

NOTES TO FINANCIAL STATEMENTS

1. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice SSAP 12 “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

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NOTES TO FINANCIAL STATEMENTS

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

Fixed assets and depreciation *(continued)*

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

Long term investments

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

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

Inventories

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

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NOTES TO FINANCIAL STATEMENTS

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

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

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

Operating leases

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

Foreign currencies

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

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

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

Revenue recognition

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

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

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NOTES TO FINANCIAL STATEMENTS

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

Related parties

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

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

NOTES TO FINANCIAL STATEMENTS

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

Employee benefits *(continued)*

Retirement benefits scheme (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

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

Dividends

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

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

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NOTES TO FINANCIAL STATEMENTS

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

Cash and cash equivalents

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

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

3. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

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

During the year, the Group paid rental expenses of HK\$936,600 (2003: HK\$949,200) to Kingmaker Footwear Company Limited, a related company in which Chen Ming-hsiung, Mickey, Lee Kung and Huang Hsiu-duan, Helen, certain directors and shareholders of the Company, are also directors and shareholders. The rental expenses were determined with reference to the market conditions existing at the time when the rental agreement was entered into.

NOTES TO FINANCIAL STATEMENTS

4. SEGMENT INFORMATION

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

| | Rugged footwear | | Casual footwear | | Baby and children's footwear | | Sportswear and sports shoes | | Consolidated | |
|------------------------------------------------------------------|-----------------|----------|-----------------|----------|------------------------------|----------|-----------------------------|----------|--------------|-----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 335,570 | 283,611 | 431,044 | 388,742 | 580,568 | 547,742 | 13,674 | 20,556 | 1,360,856 | 1,240,651 |
| Segment results | 36,698 | 37,684 | 37,884 | 44,959 | 47,935 | 59,605 | (7,146) | (9,247) | 115,371 | 133,001 |
| Unallocated income | | | | | | | | | 4,087 | 5,299 |
| Unallocated expenses | | | | | | | | | (10,018) | (12,358) |
| Profit from operating activities | | | | | | | | | 109,440 | 125,942 |
| Finance costs | | | | | | | | | (506) | (837) |
| Profit before tax | | | | | | | | | 108,934 | 125,105 |
| Tax | | | | | | | | | (5,845) | (4,184) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | 103,089 | 120,921 |
| Segment assets | 154,256 | 158,384 | 177,454 | 180,157 | 229,194 | 193,592 | 15,720 | 15,145 | 576,624 | 547,278 |
| Unallocated assets | | | | | | | | | 361,570 | 360,240 |
| Total assets | | | | | | | | | 938,194 | 907,518 |
| Unallocated liabilities | | | | | | | | | 275,214 | 278,520 |

NOTES TO FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

| | Rugged footwear | | Casual footwear | | Baby and children's footwear | | Sportswear and sports shoes | | Consolidated | |
|-------------------------------------------------------------------------|-----------------|----------|-----------------|----------|------------------------------|----------|-----------------------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | | | | | | |
| Depreciation: | | | | | | | | | | |
| Segment | 7,503 | 6,282 | 11,396 | 8,692 | 13,582 | 8,658 | 491 | 704 | 32,972 | 24,336 |
| Unallocated | | | | | | | | | 1,935 | 1,578 |
| | | | | | | | | | 34,907 | 25,914 |
| Impairment of/ (reversal of impairment of) long term listed investments | - | - | - | - | - | - | - | - | (364) | 177 |
| Capital expenditure: | | | | | | | | | | |
| Segment | 22,222 | 24,176 | 14,279 | 34,832 | 23,766 | 33,854 | 11 | 443 | 60,278 | 93,305 |
| Unallocated | | | | | | | | | 1,633 | 26,250 |
| | | | | | | | | | 61,911 | 119,555 |

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NOTES TO FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

| | United States of America | | Europe | | Others | | Consolidated | |
|-----------------------------|-----------------------------|----------|----------|----------|----------|----------|--------------|-----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 831,307 | 784,499 | 407,460 | 378,298 | 122,089 | 77,854 | 1,360,856 | 1,240,651 |
| Other segment information: | | | | | | | | |
| Segment assets | 50,603 | 79,396 | 44,450 | 42,327 | 662,506 | 619,337 | 757,559 | 741,060 |
| Unallocated assets | | | | | | | 180,635 | 166,458 |
| Total assets | | | | | | | 938,194 | 907,518 |
| Capital expenditure | - | - | - | - | 61,911 | 119,555 | 61,911 | 119,555 |

5. TURNOVER

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

NOTES TO FINANCIAL STATEMENTS

6. PROFIT FROM OPERATING ACTIVITIES

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

| | Group | |
|------------------------------------------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Cost of inventories sold | 867,894 | 765,589 |
| Depreciation (<i>note 14</i>) | 34,907 | 25,914 |
| Provision for doubtful debts | 230 | – |
| Provision against inventories | 864 | – |
| Minimum lease payments under operating leases for land and buildings | 2,497 | 3,527 |
| Auditors' remuneration | 1,314 | 1,170 |
| Loss on disposal of fixed assets | 192 | 11 |
| Staff costs (<i>excluding directors' remuneration, note 8</i>) | | |
| Wages and salaries | 213,105 | 177,663 |
| Pension scheme contributions | 208 | 236 |
| | 213,313 | 177,899 |
| Impairment of/(reversal of impairment of) long term listed investments | (364) | 177 |
| Interest income | (2,572) | (2,926) |

Cost of sales includes HK\$187,053,000 (2003: HK\$154,760,000) relating to direct staff costs and depreciation of manufacturing facilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

7. FINANCE COSTS

| | Group | |
|--------------------------------------------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 506 | 837 |

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NOTES TO FINANCIAL STATEMENTS

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Group | |
|----------------------------------------------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Fees: | | |
| Executive directors | – | – |
| Independent non-executive directors | 300 | 300 |
| | 300 | 300 |
| Other emoluments: | | |
| Executive directors: | | |
| Basic salaries, housing benefits, other allowances and benefits in kind | 5,642 | 6,969 |
| Bonuses | 540 | 696 |
| Pension scheme contributions | 12 | 12 |
| Independent non-executive directors | – | – |
| | 6,494 | 7,977 |

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

| | Number of directors | |
|-------------------------------|---------------------|------|
| | 2004 | 2003 |
| Nil – HK\$1,000,000 | 5 | 5 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 2 |
| HK\$2,500,001 – HK\$3,000,000 | 1 | 1 |
| | 7 | 8 |

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

NOTES TO FINANCIAL STATEMENTS

8. DIRECTORS' REMUNERATION *(continued)*

During the year, 2,050,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2003: five) directors, details of whose remuneration are set out in note 8 above.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Group: | | |
| Current – Hong Kong | 254 | 257 |
| Current – Elsewhere | | |
| Charge for the year | 8,250 | 8,321 |
| Overprovision in prior years | (2,659) | (4,394) |
| Total tax charge for the year | 5,845 | 4,184 |

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NOTES TO FINANCIAL STATEMENTS

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | Group | |
|-----------------------------------------------------------|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before tax | 108,934 | 125,105 |
| Tax at the applicable tax rate | 8,648 | 10,318 |
| Lower tax rate for specific provinces or local authority | (422) | (3,994) |
| Adjustments in respect of current tax of previous periods | (2,659) | (4,394) |
| Income not subject to tax | (4,898) | (5,912) |
| Expenses not deductible for tax | 5,176 | 8,166 |
| Tax charge at the Group's effective rate | 5,845 | 4,184 |

The applicable tax rate is calculated based on the Hong Kong Profit Tax rate of 17.5% (2003: 16.0%), the Vietnam Corporate Tax rate of 10.0% (2003: 10.0%), the Taiwan Corporate Tax rate of 25.0% (2003: 25.0%), the preferential tax rates in Mainland China of 15.0% (2003: 15.0%) and tax holidays granted to certain subsidiaries of the Group in Mainland China.

In general, the Group's subsidiaries in Mainland China are subject to the People's Republic of China's corporate income tax at rate of 33%, except for certain subsidiaries which are entitled to tax holidays and preferential tax rates.

The Group has estimated deferred tax assets of approximately HK\$4,919,000 (2003: 3,944,000) calculated on tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

NOTES TO FINANCIAL STATEMENTS

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company, was HK\$75,307,000 (2003: HK\$76,213,000) (note 25(b)).

12. DIVIDENDS

| | 2004 <i>HK\$'000</i> | 2003 HK\$'000 |
|---------------------------------------------------------------------|-------------------------|------------------|
| Interim – HK3.5 cents (2003: HK3.5 cents) per ordinary share | 22,919 | 22,916 |
| Proposed final – HK7.0 cents (2003: HK7.0 cents) per ordinary share | 45,838 | 45,838 |
| Adjustment to 2002 final and special dividends | – | 496 |
| | 68,757 | 69,250 |

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

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

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NOTES TO FINANCIAL STATEMENTS

13. EARNINGS PER SHARE

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

| | 2004 HK\$ | 2003 HK\$ |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------|
| Earnings | | |
| Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations | 103,089,000 | 120,921,000 |
| Number of shares | | |
| | 2004 | 2003 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation | 654,771,103 | 652,576,985 |
| Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year | 44,043 | 1,605,218 |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | 654,815,146 | 654,182,203 |

NOTES TO FINANCIAL STATEMENTS

14. FIXED ASSETS

Group

| | Leasehold land and buildings <i>HK\$'000</i> | Construction in progress <i>HK\$'000</i> | Machinery, furniture, equipment, leasehold improvements and motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------|-------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------|
| Cost: | | | | |
| At beginning of year | 277,328 | 104,256 | 169,688 | 551,272 |
| Additions | 4,509 | 12,215 | 45,187 | 61,911 |
| Disposal | - | - | (1,328) | (1,328) |
| Transfers | 112,574 | (112,601) | 27 | - |
| At 31 March 2004 | 394,411 | 3,870 | 213,574 | 611,855 |
| Accumulated depreciation: | | | | |
| At beginning of year | 48,300 | - | 82,260 | 130,560 |
| Provided during the year | 15,372 | - | 19,535 | 34,907 |
| Disposal | - | - | (1,096) | (1,096) |
| At 31 March 2004 | 63,672 | - | 100,699 | 164,371 |
| Net book value: | | | | |
| At 31 March 2004 | 330,739 | 3,870 | 112,875 | 447,484 |
| At 31 March 2003 | 229,028 | 104,256 | 87,428 | 420,712 |

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NOTES TO FINANCIAL STATEMENTS

14. FIXED ASSETS (continued)

The Group's land and buildings included above are held under the following lease terms:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------------------------------------------------|------------------|------------------|
| Land and buildings held in Hong Kong under medium term leases | 40,996 | 40,996 |
| Land and buildings held outside Hong Kong under medium term leases | 353,415 | 236,332 |
| | 394,411 | 277,328 |

As at 31 March 2004, the Group has not yet obtained the title certificates for certain of its buildings situated in Zhong Shan, Guangdong Province of Mainland China with a net book value of approximately HK\$106,460,000. The Group's legal advisors and the Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land to which the buildings located, there is no legal barrier or otherwise for the Group to obtain the relevant title certificates for the buildings from the relevant Mainland China authority.

15. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost | 67,190 | 67,190 |
| Due from subsidiaries | 572,912 | 497,446 |
| Due to subsidiaries | (405,946) | (367,991) |
| | 234,156 | 196,645 |

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand.

NOTES TO FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued and paid-up shares/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------|
| Directly held | | | | |
| MJ Haig Industries Limited* | British Virgin Islands/Taiwan | Ordinary US\$10,000 | 100 | Sourcing of raw materials for footwear |
| Ready Luck Limited | British Virgin Islands | Ordinary US\$5,000 | 100 | Investment holding |
| Indirectly held | | | | |
| Discovery Star Development Limited | Hong Kong | Ordinary HK\$2 | 100 | Property holding |
| King Maker International (Import and Export) Limited | Macau | Registered MOP100,000 | 100 | Footwear manufacturing and property holding |
| Kingmaker (Vietnam) Footwear Co., Ltd. | Vietnam | US\$15,000,000 | 100 | Subcontracting of footwear |
| Lightening Star Corporation | British Virgin Islands | Ordinary US\$1,000 | 100 | Investment holding |
| Lightening Star (H.K.) Limited | Hong Kong | Ordinary HK\$2 | 100 | Footwear and sportswear trading |
| Lightening Star Limited** | Mainland China | RMB500,000 | 100 | Footwear and sportswear trading |

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NOTES TO FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued and paid-up shares/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------|
| Indirectly held (continued) | | | | |
| Maystar Footwear Company Limited ("Maystar")** | Mainland China | US\$30,986,217 | 100 | Footwear manufacturing |
| Miri Footwear International Inc. | British Virgin Islands/ Taiwan | Ordinary US\$1 | 100 | Sourcing of raw materials for footwear and footwear trading |
| Miri International Limited | Hong Kong | Ordinary HK\$2 | 100 | Provision of administrative services |
| Profit Success Investment Limited | Hong Kong | Ordinary HK\$1,000 | 100 | Investment holding |
| Kingmaker Footwear (Zhong Shan) Co., Ltd. ("Kingmaker Zhongshan")** | Mainland China | US\$21,133,906 | 100 | Footwear manufacturing |
| Sanford Resources Limited | British Virgin Islands/ Vietnam | Ordinary US\$1 | 100 | Trading of footwear products |
| Transcommerce International Inc. | British Virgin Islands/ Taiwan | Ordinary US\$1 | 100 | Sourcing and trading of raw materials for footwear |

NOTES TO FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES *(continued)*

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

** Maystar, Kingmaker Zhongshan and Lightening Star Limited are registered as wholly foreign owned enterprises under the law of the People's Republic of China.

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

16. LONG TERM INVESTMENTS

| | Group | |
|---------------------------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong listed investments, at cost | 1,621 | 1,621 |
| Provision for impairment | (969) | (1,333) |
| | 652 | 288 |
| Market value of listed investments | 652 | 288 |

17. INVENTORIES

| | Group | |
|------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 105,116 | 101,918 |
| Work in progress | 32,651 | 38,682 |
| Finished goods | 62,877 | 47,299 |
| | 200,644 | 187,899 |

As at 31 March 2004, no inventories (2003: Nil) were stated at net realisable value.

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NOTES TO FINANCIAL STATEMENTS

18. ACCOUNTS AND BILLS RECEIVABLE

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

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

| | Group | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within 90 days | 102,300 | 124,724 |
| Between 91 and 180 days | 458 | 932 |
| Between 181 and 365 days | 1,270 | 1,939 |
| Over 365 days | 475 | 141 |
| | 104,503 | 127,736 |

19. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Cash and bank balances | 39,618 | 49,027 | 17 | 18 |
| Time deposits | 140,332 | 117,143 | 38,157 | 69,399 |
| | 179,950 | 166,170 | 38,174 | 69,417 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$6,414,000 (2003: HK\$4,200,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS

20. ACCOUNTS PAYABLE

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

| | 2004 <i>HK\$'000</i> | Group 2003 <i>HK\$'000</i> |
|--------------------------|-------------------------|----------------------------------|
| Within 90 days | 112,985 | 80,860 |
| Between 91 and 180 days | 857 | 2,976 |
| Between 181 and 365 days | 147 | - |
| | 113,989 | 83,836 |

21. INTEREST-BEARING BANK BORROWINGS

| | 2004 <i>HK\$'000</i> | Group 2003 <i>HK\$'000</i> |
|-----------------------------------------------|-------------------------|----------------------------------|
| Trust receipt loans, unsecured | 1,528 | 2,455 |
| Bank overdrafts, unsecured | - | 12,714 |
| Bank loans, unsecured | 5,850 | 26,700 |
| | 7,378 | 41,869 |
| Trust receipt loans repayable within one year | 1,528 | 2,455 |
| Bank overdrafts repayable on demand | - | 12,714 |
| Bank loans repayable: | | |
| Within one year | 5,850 | 20,850 |
| In the second year | - | 5,850 |
| | 5,850 | 26,700 |
| | 7,378 | 41,869 |
| Portion classified as current liabilities | (7,378) | (36,019) |
| Long term portion | - | 5,850 |

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NOTES TO FINANCIAL STATEMENTS

22. BANKING FACILITIES

At 31 March 2004, the Group had available banking facilities amounting to HK\$371,800,000 (2003: HK\$486,200,000) of which approximately HK\$7,378,000 (2003: HK\$41,869,400) was utilised. The banking facilities were supported by corporate guarantees executed by the Company and certain of its subsidiaries.

23. SHARE CAPITAL

Shares

| | Number of ordinary shares of HK\$0.10 each | | HK\$'000 | |
|-----------------------------------------|--------------------------------------------------|---------------|----------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Authorised: | | | | |
| Balance at beginning and end of year | 1,000,000,000 | 1,000,000,000 | 100,000 | 100,000 |
| Issued and fully paid: | | | | |
| Balance at beginning of year | 654,757,125 | 638,926,375 | 65,476 | 63,893 |
| Exercise of share options | 478,500 | 15,952,750 | 48 | 1,595 |
| Shares repurchased and cancelled | (410,000) | (122,000) | (41) | (12) |
| Balance at end of year | 654,825,625 | 654,757,125 | 65,483 | 65,476 |

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

(a) *Exercise of share options*

During the year ended 31 March 2004, 82,500 and 396,000 share options were exercised at exercise prices of HK\$0.429 and HK\$0.918 per share, respectively for a total cash consideration of approximately HK\$399,000.

The premium of approximately HK\$351,000 received on the exercise of the 478,500 share options was credited directly to the share premium account during the year ended 31 March 2004.

NOTES TO FINANCIAL STATEMENTS

23. SHARE CAPITAL *(continued)*

Shares *(continued)*

(b) Repurchase of shares

During the year ended 31 March 2004, the Company repurchased and cancelled 410,000 of its ordinary shares of HK\$0.10 each from the market at a total consideration of approximately HK\$749,000.

The premium of approximately HK\$708,000 paid on the repurchase of such shares was debited to the share premium account and an amount of HK\$41,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 25 to the financial statements.

Share options

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

24. SHARE OPTION SCHEMES

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

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

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

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NOTES TO FINANCIAL STATEMENTS

24. SHARE OPTION SCHEMES (continued)

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

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

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

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

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

| Name or category of participants | Number of share options | | | Date of grant of share options | Exercise period of share options | Exercise price of share options HK\$ | Price of Company's shares*** at exercise date of options HK\$ |
|-------------------------------------|-------------------------|------------------------------|---------------------|-----------------------------------|-----------------------------------------|-----------------------------------------------|---------------------------------------------------------------------------|
| | At 1 April 2003 | Exercised during the year | At 31 March 2004 | | | | |
| Other employees | | | | | | | |
| In aggregate | 82,500 | (82,500) | - | 31 December 1996 | 31 December 1996 to 2 September 2004 | 0.429 | 2.025 |
| | 396,000 | (396,000) | - | 2 January 2001 | 2 January 2001 to 2 September 2004 | 0.918 | 2.100 |
| | 478,500 | (478,500) | - | | | | |

NOTES TO FINANCIAL STATEMENTS

24. SHARE OPTION SCHEMES (continued)

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

| Name or category of participants | Number of share options | | | | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ | Price of Company's shares*** at grant date of options HK\$ |
|-------------------------------------|-------------------------|----------------------------|----------------------------------------|---------------------|------------------------------------|--------------------------------------|-------------------------------------------------|---------------------------------------------------------------------------|
| | At 1 April 2003 | Granted during the year | Lapsed during the year [†] | At 31 March 2004 | | | | |
| Directors | | | | | | | | |
| Chen Ming-hsiung, Mickey | - | 550,000 | - | 550,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| Huang Hsiu-duan, Helen | - | 100,000 | - | 100,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| Lee Kung | - | 400,000 | - | 400,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| Chan Ho-man, Daniel | - | 500,000 | - | 500,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| Kimmel, Phillip Brian | - | 500,000 | - | 500,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| | - | 2,050,000 | - | 2,050,000 | | | | |
| Other employees | | | | | | | | |
| In aggregate | - | 9,000,000 | (1,000,000) | 8,000,000 | 14 January 2004 | 1 January 2005 to 27 August 2012 | 3.225 | 3.2 |
| | - | 7,950,000 | (700,000) | 7,250,000 | 14 January 2004 | 14 January 2004 to 27 August 2012 | 3.225 | 3.2 |
| | - | 16,950,000 | (1,700,000) | 15,250,000 | | | | |
| | - | 19,000,000 | (1,700,000) | 17,300,000 | | | | |

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NOTES TO FINANCIAL STATEMENTS

24. SHARE OPTION SCHEMES *(continued)*

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.
- # The share options granted to certain employees lapsed upon their resignations.

The 478,500 share options exercised during the year under the Old Scheme resulted in the issue of 478,500 ordinary shares of the Company and new share capital of approximately HK\$48,000 and share premium of approximately HK\$351,000 (before issue expenses), as detailed in note 23 to the financial statements.

At the balance sheet date, the Company had 17,300,000 share options with an exercise price of HK\$3.225 per share, outstanding under the New Scheme, which represented approximately 2.64% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 17,300,000 additional ordinary shares of the Company and additional share capital of HK\$1,730,000 and share premium of approximately HK\$54,063,000 (before issue expenses).

25. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

NOTES TO FINANCIAL STATEMENTS

25. RESERVES (continued)

(b) Company

| | Share premium account HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-------------------------------------------------------------|-----------------------------------------|----------------------------------------------|------------------------------------|---------------------------------|-------------------|
| At 1 April 2002 | 59,878 | - | 66,982 | 2,301 | 129,161 |
| Exercise of share options | 11,837 | - | - | - | 11,837 |
| Repurchase of shares | (226) | 12 | - | (12) | (226) |
| Net profit for the year (note 11) | - | - | - | 76,213 | 76,213 |
| Interim 2003 dividend (note 12) | - | - | - | (22,916) | (22,916) |
| Proposed final 2003 dividend (note 12) | - | - | - | (45,838) | (45,838) |
| Adjustment to final and special 2002 dividends (note 12) | - | - | - | (496) | (496) |
| At 31 March 2003 and 1 April 2003 | 71,489 | 12 | 66,982 | 9,252 | 147,735 |
| Exercise of share options | 351 | - | - | - | 351 |
| Repurchase of shares | (708) | 41 | - | (41) | (708) |
| Net profit for the year (note 11) | - | - | - | 75,307 | 75,307 |
| Interim 2004 dividend (note 12) | - | - | - | (22,919) | (22,919) |
| Proposed final 2004 dividend (note 12) | - | - | - | (45,838) | (45,838) |
| At 31 March 2004 | 71,132 | 53 | 66,982 | 15,761 | 153,928 |

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

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

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NOTES TO FINANCIAL STATEMENTS

26. CONTINGENT LIABILITIES

As at 31 March 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$7,378,000 (2003: HK\$41,869,400) as at the balance sheet date.

As at 31 March 2004, the Group had bills discounted with recourse of approximately HK\$1,117,000 (2003: Nil).

27. OPERATING LEASE ARRANGEMENTS

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

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2004 <i>HK\$'000</i> | Group 2003 <i>HK\$'000</i> |
|-----------------------------------------|--------------------------------|-----------------------------------------|
| Within one year | 806 | 937 |
| In the second to fifth years, inclusive | 378 | 100 |
| | 1,184 | 1,037 |

NOTES TO FINANCIAL STATEMENTS

28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had contracted for the following capital commitments:

- (i) At 31 March 2004, the Group had commitments in respect of management fees payable falling due as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-----------------------------------------|-------------------------|-------------------------|
| Within one year | 301 | 306 |
| In the second to fifth years, inclusive | 1,240 | 1,240 |
| After five years | 20,809 | 21,083 |
| | 22,350 | 22,629 |

- (ii) At 31 March 2004, the Group had commitments in respect of an investment in a wholly foreign owned enterprise in Mainland China amounting to HK\$32,973,000 (2003: HK\$46,064,000).
- (iii) At 31 March 2004, the Group had commitments in respect of the construction of factory buildings in Mainland China and Vietnam amounting to HK\$4,202,609 (2003: HK\$10,249,000).

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 July 2004.