

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practices (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2005. 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.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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.

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.

#### Investments in club memberships

Investments in club memberships are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club memberships.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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.

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.

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Income tax** *(continued)*

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.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Foreign currencies** *(continued)*

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.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Employee benefits** *(continued)*

##### *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.

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 a 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.

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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.

#### **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.

### 2. 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\$991,200 (2004: HK\$936,600) 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

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### 3. 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, 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.



## NOTES TO FINANCIAL STATEMENTS

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### 3. 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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	348,469	335,570	401,689	431,044	674,798	580,568	7,432	13,674	1,432,388	1,360,856
Segment results	31,281	36,698	29,748	37,884	43,948	47,935	(8,945)	(7,146)	96,032	115,371
Unallocated income									7,266	4,087
Unallocated expenses									(10,367)	(10,018)
Profit from operating activities									92,931	109,440
Finance costs									(135)	(506)
Profit before tax									92,796	108,934
Tax									(4,896)	(5,845)
Net profit from ordinary activities attributable to shareholders									87,900	103,089
Segment assets	136,764	154,256	202,363	177,454	195,421	229,194	7,929	15,720	542,477	576,624
Unallocated assets									377,943	361,570
Total assets									920,420	938,194
Unallocated liabilities									239,137	275,214

## NOTES TO FINANCIAL STATEMENTS

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## 3. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Rugged footwear		Casual footwear		Baby and children's footwear		Sportswear and sports shoes		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	8,106	7,503	14,038	11,396	14,238	13,582	289	491	36,671	32,972
Unallocated									2,019	1,935
									38,690	34,907
Reversal of impairment of long term listed investments									(318)	(364)
Capital expenditure:										
Segment	4,172	22,222	28,935	14,279	22,578	23,766	-	11	55,685	60,278
Unallocated									89	1,633
									55,774	61,911

## NOTES TO FINANCIAL STATEMENTS

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### 3. 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	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	826,909	831,307	472,926	407,460	132,553	122,089	1,432,388	1,360,856
Other segment information:								
Segment assets	41,136	50,603	27,050	44,450	643,337	662,506	711,523	757,559
Unallocated assets							208,897	180,635
Total assets							920,420	938,194
Capital expenditure	-	-	-	-	55,774	61,911	55,774	61,911

### 4. 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

31 March 2005

### 5. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	926,635	867,894
Depreciation ( <i>note 13</i> )	38,690	34,907
Provision for doubtful debts	800	230
Provision against inventories	2,526	864
Minimum lease payments under operating leases for land and buildings	2,071	2,497
Auditors' remuneration	1,150	1,314
Loss on disposal of fixed assets	871	192
Staff costs ( <i>excluding directors' remuneration, note 7</i> )		
Wages and salaries	225,697	213,105
Pension scheme contributions	160	208
	<b>225,857</b>	<b>213,313</b>
Reversal of impairment of long term listed investments	(318)	(364)
Interest income	(3,385)	(2,572)

Cost of sales includes HK\$208,360,000 (2004: HK\$187,053,000) 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.

### 6. FINANCE COSTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	135	506

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 7. 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:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	<b>405</b>	300
	<b>405</b>	300
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>5,657</b>	5,642
Bonuses	<b>647</b>	540
Pension scheme contributions	<b>12</b>	12
Independent non-executive directors	–	–
	<b>6,721</b>	6,494

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

	<b>Number of directors</b>	
	<b>2005</b>	2004
Nil – HK\$1,000,000	<b>7</b>	5
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	1
HK\$2,500,001 – HK\$3,000,000	<b>1</b>	1
	<b>9</b>	7

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

## NOTES TO FINANCIAL STATEMENTS

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### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2004: five) directors, details of whose remuneration are set out in note 7 above.

### 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Group:		
Current – Hong Kong	512	254
Current – Elsewhere		
Charge for the year	8,793	8,250
Overprovision in prior years	(4,409)	(2,659)
Total tax charge for the year	<b>4,896</b>	5,845

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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before tax	<b>92,796</b>	108,934
Tax at the applicable tax rate	<b>6,290</b>	8,648
Lower tax rate for specific provinces or local authority	7,966	(422)
Adjustments in respect of current tax of previous periods	(4,409)	(2,659)
Tax losses utilised from previous period	(136)	–
Income not subject to tax	(15,253)	(4,898)
Expenses not deductible for tax	<b>10,438</b>	5,176
Tax charge at the Group's effective rate	<b>4,896</b>	5,845

## NOTES TO FINANCIAL STATEMENTS

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### 9. TAX (continued)

The applicable tax rate is calculated based on the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%), the Vietnam Corporate Tax rate of 10.0% (2004: 10.0%), the Taiwan Corporate Tax rate of 25.0% (2004: 25.0%), the preferential tax rates in Mainland China of 15.0% (2004: 15.0%) and tax holidays granted to a subsidiary 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\$7,255,000 (2004: HK\$4,919,000) 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.

### 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company, was HK\$74,598,000 (2004: HK\$75,307,000) (note 24b).

### 11. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim – HK3.5 cents (2004: HK3.5 cents) per ordinary share	<b>22,919</b>	22,919
Proposed final – HK7.0 cents (2004: HK7.0 cents) per ordinary share	<b>45,838</b>	45,838
	<b>68,757</b>	68,757

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend will be payable in cash with a scrip dividend alternative.



## NOTES TO FINANCIAL STATEMENTS

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### 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$87,900,000 (2004: HK\$103,089,000) and the weighted average of 654,825,625 (2004: 654,771,103) ordinary shares in issue during the year.

No disclosure for diluted earnings per share for the year ended 31 March 2005 is shown as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during the year and thus the share options have no diluting effect.

Last year, the calculation of diluted earnings per share was based on the net profit attributable to shareholders for that year of HK\$103,089,000. The weighted average number of ordinary shares used in the calculation is the 654,771,103 ordinary shares in issued during that year, as used in the basic earnings per share calculation and the weighted average of 44,043 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

## NOTES TO FINANCIAL STATEMENTS

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## 13. 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	394,411	3,870	213,574	611,855
Additions	5,751	23,765	26,258	55,774
Disposals	(1,468)	–	(1,428)	(2,896)
Transfers	13,473	(13,473)	–	–
Exchange differences	–	–	430	430
<b>At 31 March 2005</b>	<b>412,167</b>	<b>14,162</b>	<b>238,834</b>	<b>665,163</b>
Accumulated depreciation:				
At beginning of year	63,672	–	100,699	164,371
Provided during the year	16,033	–	22,657	38,690
Disposals	(486)	–	(1,137)	(1,623)
Exchange differences	–	–	256	256
<b>At 31 March 2005</b>	<b>79,219</b>	<b>–</b>	<b>122,475</b>	<b>201,694</b>
Net book value:				
<b>At 31 March 2005</b>	<b>332,948</b>	<b>14,162</b>	<b>116,359</b>	<b>463,469</b>
<b>At 31 March 2004</b>	<b>330,739</b>	<b>3,870</b>	<b>112,875</b>	<b>447,484</b>

## NOTES TO FINANCIAL STATEMENTS

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### 13. FIXED ASSETS (continued)

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Land and buildings held in Hong Kong under medium term leases	<b>40,996</b>	40,996
Land and buildings held outside Hong Kong under medium term leases	<b>371,171</b>	353,415
	<b>412,167</b>	394,411

As at 31 March 2005, 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\$93,819,000. 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.

### 14. INTERESTS IN SUBSIDIARIES

	Company 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	<b>67,190</b>	67,190
Due from subsidiaries	<b>646,651</b>	572,912
Due to subsidiaries	<b>(436,471)</b>	(405,946)
	<b>277,370</b>	234,156

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

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### 14. 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
<b>Directly held</b>				
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
<b>Indirectly held</b>				
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

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

## 14. 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
<b>Indirectly held</b> (continued)				
Maystar Footwear Company Limited ("Maystar") **	Mainland China	US\$32,704,596	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\$21,334,843	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

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

\*\* Maystar, Kingmaker Zhongshan and Lightning 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.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 15. LONG TERM INVESTMENTS

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Hong Kong listed investments, at cost	<b>1,621</b>	1,621
Provision for impairment	<b>(651)</b>	(969)
	<b>970</b>	652
Market value of listed investments	<b>970</b>	652

### 16. INVENTORIES

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Raw materials	<b>120,459</b>	105,116
Work in progress	<b>30,255</b>	32,651
Finished goods	<b>42,995</b>	62,877
	<b>193,709</b>	200,644

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$5,275,000 (2004: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 17. 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:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>68,509</b>	102,300
Between 91 and 180 days	<b>1,722</b>	458
Between 181 and 365 days	<b>1,833</b>	1,270
Over 365 days	<b>258</b>	475
	<b>72,322</b>	104,503



## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	54,005	39,618	28	17
Time deposits	130,656	140,332	–	38,157
	<b>184,661</b>	179,950	<b>28</b>	38,174

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$6,825,000 (2004: HK\$6,414,000). 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.

### 19. 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:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 90 days	81,231	112,985
Between 91 and 180 days	782	857
Between 181 and 365 days	400	147
Over 365 days	471	–
	<b>82,884</b>	113,989

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

## 20. INTEREST-BEARING BANK BORROWINGS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trust receipt loans, unsecured	1,691	1,528
Bank loans, unsecured	–	5,850
	1,691	7,378
Trust receipt loans repayable within one year	1,691	1,528
Bank loans repayable within one year	–	5,850
	1,691	7,378
Portion classified as current liabilities	(1,691)	(7,378)
Long term portion	–	–

## 21. BANKING FACILITIES

At 31 March 2005, the Group had available banking facilities amounting to HK\$194,800,000 (2004: HK\$371,800,000) of which approximately HK\$1,691,000 (2004: HK\$7,378,000) was utilised. The banking facilities were supported by corporate guarantees executed by the Company and certain of its subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 22. SHARE CAPITAL

#### Shares

	Number of ordinary shares of HK\$0.10 each		HK\$'000	
	2005	2004	2005	2004
Authorised:				
Balance at beginning and end of year	<b>1,000,000,000</b>	1,000,000,000	<b>100,000</b>	100,000
Issued and fully paid:				
Balance at beginning of year	<b>654,825,625</b>	654,757,125	<b>65,483</b>	65,476
Exercise of share options	–	478,500	–	48
Shares repurchased and cancelled	–	(410,000)	–	(41)
Balance at end of year	<b>654,825,625</b>	654,825,625	<b>65,483</b>	65,483

#### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 23 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 23. 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, any 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.

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 be 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.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 23. SHARE OPTION SCHEMES (continued)

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 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 2004	Granted during the year	Lapsed during the year <sup>†</sup>	At 31 March 2005				
<b>Directors</b>								
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				
<b>Other employees</b>								
In aggregate	8,000,000	-	(100,000)	7,900,000	14 January 2004	1 January 2005 to 27 August 2012	3.225	3.2
	7,250,000	-	(50,000)	7,200,000	14 January 2004	14 January 2004 to 27 August 2012	3.225	3.2
	15,250,000	-	(150,000)	15,100,000				
	17,300,000	-	(150,000)	17,150,000				

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 23. 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.

At the balance sheet date, the Company had 17,150,000 share options with an exercise price of HK\$3.225 per share, outstanding under the New Scheme, which represented approximately 2.62% 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 17,150,000 additional ordinary shares of the Company and additional share capital of HK\$1,715,000 and share premium of approximately HK\$53,593,750 (before issue expenses).

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 24. 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 of the financial statements.

#### (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 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 10)	–	–	–	75,307	75,307
Interim 2004 dividend (note 11)	–	–	–	(22,919)	(22,919)
Proposed final 2004 dividend (note 11)	–	–	–	(45,838)	(45,838)
At 31 March 2004 and 1 April 2004	71,132	53	66,982	15,761	153,928
Net profit for the year (note 10)	–	–	–	74,598	74,598
Interim 2005 dividend (note 11)	–	–	–	(22,919)	(22,919)
Proposed final 2005 dividend (note 11)	–	–	–	(45,838)	(45,838)
<b>At 31 March 2005</b>	<b>71,132</b>	<b>53</b>	<b>66,982</b>	<b>21,602</b>	<b>159,769</b>

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.



## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 25. CONTINGENT LIABILITIES

As at 31 March 2005, 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\$1,691,000 (2004: HK\$7,378,000) as at the balance sheet date.

As at 31 March 2005, the Group had bills discounted with recourse of approximately HK\$1,353,000 (2004: HK\$1,117,000).

### 26. 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 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Within one year	<b>345</b>	806
In the second to fifth years, inclusive	–	378
	<b>345</b>	1,184

The Company did not have any operating lease arrangements at the balance sheet date (2004: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had contracted for the following capital commitments:

- (i) At 31 March 2005, the Group had commitments in respect of management fees payable falling due as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	<b>310</b>	301
In the second to fifth years, inclusive	<b>1,688</b>	1,240
After five years	<b>20,271</b>	20,809
	<b>22,269</b>	22,350

- (ii) At 31 March 2005, the Group had commitments in respect of an investment in a wholly foreign owned enterprise in Mainland China amounting to HK\$18,003,000 (2004: HK\$32,973,000).
- (iii) At 31 March 2005, the Group had commitments in respect of the construction of factory buildings in Mainland China amounting to HK\$4,136,000 (2004: HK\$4,202,609).

The Company did not have any other significant commitments at the balance sheet date (2004: Nil).

### 28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 July 2005.