

Notes to the Financial Statements

For the year ended 30 September 2003

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 July 2002.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's share on the Stock Exchange, the Company issued shares in exchange for the entire share capital of Fortress Ocean Limited and thereby became the holding company of the Group on 12 June 2002. Details of the Group Reorganisation are set out in the Company's prospectus dated 21 June 2002. The Group Reorganisation involved companies under common control and the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 30 September 2002 have been prepared on a merger accounting basis according to Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture, sale of footwear products and information technology business. Details of the principal activities of the subsidiaries are set out in note 13 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 20 to 58 are prepared in accordance with and comply with all applicable SSAPs and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the rules governing the listing of securities on the Stock Exchange (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

Adoption of new SSAP

SSAP 34 Employee benefits

Employee entitlements

In adopting SSAP 34, employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave. The adoption of SSAP 34 has not had any material impact on the prior year's financial statements and accordingly no prior year adjustment is required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(d) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition. Goodwill is recognised in the consolidated balance sheet as an asset and amortised on a straight-line basis over its estimated useful life for a period not exceeding twenty years.

On disposal of a subsidiary, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and the relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to the Financial Statements

For the year ended 30 September 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost or valuation of property, plant and equipment less their residual value, being the net amount which the Group expects to obtain for an asset at the end of its useful life after deducting the expected cost of dispose, over their estimated useful lives, using the straight line method, at the following rates per annum:

Plant and machinery	10%
Equipment and furniture	20%
Motor vehicles	20%
Buildings	Over the shorter of the terms of the leases or the estimated useful lives. The principal annual rate used is 5%.

Leasehold land is amortised over the remaining unexpired period of the lease or its estimated useful life to the Group, whichever is shorter. The principal annual rate used is 2%.

(ii) Measurement bases

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and amortisation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to the working condition and location for its intended use.

Land and buildings are stated at valuation less accumulated depreciation and amortisation and impairment losses.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Surplus arising on revaluation of land and buildings is credited to assets revaluation reserve. A decrease in net carrying amount arising on revaluation is charged to the income statement to the extent that this exceeds the surplus, if any, held in assets revaluation reserve relating to the previous revaluation of the same item of land and buildings. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

(ii) Measurement bases (Continued)

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, computed using the weighted average method, and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less further costs of completion and the estimated costs necessary to make the sale.

(g) Investments

Investments in debt securities that the Group has the expressed intention and ability to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised costs less any provisions for impairment losses. Provisions for impairment losses are made and charged to the income statement when the carrying value of the held-to-maturity securities is not expected to be recovered.

The gain or loss on disposal of held-to-maturity securities, being the difference between the net sales proceeds and the carrying amount of the securities, is accounted for in the period in which the disposal occurs.

(h) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Notes to the Financial Statements

For the year ended 30 September 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Leases

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

Finance leases

Leases are classified as finance leases wherever the terms of the leases transfer substantially all the risk and rewards of ownership of the asset to the group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease. The corresponding liabilities net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payment are charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(j) Employee benefits***(i) Employee entitlements*

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to balance sheet date. Non-accumulating compensated absences are not recognised until the time of leave.

(ii) 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 all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK\$1,000 per month, and are charged to the income statement 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.

According to the relevant rules and regulations in the People's Republic of China ("PRC"), each of the Company's subsidiaries operating in the PRC is required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of the employees, at 10% to 17%, to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

(iii) Equity compensation benefits

The Group has a share option scheme which is part of the remuneration policy with rewards determined based upon the performance of the Group and individual employees. When options are granted, no compensation cost is recognised. 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 Financial Statements

For the year ended 30 September 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated income statement.

On consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are dealt with as movements in exchange reserve.

(l) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are dispatched to the customers.

Interest income is recognised on a time proportion basis.

3. TURNOVER AND REVENUE

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

Turnover represents total invoiced value of goods sold, net of sales tax.

An analysis of the Group's turnover and revenue is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	297,336	433,536
Other revenue		
Profit from trading of raw materials	-	767
Bank interest income	321	136
	321	903
Total revenue	297,657	434,439

4. SEGMENT INFORMATION

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 other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Notes to the Financial Statements

For the year ended 30 September 2003

4. SEGMENT INFORMATION (Continued)

Business segments

The following tables present revenue, (loss)/profit and certain assets, liabilities and capital expenditure information for the Group's business segments.

	Information technology services		Leisure and athletic footwear		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:						
Revenue	-	-	297,336	433,536	297,336	433,536
Segment results	-	-	(3,436)	40,959	(3,436)	40,959
Bank interest income					321	136
Finance costs					(185)	(241)
(Loss)/Profit before taxation					(3,300)	40,854
Taxation					(903)	(6,477)
(Loss)/Profit after taxation					(4,203)	34,377
Minority interests					-	(43)
(Loss)/Profit attributable to shareholders					(4,203)	34,334
Segment assets	8,259	-	148,952	133,422	157,211	133,422
Segment liabilities	6,140	-	79,126	57,944	85,266	57,944
Other information for the year						
Capital expenditure	14	-	608	554	622	554
Depreciation and amortisation	-	-	1,757	1,628	1,757	1,628

Notes to the Financial Statements

For the year ended 30 September 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments

The following tables provides an analysis of the Group's revenue and contribution to (loss)/profit from operations by geographical market:

	Europe	PRC	United States of America	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2003					
Segment revenue:					
Sales to external customers	230,590	17,233	20,403	29,110	297,336
Segment results	(756)	(2,518)	(67)	(95)	(3,436)
Bank interest income					321
Finance costs					(185)
Loss before taxation					(3,300)
Taxation					(903)
Loss after taxation					(4,203)
Minority interests					-
Loss attributable to shareholders					(4,203)

Notes to the Financial Statements

For the year ended 30 September 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

	Europe HK\$'000	PRC HK\$'000	United States of America HK\$'000	Others HK\$'000	Total HK\$'000
2002					
Segment revenue:					
Sales to external customers	348,523	12,068	33,725	39,220	433,536
Segment results	32,311	1,886	3,127	3,635	40,959
Bank interest income					136
Finance costs					(241)
Profit before taxation					40,854
Taxation					(6,477)
Profit after taxation					34,377
Minority interests					(43)
Profit attributable to shareholders					34,334

All of the Group's assets as at 30 September 2003 and 2002 and its capital expenditure for the years then ended were located or utilised in the PRC.

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For the year ended 30 September 2003

5. OPERATING (LOSS)/PROFIT

	2003	Group
	HK\$'000	2002
		HK\$'000
Operating (loss)/profit is arrived at after charging:		
Auditors' remuneration	500	450
Cost of inventories recognised as expense	277,167	384,752
Depreciation and amortisation on property, plant and equipment		
– owned assets	1,675	1,628
– leased assets	82	–
	1,757	1,628
Loss on disposal of property, plant and equipment	–	1
Rental in respect of land and buildings under operating leases	223	145
Staff costs (including directors' remuneration of HK\$1,644,000 (2002: HK\$2,020,000) and contributions to retirement benefits schemes of HK\$1,139,000 (2002: HK\$1,155,000))	26,410	14,592

6. FINANCE COSTS

	2003	Group
	HK\$'000	2002
		HK\$'000
Interest on bank and other loans	170	241
Interest on finance lease	15	–
	185	241

Notes to the Financial Statements

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7. TAXATION

	Group	
	2003	2002
	HK\$'000	HK\$'000
Overseas income tax		
– subsidiaries	903	6,477

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

Huayi Footwear Co., Ltd. Jinjiang, a subsidiary of the Company established in Jinjiang, the Minnan area of the PRC, is subject to PRC income tax on its assessable profits at a preferential tax rate of 15% (2002: 12%).

PRC income tax has been provided at the rate of 15% (2002: 15%) on the estimated assessable profits of Streaks Worldwide Ltd. and Vento Group Limited, subsidiaries of the Company, for the year.

No provision for deferred tax has been made in the financial statements as there are no material timing differences.

8. DIVIDENDS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Special (Note)	-	12,522
Proposed final – Nil (2002: one Hong Kong cent per share)	-	4,000
	-	16,522

The directors do not recommend the payment of a dividend for the year ended 30 September 2003 (2002: HK\$4,000,000) and the Company did not pay any interim dividend during the year.

Note: Special dividends for the year ended 30 September 2002 were declared and paid by certain subsidiaries of the Company to their then shareholders prior to the Group Reorganisation.

9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company was approximately HK\$28,823,000.

The profit attributable to shareholders dealt with in the financial statements of the Company for the period from 7 November 2001 (date of incorporation) to 30 September 2002 was approximately HK\$9,225,000.

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders for the year of HK\$4,203,000 (2002: profit of HK\$34,334,000) and on the weighted average of 403,706,849 (2002: 354,794,521) ordinary shares in issue during the year.

No diluted (loss)/earnings per share is presented for both years as there were no dilutive potential ordinary shares in issue.

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

Directors' fees and emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the provisions of the Listing Rules are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	100	30
Other emoluments:		
– basic salaries, other allowances and benefits in kind	1,467	1,913
– retirement benefits schemes contributions	77	77
	1,644	2,020

Independent non-executive directors received remuneration of HK\$100,000 (2002: HK\$30,000) from the Group during the year.

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For the year ended 30 September 2003

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(a) Directors' remuneration (Continued)

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

	Number of directors			
	Executive directors		Independent non-executive directors	
	2003	2002	2003	2002
Nil – HK\$1,000,000	3	2	2	2
HK\$1,000,001 – HK\$1,500,000	-	1	-	-
	3	3	2	2

No directors waived or agreed to waive any remuneration in respect of the years ended 30 September 2003 and 2002.

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, one (2002: three) was/were the director(s) of the Company. The remaining four (2002: two) highest paid individuals were senior management of the Group. The aggregate amount of the remuneration of these individuals which has not been disclosed in the directors' remuneration above is as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, other allowances and benefits in kind	2,507	138
Discretionary bonus	2,823	-
Retirement benefits contributions	21	14
	5,351	152

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(b) Five highest paid individuals (Continued)

The number of the above individuals whose remuneration fall within the following bands is as follows:

	Number of individuals	
	2003	2002
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	2	–

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2002: Nil)

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12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings	Plant and machinery	Equipment and furniture	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 1 October 2002	6,700	13,880	755	763	22,098
Additions	–	19	80	509	608
Acquisition of a subsidiary	–	–	14	–	14
Revaluation deficit	(174)	–	–	–	(174)
Eliminated on revaluation	(326)	–	–	–	(326)
Exchange differences	–	(91)	(5)	(8)	(104)
At 30 September 2003	6,200	13,808	844	1,264	22,116
Accumulated depreciation and amortisation					
At 1 October 2002	–	5,768	174	696	6,638
Charge for the year	326	1,194	136	101	1,757
Eliminated on revaluation	(326)	–	–	–	(326)
Exchange differences	–	(52)	(2)	(5)	(59)
At 30 September 2003	–	6,910	308	792	8,010
Net book value					
At 30 September 2003	6,200	6,898	536	472	14,106
At 30 September 2002	6,700	8,112	581	67	15,460

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

At cost	–	13,808	844	1,264	15,916
At professional valuation	6,200	–	–	–	6,200
	6,200	13,808	844	1,264	22,116

All of the Group's land and buildings are situated in the PRC. As at 30 September 2003, all of the Group's land and buildings were stated at professional valuation, which was carried out by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, on an open market value basis as at 30 September 2003.

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Had the land and buildings been carried at cost less accumulated depreciation and amortisation and impairment losses, their carrying amount would have been HK\$4,867,000 (2002: HK\$5,193,000).

The net book value of land and buildings comprises the following:

	HK\$'000
Medium term lease (less than 50 years but not less than 10 years), at professional valuation	6,200

At 30 September 2003, the Group's land and buildings with an aggregate carrying value of HK\$2,775,000 (2002: HK\$3,200,000) was pledged as security for the Group's bank loan.

The net book value of the Group's property, plant and equipment held under a finance lease included in the total amount of motor vehicles at 30 September 2003 amounted to HK\$415,000 (2002: Nil)

13. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Investments in subsidiaries Unlisted shares, at cost	42,800	42,800
Amounts due from subsidiaries*	49,997	24,949
Amounts due to subsidiaries*	8,496	745

The cost of the Company's investments in subsidiaries is determined by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the Group Reorganisation completed on 12 June 2002.

* Amounts due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms.

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13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 30 September 2003 are as follows:

Name	Country/Place of incorporation/ establishment and operation	Issued/ Registered capital	Attributable equity interests held by the Company		Principal activities
			Directly	Indirectly	
Fortress Ocean Limited	British Virgin Islands ("BVI")	US\$1,000 Ordinary shares	100%	–	Investment holding
Appraise Asia Investments Limited	BVI	US\$1 Ordinary shares	100%	–	Investment holding
Chinaway Network Technology Limited	Hong Kong	HK\$4,000,000 Ordinary shares	–	100%	Information technology business
Daily Development Company Limited	Hong Kong	HK\$2 Ordinary shares	–	100%	Provision of management services
Streaks Worldwide Ltd.	BVI/PRC	US\$1,000 Ordinary shares	–	100%	Trading of footwear products
Vento Group Limited	BVI/PRC	US\$1,000 Ordinary shares	–	100%	Trading of raw materials for manufacture of footwear products and provision of procurement services
Kaitai United Company Limited ("Kaitai")	BVI	US\$2,050 Ordinary shares	–	100%	Investment holding

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13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 30 September 2003 are as follows: (Continued)

Name	Country/Place of incorporation/ establishment and operation	Issued/ Registered capital	Attributable equity interests held by the Company		Principal activities
			Directly	Indirectly	
Huayi Footwear Co., Ltd. Jinjiang ("Huayi") 晉江市華意鞋業有限公司	PRC	RMB18,000,000 (2002: RMB9,000,000) Registered capital	-	100% Note	Manufacture and sale of footwear products and provision of subcontracting services

Note: Huayi was established in the PRC on 23 August 1989 as a Sino-foreign equity joint venture with a term of operation of 20 years from 23 August 1989 and has, during the year ended 30 September 2002, become a wholly foreign owned enterprise and is wholly owned by Kaitai.

14. GOODWILL

	Group HK\$'000
Gross amount	
At 1 October 2002	-
Acquisition of a subsidiary	32,882
At 30 September 2003	32,882
Amortisation	
At 1 October 2002	-
Charge for the year	-
At 30 September 2003	-
Carrying value	
At 30 September 2003	32,882
At 30 September 2002	-

No amortisation of goodwill was charged to the consolidated income statement for the year as the acquisition of the subsidiary took place on 30 September 2003.

Goodwill is amortised on a straight-line basis over its estimated useful life for a period of five years.

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15. OTHER INVESTMENT

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted held-to-maturity debt securities, at amortised cost	-	999

16. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	8,358	8,459
Work in progress	2,322	3,989
Finished goods	13,291	9,984
	23,971	22,432

All the inventories are stated at cost.

17. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

The Group's policy is to allow an average credit period of 30 to 60 days to its trade customers.

At 30 September 2003, the ageing analysis of the Group's trade receivables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	23,865	37,272
31 – 60 days	172	11,952
61 – 90 days	60	52
91 – 180 days	60	180
181 – 365 days	51	-
Over 365 days	-	-
Trade receivables	24,208	49,456
Other receivables and deposits	13,235	135
	37,443	49,591

18. SHORT TERM LOANS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loan	1,402	1,411
Other loans		
– Loans from a PRC credit company	1,682	1,693
	3,084	3,104

The bank loan is secured by certain of the Group's land and buildings with an aggregate carrying value of HK\$2,775,000 at 30 September 2003 (2002: HK\$3,200,000).

The loans from a PRC credit company are secured by guarantees provided by certain unrelated third parties, interest bearing at monthly rates of 0.7965% (2002: 0.66375%) and repayable on dates falling between 4 October 2003 and 26 August 2004.

19. OBLIGATIONS UNDER A FINANCE LEASE

The analysis of the obligations under a finance lease is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Due within one year	135	–
Due in the second to fifth years	138	–
	273	–
Future finance charges on finance lease	(13)	–
Present value of finance lease liabilities	260	–

Notes to the Financial Statements

For the year ended 30 September 2003

19. OBLIGATIONS UNDER A FINANCE LEASE (Continued)

The present value of finance lease liabilities is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Due within one year	125	–
Due in the second to fifth years	135	–
	260	–
Less: Portion due within one year included under current liabilities	(125)	–
Non-current portion included under non-current liabilities	135	–

20. TRADE AND OTHER PAYABLES

At 30 September 2003, the ageing analysis of the Group's trade payables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	11,970	17,603
31 – 60 days	692	1,446
61 – 90 days	616	960
91 – 180 days	1,119	2,051
181 – 365 days	1,017	–
Over 365 days	–	–
Trade payables	15,414	22,060
Other payables	44,884	11,917
	60,298	33,977

21. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
412,000,000 (2002: 400,000,000) ordinary shares of HK\$0.10 each	41,200	40,000

Notes:

- (i) The Company was incorporated in Bermuda on 7 November 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each.
- (ii) On 28 November 2001, 1,000,000 ordinary shares of HK\$0.10 each were allotted and issued nil paid to the subscribers.
- (iii) On 12 June 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 999,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the existing shares of the Company.
- (iv) On 12 June 2002, as part of the Group Reorganisation, the Company issued an aggregate of 1,000,000 ordinary shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire share capital of Fortress Ocean Limited. The excess of the fair value of the ordinary shares of Fortress Ocean Limited, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid on exchange therefor, amounting to HK\$42,700,000, was credited to the Company's contributed surplus as detailed in note 23 to the financial statements.
- (v) On 12 June 2002, an amount of HK\$100,000 (being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the issued ordinary shares of Fortress Ocean Limited as set out in (iv) above) was applied to pay up, in full at par value, the 1,000,000 ordinary shares allotted and issued nil paid on 28 November 2001.
- (vi) On 12 June 2002, a total of 338,000,000 ordinary shares of HK\$0.10 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK\$33,800,000 standing to the credit of the share premium account and the contributed surplus account of the Company, conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 3 July 2002 as detailed in (vii) below.
- (vii) On 3 July 2002, 60,000,000 ordinary shares of HK\$0.10 each of the Company were issued at HK\$0.50 per share for cash to the public by placing and public offer. The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

Notes to the Financial Statements

For the year ended 30 September 2003

21. SHARE CAPITAL (Continued)

Notes: (Continued)

(viii) On 5 May 2003, 12,000,000 share options with exercise price of HK\$0.435 granted to certain employees of the Group were exercised. All these share options were exercised in the period from 30 May 2003 to 23 June 2003 (note 22). The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

None of the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

A summary of the above movements in the issued ordinary share capital of the Company is as follows:

		2003		2002	
	Notes	Number of shares issued	Share capital HK\$'000	Number of shares issued	Share capital HK\$'000
As at 1 October		400,000,000	40,000	-	-
Shares allotted and issued nil paid	(ii)	-	-	1,000,000	-
Shares issued as consideration for the acquisition of the entire share capital of Fortress Ocean Limited pursuant to the Group Reorganisation	(iv)	-	-	1,000,000	100
Application of contributed surplus to pay up the 1,000,000 ordinary shares issued in nil paid	(v)	-	-	-	100
Capitalisation issue credited as fully paid	(vi)	-	-	338,000,000	33,800
New issue on public listing	(vii)	-	-	60,000,000	6,000
Exercise of share options	(viii)	12,000,000	1,200	-	-
As at 30 September 2003		412,000,000	41,200	400,000,000	40,000

22. SHARE OPTIONS

The Company operates a share option scheme, further details of which are set out in the "Share Option Scheme" section in the Report of Directors on page 14.

(a) Movements in share options held by employees

	2003 Number of options	2002 Number of options
Granted during the year	12,000,000	-
Exercised during the year	(12,000,000)	-
Options vested at 30 September 2003	-	-

(b) Details of share options granted during the year

Date of grant	Exercise period	Exercise price	Number of options
5 May 2003	5 May 2003 to 4 May 2006	HK\$0.435	12,000,000

(c) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number of shares
30 May 2003	0.435	0.455 – 0.480	1,740,000	4,000,000
10 June 2003	0.435	0.490 – 0.540	870,000	2,000,000
11 June 2003	0.435	0.530 – 0.560	870,000	2,000,000
13 June 2003	0.435	0.500 – 0.520	435,000	1,000,000
18 June 2003	0.435	0.500 – 0.520	435,000	1,000,000
19 June 2003	0.435	0.460 – 0.500	435,000	1,000,000
23 June 2003	0.435	0.455 – 0.485	435,000	1,000,000
			5,220,000	12,000,000

Notes to the Financial Statements

For the year ended 30 September 2003

23. RESERVES

Group

	Share premium HK\$'000	Assets revaluation reserve HK\$'000	Merger reserve HK\$'000 (note (a))	Exchange reserve HK\$'000	Statutory reserve fund HK\$'000 (note (c))	Retained profits HK\$'000	Total HK\$'000
At 1 October 2001	-	-	-	-	187	18,932	19,119
Premium arising from issue of new shares - note 21(vii)	24,000	-	-	-	-	-	24,000
Shares issue expenses	(5,590)	-	-	-	-	-	(5,590)
Capitalisation issue of shares - note 21(vi)	(18,410)	-	-	-	-	(15,390)	(33,800)
Revaluation surplus on land and buildings	-	1,507	-	-	-	-	1,507
Reserve arising on acquisition of additional interest in a subsidiary	-	-	-	-	12	128	140
Merger reserve arising upon the Group Reorganisation	-	-	8,390	-	-	-	8,390
Reserve applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation - note 21(v)	-	-	-	-	-	(100)	(100)
Profit attributable to shareholders	-	-	-	-	-	34,334	34,334
Appropriations	-	-	-	-	93	(93)	-
Dividends - note 8	-	-	-	-	-	(16,522)	(16,522)
At 30 September 2002 and at 1 October 2002	-	1,507	8,390	-	292	21,289	31,478
Premium arising from issue of new shares pursuant to exercise of share options - note 21(viii)	4,020	-	-	-	-	-	4,020
Revaluation deficit on land and buildings	-	(174)	-	-	-	-	(174)
Exchange difference	-	-	-	(138)	(2)	(236)	(376)
Loss attributable to shareholders	-	-	-	-	-	(4,203)	(4,203)
At 30 September 2003	4,020	1,333	8,390	(138)	290	16,850	30,745

Notes to the Financial Statements

For the year ended 30 September 2003

23. RESERVES

Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (note (b))	Retained profits HK\$'000	Total HK\$'000
At 7 November 2001	-	-	-	-
Arising on acquisition of Fortress Ocean Limited and its subsidiaries - note 21(iv)	-	42,700	-	42,700
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation - note 21(v)	-	(100)	-	(100)
Premium arising from issue of new shares - note 21(vii)	24,000	-	-	24,000
Share issue expenses	(5,590)	-	-	(5,590)
Capitalisation issue of shares - note 21(vi)	(18,410)	(15,390)	-	(33,800)
Profit attributable to shareholders	-	-	9,225	9,225
Proposed final dividend - note 8	-	-	(4,000)	(4,000)
At 30 September 2002 and at 1 October 2002	-	27,210	5,225	32,435
Premium arising from issue of new shares pursuant to exercise of share options - note 21(viii)	4,020	-	-	4,020
Profit attributable to shareholders	-	-	28,823	28,823
At 30 September 2003	4,020	27,210	34,048	65,278

- (a) Merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued pursuant to the Group Reorganisation.

Notes to the Financial Statements

For the year ended 30 September 2003

23. RESERVES (Continued)

- (b) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares of the Company issued in a share for share exchange and the fair value of the aggregate net assets of the subsidiaries acquired.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus of the Company is available for distribution, subject to condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

- (c) According to the Articles of Association of Huayi, Huayi is required to transfer at least 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into capital but not distributable to shareholders. No appropriation was made during the year as Huayi incurred a net loss for the year. During the year ended 30 September 2002, 10% of the net profit of Huayi was appropriated to the statutory reserve fund.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 30 September 2003 consisted of the aggregate of the contributed surplus and retained profits totalling approximately HK\$61,258,000 (2002: HK\$36,435,000 (excluding the proposed final dividend)).

24. CASH AT BANKS

Included in cash at banks is an amount of approximately HK\$23,569,000 (2002: HK\$35,762,000), representing Renminbi deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Property, plant and equipment	14	-
Trade receivables, other receivables and deposits	6,105	-
Trade and other payables	(6,141)	-
Cash at bank	2,140	-
Net assets acquired	2,118	-
Goodwill on acquisition	32,882	-
Consideration	35,000	-
Satisfied by:		
Cash consideration paid	13,000	-
Unpaid consideration	22,000	-
	35,000	-
Net cash outflow in respect of the acquisition		
Cash consideration paid (note 25(b)(ii))	(13,000)	-
Cash at bank acquired	2,140	-
	(10,860)	-

(b) Major non-cash transactions

(i) Finance lease

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at inception of the lease of HK\$400,000.

(ii) Acquisition of a subsidiary

During the year, the Group acquired the entire equity interest in Chinaway Network Technology Limited from independent third parties for a total consideration of HK\$35,000,000, of which HK\$13,000,000 was paid prior to 30 September 2003 and the remaining balance of HK\$22,000,000 (included in other payables under current liabilities in the consolidated balance sheet) was paid subsequent to 30 September 2003.

Notes to the Financial Statements

For the year ended 30 September 2003

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Major non-cash transactions (Continued)

(iii) Group Reorganisation

The Group Reorganisation in the prior year in preparation for the public listing of the Company's shares involved the acquisition of Fortress Ocean Limited through the issue of shares of the Company in aggregate of 1,000,000 ordinary shares of HK\$0.10 each. An amount of HK\$100,000 (being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the issued ordinary shares of Fortress Ocean Limited) was applied to pay for the 1,000,000 ordinary shares allotted and issued nil paid on 28 November 2001.

(iv) Capitalisation issue

In the prior year, a total of 338,000,000 ordinary shares of HK\$0.10 each were allotted and issued as fully paid at par by way of capitalisation of the sum of HK\$33,800,000 standing to the credit of the share premium account and the contributed surplus account of the Company.

(v) Acquisition of minority interests

In the prior year, consideration for the acquisition of the 5% minority interests in Huayi prior to the Group Reorganisation was satisfied by the issue of 50 shares of US\$1 each in Kaitai.

26. COMMITMENTS

(a) Commitments under operating leases

At 30 September 2003, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2003	2002
	HK\$'000	HK\$'000
Within one year	167	223
In the second to fifth years	-	157
	167	380

At 30 September 2003, the Company had no operating lease commitments.

26. COMMITMENTS (Continued)

(b) Capital commitments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for in the financial statements in respect of construction costs for certain buildings in the PRC	7,009	-
Contracted but not provided for in the financial statements in respect of investment in a joint venture in the PRC	3,123	-
	10,132	-

Chinaway Network Technology Limited, a wholly-owned subsidiary of the Company, has entered into an agreement with an independent third party for the establishment of a joint venture company in the PRC. Under the agreement, Chinaway Network Technology Limited has committed to contribute approximately HK\$3,123,000 to the joint venture and will be entitled to 84% of its equity interest.

At 30 September 2003, the Company had no outstanding capital commitment.

27. PLEDGE OF ASSETS

At 30 September 2003, the Group's land and buildings with an aggregate carrying value of approximately HK\$2,775,000 (2002: HK\$3,200,000) were pledged to a bank to secure the Group's bank loan.

28. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

The employees of the Company's subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contribution to the retirement schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

Notes to the Financial Statements

For the year ended 30 September 2003

28. RETIREMENT BENEFITS SCHEMES *(Continued)*

The total cost charged to the income statement of HK\$1,139,000 (2002: HK\$1,155,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. As at 30 September 2003 and 2002, all contributions due in respect of the reporting years have been paid to the schemes.

29. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 20 to 58 were approved by the board of directors on 15 January 2004.