794	(9,626)	(36,782)	322	10,649	254,124	227,088
2003 final dividend proposed	-	-	-	-	-	-	-	22,933	22,933
<b>At 31st December 2003</b>	<b>4,725</b>	<b>2,882</b>	<b>794</b>	<b>(9,626)</b>	<b>(36,782)</b>	<b>322</b>	<b>10,649</b>	<b>277,057</b>	<b>250,021</b>
Company and subsidiaries	4,725	2,882	794	(8,752)	(36,782)	322	10,229	276,780	250,198
An associated company	-	-	-	(874)	-	-	420	277	(177)
<b>At 31st December 2003</b>	<b>4,725</b>	<b>2,882</b>	<b>794</b>	<b>(9,626)</b>	<b>(36,782)</b>	<b>322</b>	<b>10,649</b>	<b>277,057</b>	<b>250,021</b>

## Notes to the Accounts

### 24. RESERVES (Continued)

	<b>Group</b>								
	<b>Share premium</b>	<b>Capital redemption reserve</b>	<b>Property revaluation reserve</b>	<b>Exchange difference</b>	<b>Goodwill</b>	<b>Merger reserve</b>	<b>Other reserves</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i> <i>(Note c)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2002, as previously reported	2,315	2,882	1,184	(7,576)	(36,782)	322	8,328	205,492	176,165
Effect of adopting SSAP 12 (revised) <i>(Note 1 (l))</i>	-	-	(390)	-	-	-	-	10,359	9,969
At 1st January 2002, as restated	2,315	2,882	794	(7,576)	(36,782)	322	8,328	215,851	186,134
Exchange differences	-	-	-	(1,993)	-	-	-	-	(1,993)
Transfer	-	-	-	-	-	-	730	(730)	-
Share of an associated company's reserves	-	-	-	(25)	-	-	2	(2)	(25)
Profit for the year	-	-	-	-	-	-	-	25,849	25,849
Dividends	-	-	-	-	-	-	-	(11,987)	(11,987)
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>
Representing:									
Reserves	2,315	2,882	794	(9,594)	(36,782)	322	9,060	211,000	179,997
2002 final dividend proposed	-	-	-	-	-	-	-	17,981	17,981
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>
Company and subsidiaries	2,315	2,882	794	(8,722)	(36,782)	322	8,647	228,629	198,085
An associated company	-	-	-	(872)	-	-	413	352	(107)
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>

## Notes to the Accounts

### 24. RESERVES (Continued)

	<b>Company</b>				<b>Total</b> HK\$'000
	<b>Share premium</b> HK\$'000	<b>Capital redemption reserve</b> HK\$'000 (Note (a))	<b>Contributed surplus</b> HK\$'000 (Note (d))	<b>Retained profits</b> HK\$'000	
At 1st January 2002	2,315	2,882	152,891	1,601	159,689
Profit for the year	-	-	-	35,085	35,085
Dividends	-	-	-	(11,987)	(11,987)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1st January 2003	2,315	2,882	152,891	24,699	182,787
Profit for the year	-	-	-	33,354	33,354
Dividends	-	-	-	(33,270)	(33,270)
Issue of shares	2,410	-	-	-	2,410
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st December 2003</b>	<b>4,725</b>	<b>2,882</b>	<b>152,891</b>	<b>24,783</b>	<b>185,281</b>

#### (a) Capital redemption reserve

The capital redemption reserve represents the nominal amount of shares repurchased by the Company in 1999.

#### (b) Merger reserve

The merger reserve represents the difference between the aggregate nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the share capital issued by the Company as consideration for the acquisition pursuant to the corporate reorganisation in 1995.

#### (c) Other reserves

Other reserves comprising general reserve fund of approximately HK\$5,535,000 (2002: approximately HK\$4,477,000) and enterprise expansion fund of approximately HK\$5,114,000 (2002: approximately HK\$4,583,000) required to be set up pursuant to PRC laws for the Group's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

## Notes to the Accounts

### 24. RESERVES (Continued)

#### (d) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the corporate reorganisation in 1995 and the nominal amount of the Company's shares issued for the acquisition.

#### (e) Distributable reserves

The Company's reserves available for its distribution to its shareholders comprise share premium, contributed surplus and retained profits. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

### 25. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates.

The movement on the deferred tax liabilities/(assets) is as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
At 1st January	<b>(10,234)</b>	(9,969)
Credited to profit and loss account (Note 5)	<b>(2,337)</b>	(265)
At 31st December	<b><u>(12,571)</u></b>	<u>(10,234)</u>

Deferred income tax assets are recognised for tax losses available to be carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$5,369,000 (2002: HK\$4,909,000) to be carried forward against future taxable income.

## Notes to the Accounts

### 25. DEFERRED TAXATION *(Continued)*

The movements in deferred tax liabilities/(assets) (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

#### Deferred tax liabilities

	<b>Accelerated tax depreciation</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>535</b>	419
Charged to profit and loss account	<b>216</b>	116
	<hr/>	<hr/>
At 31st December	<b>751</b>	535
	<hr/>	<hr/>

#### Deferred tax assets

	Provisions		Decelerated tax depreciation		Deferred expenses		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	<b>(7,085)</b>	(7,397)	<b>(3,552)</b>	(1,908)	<b>(132)</b>	(1,083)	<b>(10,769)</b>	(10,388)
Charged/(credited) to profit and loss account	<b>(758)</b>	312	<b>(1,143)</b>	(1,644)	<b>(652)</b>	951	<b>(2,553)</b>	(381)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December	<b>(7,843)</b>	(7,085)	<b>(4,695)</b>	(3,552)	<b>(784)</b>	(132)	<b>(13,322)</b>	(10,769)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the Accounts

### 26. CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating profit to net cash generated from operations

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Operating profit	<b>107,809</b>	51,333
Interest income	<b>(636)</b>	(596)
Depreciation	<b>18,511</b>	20,848
Loss on disposal of fixed assets	<b>579</b>	189
Surplus on valuation of an unlisted investment	–	(13,000)
Negative goodwill recognised	–	(1,850)
	<hr/>	<hr/>
Operating profit before working capital changes	<b>126,263</b>	56,924
Increase in inventories	<b>(26,966)</b>	(94,551)
Decrease in trade receivable, other receivables, deposits and prepayments	<b>39,473</b>	49,748
Increase in trade payables, other payables and accrued charges	<b>15,907</b>	48,333
Increase in trading investments	<b>(15,890)</b>	–
Decrease in amount due to an associated company	<b>(199)</b>	(151)
Increase in amounts due to investee companies	<b>1,700</b>	431
	<hr/>	<hr/>
Net cash generated from operations	<b>140,288</b>	60,734

## Notes to the Accounts

### 26. CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Analysis of changes in financing during the year

	Bank loans		Dividend payable		Minority interests		Share capital including premium	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	150,553	173,432	-	-	24,642	17,033	152,154	152,154
Exchange differences	-	77	-	-	-	-	-	-
Dividend declared	-	-	33,270	11,987	-	-	-	-
Dividend paid	-	-	(33,270)	(11,987)	-	-	-	-
Dividends paid to minority shareholders	-	-	-	-	(2,718)	(1,744)	-	-
Minority interests' in share of profits and exchange reserves	-	-	-	-	3,862	5,254	-	-
Increase in amounts due to minority shareholders	-	-	-	-	9,780	4,099	-	-
Issue of shares	-	-	-	-	-	-	5,460	-
New bank loans raised	138,015	164,699	-	-	-	-	-	-
Repayment of bank loans	(178,308)	(187,655)	-	-	-	-	-	-
At 31st December	110,260	150,553	-	-	35,566	24,642	157,614	152,154

#### (c) Cash and cash equivalents

	2003 HK\$'000	2002 HK\$'000
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	146,680	129,944
Bank overdrafts	(53)	(27)
	<u>146,627</u>	<u>129,917</u>

### 27. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31st December 2003 and 31st December 2002.

At 31st December 2003, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to approximately HK\$63,000,000 (2002: HK\$30,800,000). At 31st December 2003, the utilised amount of such facilities covered by the Company's guarantees was HK\$8,616,000 (2002: HK\$11,556,000).



## Notes to the Accounts

### 28. COMMITMENTS

#### (a) Capital commitments for purchase of fixed assets

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for	26,762	–
Contracted but not provided for	7,018	–
	<u>33,780</u>	<u>–</u>

#### (b) Commitments under operating leases

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	84,936	64,556
Later than one year and not later than five years	106,040	77,847
Later than five years	2,710	8,841
	<u>193,686</u>	<u>151,244</u>

Payment obligations in respect of operating leases on properties with rentals vary with gross revenues are not included as future minimum lease payments.

#### (c) Forward exchange contracts

As at 31st December 2003, the Group had outstanding forward contracts to purchase United States dollars and sell Renminbi in the ordinary course of its business amounting to HK\$230,100,000 (2002: Nil).

As at 31st December 2003, bank deposits of HK\$7,242,000 (2002: Nil) were pledged against the above forward contracts.

#### (d) The Company did not have any commitments as at 31st December 2003 (2002: Nil).

## Notes to the Accounts

### 29. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the accounts, significant related party transactions, which were carried out in the normal course of the Group's business during the year are as follows:

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Purchases from an associated company	(a)	<b>1,847</b>	2,968
Purchases from investee companies	(b)	<b>10,236</b>	<b>7,508</b>

Notes:

- (a) Purchase of goods from an associated company, Dayong Shoe Material Co., Ltd. Hanjiang Putian City, were carried out in accordance with the terms as determined and agreed between both parties.
- (b) Purchases of shoe materials and footwear products from investee companies, Sun Home and Jingxing, were carried out in accordance with the terms as determined and agreed between both parties. The Company's directors, Messrs, Chang Wen I and Chen Hsien Min are directors of Sun Home.

### 30. COMPARATIVE FIGURES

- (a) In prior years, the expenses in the consolidated profit and loss account were classified according to their nature. With effect from the current year, such expenses are classified according to their functions. The directors consider that such classification more fairly presents the elements of the Group's performance. The comparative figures of the consolidated profit and loss account have been reclassified to conform to the current year's presentation and such reclassification has no effect on the Group's operating.
- (b) Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 1(l).

### 31. SUBSEQUENT EVENTS

On 8th January 2003, the board of directors authorised the Group to form a joint venture company in Hong Kong for the business of a new footwear brand in the PRC. The Group will invest RMB25 million for 50% shareholding in the joint venture company.

### 32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20th April 2004.