

Notes to the Financial Statements

For the year ended 31st December, 2000

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its principal subsidiaries are engaged in the manufacturing, trading, wholesaling and retailing of footwear products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment and investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associates at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries and associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost or 1995 valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

It is the Group's policy to state its property, plant and equipment on a historical cost basis. However, in compliance with the Rules Governing the Listing of Securities on the Stock Exchange, certain of the Group's leasehold land and buildings and plant and machinery were revalued at the time of its listing on the Stock Exchange in 1995 and stated in the financial statements at such valuation.

The Group does not intend to revalue these assets in the future and they will continue to be carried at their 1995 valuation less subsequent depreciation and amortisation.

The surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any decreases in the net carrying amount of these assets in the future will be charged to the income statement to the extent that they exceed the surplus, if any, on the revaluation reserve relating to the previous revaluation of the same asset. On the subsequent disposal of these assets, the attributable revaluation surplus not transferred to accumulated profits in prior years will be transferred to accumulated profits.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

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

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in progress

Construction in progress is stated at cost, which includes all development expenditure and the direct costs attributable to such development projects.

No depreciation or amortisation is provided for construction in progress until the construction is completed and the assets are ready for their intended uses. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or registered capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities (continued)

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that had been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Turnover

Turnover represents the gross amount received and receivable for goods sold, net of returns and allowances and value added tax, and the income from coffee shops and related operations during the year.

Revenue recognition

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

Non-refundable fixed franchise income is recognised when the right to use the Group's franchise rights has been assigned to the franchisee. Other franchise income is recognised on an accrual basis in accordance with the terms of the franchising agreement when the Group's entitlement to payments has been established.

Income from coffee shop operations is recognised when food and beverages are sold and services are rendered.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Franchise rights

Costs incurred in the acquisition of franchise rights are charged to the income statement in the period in which they are incurred.

Foreign currencies

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

On consolidation, the financial statements of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the approximately rates ruling on the balance sheet date. Exchange differences arising on consolidation, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rental payables on properties under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

3. SEGMENTAL INFORMATION

The Group's turnover and contribution to (loss) profit from operations analysed by principal activity and geographic region were as follows:

By principal activity:

	Turnover		Contribution to (loss) profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Continuing operations:				
Sale of footwear products	1,006,941	1,002,157	17,978	51,746
Sale of shoe components and materials	6,875	6,741	(301)	(122)
	<u>1,013,816</u>	<u>1,008,898</u>	<u>17,677</u>	<u>51,624</u>
Discontinued operations:				
Coffee shops and related operations	–	8,424	–	(1,072)
	<u>1,013,816</u>	<u>1,017,322</u>	<u>17,677</u>	<u>50,552</u>
Gain on disposal of investments in securities			–	485
Income derived from investments in securities			3,000	7,084
Interest income			2,499	3,577
Provision for impairment loss on investments in securities			(50,335)	(9,000)
(Loss) profit from operations			<u>(27,159)</u>	<u>52,698</u>

By geographical region:

	Turnover		Contribution to (loss) profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
United States of America	661,778	739,005	11,853	56,220
The People's Republic of China, other than Hong Kong (the "PRC")	316,121	242,890	5,181	(8,336)
European Union	16,239	17,860	291	1,342
Japan	19,678	17,567	352	1,326
	<u>1,013,816</u>	<u>1,017,322</u>	<u>17,677</u>	<u>50,552</u>
Gain on disposal of investments in securities			–	485
Income derived from investment in securities			3,000	7,084
Interest income			2,499	3,577
Provision for impairment loss on investments in securities			(50,335)	(9,000)
(Loss) profit from operations			<u>(27,159)</u>	<u>52,698</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

4. OTHER REVENUE

Included in other revenue are the following:

	2000 HK\$'000	1999 HK\$'000
Gain on disposal of investments in securities	–	485
Income derived from investments in securities (note 16(b))	3,000	7,084
Interest income	2,499	3,577
	<u> </u>	<u> </u>

5. COMPENSATION INCOME

On 25th June, 2000, the Group entered into an agreement with an independent third party (the "Developer") pursuant to which, inter alia, the Group has agreed to make available the land on which one of its factory was built to the Developer for the development of commercial properties. In return the Developer has agreed to make a payment of approximately HK\$8.3 million to the Group as compensation for the Group's relocation expenses.

6. (LOSS) PROFIT FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration	1,417	1,092
Franchise rights expense	–	95
Loss on disposal of property, plant and equipment	3,024	8
Operating lease charges on:		
– leasehold land and buildings	34,993	29,871
– plant and machinery	601	877
	<u> </u>	<u> </u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals for the year were as follows:

(a) Directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Fees	–	–
Other emoluments:		
Executive directors		
Salaries and other benefits	3,001	4,173
Performance related incentive payments	68	68
	<u> </u>	<u> </u>
	3,069	4,241
	<u> </u>	<u> </u>
	3,069	4,241
	<u> </u>	<u> </u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Emoluments of the directors were within the following bands:

	Number of directors	
	2000	1999
HK\$1,000,000 or below	8	6
HK\$1,000,001 – HK\$1,500,000	2	2

(b) Employees' emoluments

The five highest paid individuals included three (1999: five) directors, details of whose emoluments are set out above. The emoluments of the remaining two (1999: nil) individuals are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits	874	–

8. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years	14,159	17,032

9. DISCONTINUED OPERATIONS

On 3rd December, 1999, the Group disposed of its controlling interest in Rhine Enterprise Limited ("Rhine") to a third party. Rhine is an investment holding company and its 99% owned subsidiary, Shanghai Wei Yang Coffee Co. Ltd. (上海瑋陽咖啡館有限公司) ("Wei Yang") is engaged in operating coffee shops and related operations in the PRC. A profit of approximately HK\$893,000 arose on the disposal of Rhine and Wei Yang, being the proceeds of disposal less the carrying amount of the subsidiaries' net assets. No tax charge or credit arose from the transaction.

Details of the results of the coffee shop and related operations for the period from 1st January, 1999 to 3rd December, 1999, which have been included in the consolidated financial statements, are set out in note 3.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

10. TAXATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– current year	34	–
– under(over)provision in previous years	10	(10)
	<u>44</u>	<u>(10)</u>
Other jurisdictions		
– current year	5,550	3,307
– underprovision in previous years	249	312
	<u>5,799</u>	<u>3,619</u>
Taxation attributable to the Company and its subsidiaries	5,843	3,609
Share of taxation attributable to an associate	157	187
	<u>6,000</u>	<u>3,796</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year ended 31st December, 2000.

No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31st December, 1999, as in the opinion of the directors, the Group's profits for that year neither arose in, nor was derived from, Hong Kong.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.

Deferred taxation has not been provided on the revaluation surplus arising from the revaluation of the Group's properties in the PRC as, in the opinion of the directors, the Group does not have any intention to dispose of these properties in the foreseeable future.

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

11. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$51,151,000 (1999: net profit of HK\$33,885,000), a profit of approximately HK\$375,000 (1999: HK\$1,913,000) has been dealt with in the financial statements of the Company.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the year is based on the following data:

	2000 HK\$'000	1999 HK\$'000
Net (loss) profit for the year	<u>(51,151)</u>	<u>33,885</u>
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>1,498,392,384</u>	1,506,613,906
Effect of dilutive potential ordinary shares in respect of share options		<u>1,245,548</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>1,507,859,454</u>

No disclosure of diluted loss per share for the year ended 31st December, 2000 has been presented as the effect of the potential ordinary shares in issue is anti-dilutive.

The computation of diluted earnings per share for the year ended 31st December, 1999 did not assume the exercise of the Company's then outstanding 2000 warrants as the exercise price of the Company's 2000 warrants was higher than the average market value of the Company's share.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST OR VALUATION						
At 1st January, 2000	119,978	2	75,264	24,191	8,186	227,621
Exchange adjustments	5,674	-	3,960	573	418	10,625
Additions	1,110	-	3,605	2,358	563	7,636
Transfers	-	(2)	2	-	-	-
Disposals	(6,127)	-	(99)	(1,130)	(148)	(7,504)
At 31st December, 2000	<u>120,635</u>	<u>-</u>	<u>82,732</u>	<u>25,992</u>	<u>9,019</u>	<u>238,378</u>
Comprising:						
At cost	101,135	-	40,147	25,992	9,019	176,293
At valuation - 1995	<u>19,500</u>	<u>-</u>	<u>42,585</u>	<u>-</u>	<u>-</u>	<u>62,085</u>
	<u>120,635</u>	<u>-</u>	<u>82,732</u>	<u>25,992</u>	<u>9,019</u>	<u>238,378</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2000	23,819	-	54,831	13,774	6,316	98,740
Exchange adjustments	803	-	3,252	411	311	4,777
Provided for the year	3,576	-	10,605	2,176	1,175	17,532
Eliminated on disposals	(3,210)	-	(77)	(916)	(86)	(4,289)
At 31st December, 2000	<u>24,988</u>	<u>-</u>	<u>68,611</u>	<u>15,445</u>	<u>7,716</u>	<u>116,760</u>
NET BOOK VALUES						
At 31st December, 2000	<u>95,647</u>	<u>-</u>	<u>14,121</u>	<u>10,547</u>	<u>1,303</u>	<u>121,618</u>
At 31st December, 1999	<u>96,159</u>	<u>2</u>	<u>20,433</u>	<u>10,417</u>	<u>1,870</u>	<u>128,881</u>

Certain of the Group's leasehold land and buildings and plant and machinery are stated at 1995 valuation less subsequent depreciation and amortisation. The valuation was carried out by Chesterton Petty International Property Consultants, a firm of independent property valuers, as at 31st August, 1995 on an open market existing use basis. No further valuation will be carried out on these assets.

The Group's leasehold land and buildings are held under medium-term leases and located in the PRC.

The Company did not have any property, plant and equipment as at the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000 & 1999	
	<i>HK\$'000</i>	
Unlisted shares, at cost		165,635
Loan to a subsidiary		44,546
		<u>210,181</u>

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the corporate reorganisation which took place in 1995.

The loan to a subsidiary is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, repayment of the amount will not be demanded in the coming financial year and therefore it is classified as non-current.

Particulars of the Company's subsidiaries as at 31st December, 2000 are set out in note 33.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>2,469</u>	<u>3,794</u>

Particulars of the Group's associate as at 31st December, 2000 are set out in note 34.

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other equity securities, at fair value:		
Listed shares (<i>Note a</i>)	11,333	25,098
Unlisted securities (<i>Note b</i>)	<u>24,439</u>	<u>53,572</u>
	<u>35,772</u>	<u>78,670</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

16. INVESTMENTS IN SECURITIES (continued)

Notes:

(a) Listed shares

At 31st December, 2000, the Group held approximately 14.4% interest in Sun Home Leather Corporation Limited 尚鋒興業股份有限公司 (“Sun Home”), a company listed on Taiwan Stock Exchange Corporation which is engaged in the manufacture and trading of leather materials. The fair value represents the market value of the shares as at the balance sheet date.

(b) Unlisted securities

At 31st December, 2000, the Group's unlisted securities included a 30% interest in the registered capital of Jingxing Shoe Industrial Co., Ltd. Putian City 莆田市涵江金星鞋業有限公司 (“Jingxing”), a sino-foreign joint venture established in the PRC for a term of 70 years commencing November 1991. The principal activity of Jingxing is to manufacture and sell shoes. In the opinion of the directors, despite the 30% interest in Jingxing, the Group is not in a position to exercise significant influence in the financial and operating decisions of Jingxing. Consequently, Jingxing is accounted for as a passive investment, rather than as an associate of the Group.

During the year ended 31st December, 1999, the Group entered into agreements with an affiliate (the “Guarantor”) of one of the joint venture partners in Jingxing whereby in return for an annual payment by the Guarantor for each of the four years ending 31st December, 2002, the Group has agreed to surrender its right to the share in any profit in Jingxing for the same period. By virtue of these agreements, the Group received an amount of approximately HK\$3,000,000 (1999: HK\$7,084,000) from the Guarantor for the year ended 31st December, 2000, and the minimum amount the Group is guaranteed to receive for each of the remaining two years ending 31st December, 2002 is HK\$3,000,000.

17. INVENTORIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Raw materials	35,967	33,533
Work in progress	23,637	22,965
Finished goods	121,321	103,324
	<u>180,925</u>	<u>159,822</u>

Included above are raw materials of approximately HK\$2,206,000 (1999: HK\$5,159,000) and finished goods of approximately HK\$6,921,000 (1999: HK\$14,409,000) carried at net realisable value.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

18. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 30 days to its trade customers other than major customers with whom specific terms will be agreed by both parties. The following is an aged analysis of trade receivables included in trade and other receivables at the balance sheet date:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Trade receivables:		
Not yet due	142,324	157,211
Overdue 0 – 30 days	20,241	35,236
Overdue 31 – 60 days	1,719	25,097
Overdue 61 – 90 days	14,993	3,462
Overdue 91 – 120 days	3,835	1,648
Overdue 121 – 180 days	3,459	1,415
Overdue 181 – 360 days	–	8,911
Overdue more than 360 days	222	1,836
	<u>186,793</u>	<u>234,816</u>

19. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables included in trade and other payables at the balance sheet date:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Trade payables:		
Not yet due	67,226	54,543
Overdue 0 – 30 days	27,540	39,405
Overdue 31 – 60 days	20,511	18,358
Overdue 61 – 90 days	39	4,652
Overdue 91 – 120 days	898	915
Overdue 121 – 180 days	5,446	2,600
Overdue 181 – 360 days	115	–
Overdue more than 360 days	294	–
	<u>122,069</u>	<u>120,473</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

20. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank borrowings comprise:		
Bank loans	210,611	109,730
Bank overdrafts	178	1,214
	<u>210,789</u>	<u>110,944</u>
Analysed as:		
Secured	98,023	42,968
Unsecured	112,766	67,976
	<u>210,789</u>	<u>110,944</u>

21. SHARE CAPITAL

	Number of ordinary shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised		
At 1st January, 1999, 31st December, 1999 and 31st December, 2000	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid		
At 1st January, 1999	1,527,207,784	152,721
Issue of new shares on exercise of warrants	600	-
Repurchase of shares	<u>(28,816,000)</u>	<u>(2,882)</u>
At 31st December, 1999 and 2000	<u>1,498,392,384</u>	<u>149,839</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

21. SHARE CAPITAL (continued)

During the year ended 31st December, 1999, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per share		Aggregate price paid HK\$'000
		High HK\$	Low HK\$	
March 1999	1,940,000	0.430	0.415	818
April 1999	<u>26,876,000</u>	0.475	0.395	<u>11,259</u>
	<u>28,816,000</u>			<u>12,077</u>

In addition, during the year ended 31st December, 1999, certain warrant holders of the Company exercised their rights under the Company's warrant instruments dated 11th June, 1999 (the "2000 Warrants") to subscribe for 600 new ordinary shares of HK\$0.10 each in the Company at HK\$0.70 per share.

There were no movements in the Company's share capital in the current year.

22. WARRANTS

During the year ended 31st December, 1999, certain registered holders of the 2000 Warrants exercised their rights to subscribe for 600 ordinary shares in the Company at HK\$0.70 per share.

As at 31st December, 1999, the Company had outstanding 2000 Warrants conferring rights to the holders thereof to subscribe up to HK\$213,790,800 in cash for ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.70 per shares, subject to adjustments, at any time on or before 28th June, 2000.

On 28th June, 2000, these outstanding warrants were not exercised and lapsed upon expiration of their exercisable period.

23. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") of the Company which became effective on 9th October, 1995, the board of directors of the Company may grant options to any director or employee of the Company or any of its subsidiaries to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The subscription price of the option shares shall be a price to be determined by the directors of the Company being not less than 80% of the average of the closing prices of the ordinary shares of the Company for the five trading days immediately preceding the date of the offer of the option or the nominal value of the shares of the Company, whichever is higher.

The maximum number of ordinary shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. Options granted are exercisable for a period of two years commencing on the expiry of six months after the date the options are granted.

At 1st January, 2000 and 31st December, 2000, a total of 80,000,000 share options granted in September 1999 remained outstanding. These share options entitle the holders thereof to subscribe for shares of HK\$0.10 each in the Company at a subscription price of HK\$0.20 per share (subject to adjustment) during the exercisable period from 29th March, 2000 to 28th March, 2002. No consideration was received by the Company for the options granted.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

24. RESERVES

	Share premium	Capital redemption reserve	Property revaluation reserve	Plant and machinery revaluation reserve	Investments revaluation reserve	Translation reserve	Goodwill	Merger reserve	General reserve fund	Enterprise expansion fund	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP												
At 1st January, 1999	11,510	-	1,184	23,438	9,874	(16,858)	(36,782)	322	1,942	2,494	305,873	302,997
Exchange differences arising												
from translations of financial statements of overseas operations	-	-	-	-	-	(9,764)	-	-	-	-	-	(9,764)
Repurchase of shares	(9,195)	2,882	-	-	-	-	-	-	-	-	(2,882)	(9,195)
Transfer	-	-	-	-	-	-	-	-	797	797	(1,594)	-
Share of an associate's reserve movements	-	-	-	-	-	(144)	-	-	8	8	(16)	(144)
Realised on disposal of other securities	-	-	-	-	(1,162)	-	-	-	-	-	-	(1,162)
Deficit on revaluation	-	-	-	-	(16,351)	-	-	-	-	-	-	(16,351)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	33,885	33,885
At 31st December, 1999	2,315	2,882	1,184	23,438	(7,639)	(26,766)	(36,782)	322	2,747	3,299	335,266	300,266
Exchange differences arising												
from translations of financial statements of overseas operations	-	-	-	-	-	5,967	-	-	-	-	-	5,967
Transfer	-	-	-	(23,438)	-	-	-	-	623	623	22,192	-
Share of an associate's reserve movements	-	-	-	-	-	(146)	-	-	13	13	(26)	(146)
Realised on impairment of investments in securities	-	-	-	-	7,639	-	-	-	-	-	-	7,639
Net loss for the year	-	-	-	-	-	-	-	-	-	-	(51,151)	(51,151)
At 31st December, 2000	2,315	2,882	1,184	-	-	(20,945)	(36,782)	322	3,383	3,935	306,281	262,575
Attributable to associates:												
At 31st December, 2000	-	-	-	-	-	(773)	-	-	204	201	497	129
At 31st December, 1999	-	-	-	-	-	(627)	-	-	191	188	1,043	795

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

24. RESERVES (continued)

	Share premium	Capital redemption reserve	Contributed surplus	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY					
At 1st January, 1999	11,510	–	152,891	1,663	166,064
Repurchase of shares	(9,195)	2,882	–	(2,882)	(9,195)
Net profit for the year	–	–	–	1,913	1,913
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1999	2,315	2,882	152,891	694	158,782
Net profit for the year	–	–	–	375	375
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>2,315</u>	<u>2,882</u>	<u>152,891</u>	<u>1,069</u>	<u>159,157</u>

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

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

The general reserve fund and the enterprise expansion fund are statutory reserves required by the PRC laws for the Group's PRC subsidiaries and associate.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK\$156,275,000 (1999: HK\$155,900,000). Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(Loss) profit before taxation	(41,579)	37,911
Gain on disposal of discontinued operations	–	(893)
Loss on disposal of interest in an associate	451	–
Share of results of associates	(190)	(1,352)
Interest income	(2,499)	(3,577)
Interest expenses	14,159	17,032
Compensation income	(8,315)	–
Depreciation and amortisation	17,532	19,278
Provision for impairment loss of investments in securities	50,335	9,000
Gain on disposal of investments in securities	–	(485)
Loss on disposal of property, plant and equipment	3,024	8
(Increase) decrease in inventories	(13,812)	88,317
Decrease (increase) in trade and other receivables	69,546	(63,704)
(Decrease) increase in trade and other payables	(58,866)	86,246
(Decrease) increase in amount due to an associate	(2,585)	2,276
Increase in amount due to a related company	2,927	–
	<u>30,128</u>	<u>190,057</u>
Net cash inflow from operating activities	<u>30,128</u>	<u>190,057</u>

26. DISPOSAL OF SUBSIDIARIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	–	1,033
Inventories	–	1,872
Trade and other receivables	–	8,188
Bank balances and cash	–	1,267
Trade and other payables	–	(7,077)
Taxation payable	–	(6)
Minority interests	–	(5,947)
	<u>–</u>	<u>(670)</u>
Gain on disposal of subsidiaries	<u>–</u>	<u>893</u>
	<u>–</u>	<u>223</u>
Satisfied by:		
Cash received	–	4
Reclassification of investments in subsidiaries to other securities	<u>–</u>	<u>219</u>
	<u>–</u>	<u>223</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

26. DISPOSAL OF SUBSIDIARIES (continued)

Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash consideration received	-	4
Bank balances and cash disposed of	-	(1,267)
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in connection with the disposal of subsidiaries	-	(1,263)
	<hr/>	<hr/>

The subsidiaries disposed of during the year ended 31st December, 1999 did not have any significant impact on the Group's cash flows or operating results.

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1st January, 1999	164,231	272,869	29,740
Exchange adjustments	-	(4,471)	-
Repurchase of shares	(12,077)	-	-
Disposal of subsidiaries	-	-	(5,947)
Dividends paid to minority shareholders of subsidiaries	-	-	(2,616)
Share of translation reserve by minority shareholders of subsidiaries	-	-	(1,017)
Amounts advanced from minority shareholders of subsidiaries	-	-	3,347
Share of profits by minority shareholders of subsidiaries	-	-	230
Capital contribution by minority shareholders of subsidiaries	-	-	37
New borrowings raised during the year	-	237,272	-
Repayments during the year	-	(395,940)	-
	<hr/>	<hr/>	<hr/>
At 31st December, 1999	152,154	109,730	23,774
Exchange adjustments	-	4,073	-
Dividends paid to minority shareholders of subsidiaries	-	-	(3,577)
Share of translation reserve by minority shareholders of subsidiaries	-	-	859
Share of profits by minority shareholders of subsidiaries	-	-	3,572
New borrowings raised during the year	-	357,818	-
Repayments during the year	-	(261,010)	-
	<hr/>	<hr/>	<hr/>
At 31st December, 2000	152,154	210,611	24,628
	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

28. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings and other securities having carrying amount of approximately HK\$91,769,000 (1999: HK\$91,759,000) and HK\$8,462,000 (1999: Nil), respectively, were pledged to banks to secure the general banking facilities granted to the Group.

29. COMMITMENTS

While the Company did not have any significant outstanding operating lease, capital and other commitments as at the balance sheet date, the Group had the following commitments at the balance sheet date:

(a) Lease commitments

	2000		1999	
	Land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>
Non-cancellable operating leases which expire:				
Within one year	10,351	77	5,875	291
In the second to fifth year inclusive	34,385	–	11,132	–
Over five years	403	–	3,786	–
	<u>45,139</u>	<u>77</u>	<u>20,793</u>	<u>291</u>

(b) Capital commitments

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>–</u>	<u>106</u>

(c) Other commitments

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Consultancy services provided to the PRC subsidiaries	<u>–</u>	<u>1,280</u>

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees given to financial institutions in respect of credit facilities granted to:				
– subsidiaries	–	–	107,075	163,000
– a third party	–	7,331	–	–
	<u>–</u>	<u>7,331</u>	<u>107,075</u>	<u>163,000</u>

At 31st December, 1999, the credit facilities granted to the third party were fully utilised by the third party.

31. RETIREMENT BENEFITS SCHEME

Effective 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement was insignificant.

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly salaries of the employees of its PRC subsidiaries. The Group has no other obligation under the state pension schemes in the PRC other than the contribution payment.

The Group has provided approximately HK\$1,686,000 for the year (1999: HK\$1,719,000) to cover the contributions payable to the state pension schemes.

32. RELATED PARTY DISCLOSURE

During the year, the Group entered into the following significant transactions with related parties:

- (a) The Group purchased goods from an associate amounted to approximately HK\$6,599,000 (1999: HK\$8,732,000).
- (b) The Group purchased shoe materials amounted to approximately HK\$6,076,000 from Sun Home in which Messrs. Chang Wen I and Chen Hsien Min are directors (1999: Nil).

The above transactions were carried out in accordance with terms determined and agreed by both parties and the balances with these related parties are unsecured, non-interest bearing and repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

33. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company (Note (a) below) %	Principal activity
Dachang Paper Industry Co., Ltd. Fujian 福建省大昌紙業有限公司	PRC	Registered capital US\$900,000	88.15	Manufacture of shoe materials
Dafu Footwear Co., Ltd. Hanjiang Putian City 莆田市涵江大福鞋業有限公司	PRC	Registered capital US\$3,180,000	90	Manufacture of footwear products
Dasheng Footwear Co., Ltd. Putian City 莆田市涵江大盛鞋業有限公司	PRC	Registered capital US\$4,285,700	72	Manufacture of shoe components
Daxing Shoe Material Co., Ltd. Hanjiang Putian City 莆田市涵江大興鞋材有限公司	PRC	Registered capital US\$1,199,925	100	Manufacture of footwear products
Fujian Gentlefit Footwear Headware & Clothing Ornament Products Co. Ltd. 福建祥田鞋帽服飾制品有限公司	PRC	Registered capital US\$200,000	100	Distribution and retail sales of footwear products
Fujian Victoria Success Investment Co., Ltd. 福建永恩投資(集團)有限公司	PRC	Registered capital US\$12,000,000	100	Distribution and retail sales of footwear products
Fuzhou Running Star Footwear Co., Ltd. Fuzhou 福州成偉鞋業有限公司	PRC	Registered capital US\$1,400,000	100	Inactive
Gentlefit Trading Limited 祥田貿易有限公司	Hong Kong	Ordinary shares HK\$100 Non-voting deferred shares HK\$13,055,667 (Note (b) below)	100 –	Trading in footwear products, investment holding and trademarks holder

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

33. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company (Note (a) below) %	Principal activity
Jacaranda International Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$2	100	Investment holdings
Modern City Development Limited 成田發展有限公司	Hong Kong	Ordinary shares HK\$100 Non-voting deferred shares HK\$10,000 (Note (b) below)	100 -	Inactive
Prime Success (BVI) Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$50,000	100	Investment holdings
Putian Hanjiang Footwear Co., Ltd. 莆田市涵江鞋業有限公司	PRC	Registered capital US\$6,000,000	75	Manufacture of footwear products
Shanghai Gentlefit Shoes & Caps Fashion Co., Ltd. 上海祥田鞋帽服飾制品有限公司	PRC	Registered capital US\$1,400,000	100	Trading of footwear products
Shanghai Guang Wei Industry & Commerce Co., Ltd. 上海光偉實業有限公司	PRC	Registered capital US\$3,600,000	84.45	Manufacture of footwear products
Victoria Success (Shanghai) Limited 永恩實業(上海)有限公司	PRC	Registered capital US\$5,000,000	100	Manufacture of footwear products
Winson Union Limited 永信聯有限公司	Hong Kong	Ordinary shares HK\$10,000	100	Investment holdings

Notes to the Financial Statements (continued)

For the year ended 31st December, 2000

33. SUBSIDIARIES (continued)

Notes:

- (a) Other than Prime Success (BVI) Limited which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.
- (b) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.
- (c) None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.
- (d) All subsidiaries of the Group established in the PRC are in the form of equity joint venture.

34. ASSOCIATE

Particulars of the Group's associate which was held indirectly by the Company as at 31st December, 2000 are as follows:

Name of associate	Form of business structure	Place of establishment and operations	Class of shares held	Proportion of nominal value of registered capital indirectly held by the Company %	Principal activity
Dayong Shoe Material Co., Ltd. Hanjiang Putian City 莆田市涵江大永鞋業有限公司	Incorporated	PRC	Registered capital	30	Manufacture of shoe materials