

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2001. 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 in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values, other than temporary in nature, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Fixed assets and depreciation** *(continued)*

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

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

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

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.

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 provisions for diminutions in values other than those considered to be temporary in nature. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether their fair values have declined below the carrying amounts. When a decline which is considered to be other than temporary in nature has occurred, the carrying amount of the investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account for the period in which it arises.

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.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals applicable to such operating leases are charged/credited 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 rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the amounts in the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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) 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; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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

Related parties

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

Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. 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 Scheme. The assets of the 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 Scheme.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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 advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

2. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The principal activity of the company is investment holding. During the year, the Group was involved in the manufacturing, trading and distribution of footwear as well as the trading and distribution of sportswear.

The Company is a subsidiary of King Strike Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

During the year, the Group paid rental expenses of HK\$940,000 to Kingmaker Footwear Company Limited, a related company in which Mr. Chen Ming-hsiung, Mickey, Mr. Chen Cheng-hsiung, Mr. Lee Kung and Madam Huang Hsiu-duan, Helen, certain directors of the Company, are directors and shareholders. The rental expenses were determined with reference to the market conditions existing at the time the rental agreement was entered into.

3. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and after elimination of intra-group transactions.

4. PROFIT FROM OPERATING ACTIVITIES

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

| | 2001 HK\$'000 | 2000 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Cost of inventories sold | 794,165 | 736,926 |
| Staff costs (excluding directors' remuneration, note 5) | | |
| Wages and salaries | 128,818 | 124,102 |
| Pension scheme contributions | 85 | – |
| | 128,903 | 124,102 |
| Depreciation | 16,052 | 12,530 |
| Operating lease rentals in respect of land and buildings | 3,127 | 2,052 |
| Auditors' remuneration: | | |
| Current year | 1,095 | 938 |
| Underprovision in the prior year | – | 42 |
| Provisions for / (write back of provisions for) diminutions in values of listed investments | 388 | (220) |
| Interest income | (28,609) | (24,094) |

Cost of inventories sold includes HK\$190,059,000 (2000: HK\$173,228,000) relating to direct staff costs, operating lease rentals in respect of land and buildings, and depreciation of manufacturing facilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

| | 2001 | 2000 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors | - | - |
| Independent non-executive directors | 228 | 204 |
| Other emoluments: | | |
| Executive directors: | | |
| Basic salaries, housing benefits, other allowances and benefits in kind | 7,075 | 6,402 |
| Bonuses paid and payable | 662 | 648 |
| Pension scheme contributions | 3 | - |
| Non-executive directors | - | - |
| | 7,968 | 7,254 |

The remuneration of the directors during the year fell within the following bands:

| | Number of directors | |
|-------------------------------|----------------------------|------|
| | 2001 | 2000 |
| Nil - HK\$1,000,000 | 5 | 5 |
| HK\$1,000,001 - HK\$1,500,000 | 2 | 2 |
| HK\$2,000,001 - HK\$2,500,000 | - | 1 |
| HK\$2,500,001 - HK\$3,000,000 | 1 | - |
| | 8 | 8 |

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

No value is included in the directors' remuneration in respect of share options granted during each of the two years ended 31 March 2001 because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted. Further details of the options granted to the directors are set out in note 21 to the financial statements.

5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES*(continued)*

The five highest paid employees during the year included five (2000: Five) directors, details of whose remuneration are set out above.

6. FINANCE COSTS

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans wholly repayable within five years | 2,424 | 392 |

7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable outside Hong Kong 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. Tax recoverable represents provisional tax paid in excess of the estimated tax liability of the Group.

| | 2001 | 2000 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Hong Kong | 395 | 406 |
| Overseas | 13,922 | 11,678 |
| Underprovision/(overprovision) in the prior year | (240) | 362 |
| Tax charge for the year | 14,077 | 12,446 |

No deferred tax has been provided for the Company or the Group because there were no significant timing differences at the balance sheet date.

8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$54,286,000 (2000: HK\$47,641,000).

9. DIVIDENDS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|--------------------------------|------------------|
| Interim – HK3.5 cents (2000: HK3.5 cents) per ordinary share | 20,142 | 16,112 |
| Proposed final – HK7 cents (2000: HK7 cents) per ordinary share | 40,191 | 32,228 |
| | 60,333 | 48,340 |

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$148,845,000 (2000: HK\$128,475,000) and on the weighted average of 575,266,000 (2000: 573,961,000, adjusted for bonus shares issued during the year ended 31 March 2001) ordinary shares in issue during the year.

The calculation of diluted earnings per share was based on the net profit from ordinary activities attributable to shareholders for the year of HK\$148,845,000 (2000: HK\$128,475,000) and 579,472,000 ordinary shares (2000: 574,981,000, adjusted for bonus shares issued during the year ended 31 March 2001), being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

The reconciliation of the weighted average number of shares used in calculating, the basic and diluted earnings per share calculations is as follows:

| | 2001 | 2000 |
|--|--------------------|-------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 575,266,000 | 573,961,000 |
| Weighted average number of shares assumed issued at no consideration on deemed exercise of all options outstanding during the year | 4,206,000 | 1,020,000 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 579,472,000 | 574,981,000 |

The numbers of ordinary shares in issue during the year for the purpose of the earnings per share calculations have been adjusted for the effects of the bonus issue on 28 August 2000. The comparative earnings per share for the corresponding year has been adjusted retrospectively.

11. 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 | 134,060 | 20,129 | 78,425 | 232,614 |
| Additions | 49,487 | 18,265 | 18,243 | 85,995 |
| Exchange adjustment | – | – | (152) | (152) |
| At 31 March 2001 | <u>183,547</u> | <u>38,394</u> | <u>96,516</u> | <u>318,457</u> |
| Accumulated depreciation: | | | | |
| At beginning of year | 24,015 | – | 45,835 | 69,850 |
| Provided during the year | 5,784 | – | 10,268 | 16,052 |
| Exchange adjustment | – | – | (53) | (53) |
| At 31 March 2001 | <u>29,799</u> | <u>–</u> | <u>56,050</u> | <u>85,849</u> |
| Net book value: | | | | |
| At 31 March 2001 | <u>153,748</u> | <u>38,394</u> | <u>40,466</u> | <u>232,608</u> |
| At 31 March 2000 | <u>110,045</u> | <u>20,129</u> | <u>32,590</u> | <u>162,764</u> |
| | | | 2001 HK\$'000 | 2000 HK\$'000 |
| Land and buildings held in Hong Kong under medium term leases | | | 30,996 | 30,996 |
| Land and buildings held outside Hong Kong under medium term leases | | | 152,551 | 103,064 |
| | | | 183,547 | 134,060 |

12. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|-----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 67,190 | 67,190 |
| Due from subsidiaries | 306,021 | 256,028 |
| Due to subsidiaries | (167,694) | (113,148) |
| | 205,517 | 210,070 |

The balances with subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of paid-up shares/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--|--|---|-------------|---|
| | | | 2001 | 2000 | |
| Directly held | | | | | |
| MJ Haig Industries Limited | British Virgin Islands/Taiwan | Ordinary US\$10,000 | 100% | 100% | Sourcing of raw materials for footwear |
| Ready Luck Limited | British Virgin Islands | Ordinary US\$5,000 | 100% | 100% | Investment holding |
| Indirectly held | | | | | |
| King Maker International (Import and Export) Limited | Macau | Registered MOP100,000 | 100% | 100% | Footwear manufacturing and property holding |
| Kingmaker (Vietnam) Footwear Co., Ltd. | Vietnam | US\$3,000,000 | 100% | 100% | Footwear manufacturing |

12. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of paid-up shares/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|----------------------------------|---|--|---|------|---|
| | | | 2001 | 2000 | |
| Indirectly held | | | | | |
| Lightening Star Corporation | British Virgin Islands | Ordinary US\$1,000 | 100% | 100% | Investment holding |
| Lightening Star (H.K.) Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Footwear and sportswear trading |
| Maystar Footwear Company Limited | People's Republic of China ("PRC") | US\$27,882,120 | 100% | 100% | Footwear manufacturing |
| Miri Footwear International Inc. | British Virgin Islands/Taiwan | Ordinary US\$1 | 100% | 100% | Sourcing of raw materials for footwear and footwear trading |
| Miri International Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Provision of administrative services |
| Sanford Resources Limited | British Virgin Islands/ Vietnam | Ordinary US\$1 | 100% | 100% | Trading of footwear products |
| Transcommerce International Inc. | British Virgin Islands/ Taiwan | Ordinary US\$1 | 100% | 100% | Sourcing and trading of raw materials for footwear |

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.

13. LONG TERM INVESTMENTS

| | Group | |
|---------------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Hong Kong listed investments, at cost | 1,621 | 1,621 |
| Provisions for diminutions in values | (1,233) | (845) |
| | 388 | 776 |
| Market value of listed investments | 388 | 776 |

14. DEPOSITS PAID

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Deposit paid in respect of acquisition of a factory building and a dormitory in the PRC | - | 11,981 |
| Deposit for acquisition of land use rights | - | 2,340 |
| | - | 14,321 |

15. INVENTORIES

| | Group | |
|------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 41,707 | 49,578 |
| Work in progress | 26,673 | 31,593 |
| Finished goods | 33,240 | 29,223 |
| | 101,620 | 110,394 |

At the balance sheet date, no inventories (2000: Nil) were stated at net realisable value.

16. ACCOUNTS AND BILLS RECEIVABLE

The ageing analysis of the Group's accounts and bills receivable is as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--------------------------|--------------------------------|------------------|
| Within 90 days | 71,396 | 53,198 |
| Between 91 and 180 days | 433 | 2,945 |
| Between 181 and 365 days | 1,955 | 1,104 |
| | <u>73,784</u> | <u>57,247</u> |

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.

17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------|--------------------------------|------------------|--------------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Cash and bank balances | 45,619 | 40,619 | 46 | 82 |
| Time deposits | 373,493 | 406,862 | - | - |
| | <u>419,112</u> | <u>447,481</u> | <u>46</u> | <u>82</u> |

18. ACCOUNTS PAYABLE

The ageing analysis of the Group's accounts payable is as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------|--------------------------------|------------------|
| Within 90 days | 92,314 | 147,447 |
| Between 91 and 180 days | 1,487 | 2,152 |
| | <u>93,801</u> | <u>149,599</u> |

19. BANK LOAN, UNSECURED

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Bank loan repayable: | | |
| Within one year | 19,500 | – |
| In the second year | 19,500 | – |
| | 39,000 | – |
| Portion classified as current liabilities | (19,500) | – |
| Long term portion | 19,500 | – |

20. BANKING FACILITIES

At the balance sheet date, the Group had available banking facilities amounting to HK\$249 million (2000: HK\$256 million) of which approximately HK\$43 million was utilised (2000: HK\$3 million). The banking facilities were supported by corporate guarantees executed by the Company and certain of its subsidiaries.

21. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.10 each | | HK\$'000 | |
|--|---|---------------|-----------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| <i>Authorised:</i> | | | | |
| Balance at beginning and end of year | 1,000,000,000 | 1,000,000,000 | 100,000 | 100,000 |
| <i>Issued and fully paid:</i> | | | | |
| Balance at beginning of year | 460,406,200 | 442,296,200 | 46,041 | 44,230 |
| Exercise of share options | – | 18,110,000 | – | 1,811 |
| Bonus shares issued | 115,101,550 | – | 11,510 | – |
| Shares repurchased and cancelled | (1,344,000) | – | (135) | – |
| Balance at end of year | 574,163,750 | 460,406,200 | 57,416 | 46,041 |

21. SHARE CAPITAL *(continued)*

The following changes in the Company's issued share capital took place during the years ended 31 March 2000 and 2001:

(a) Repurchase of ordinary shares

During the year ended 31 March 2001, the Company repurchased and cancelled 1,344,000 ordinary shares of HK\$0.10 each from the market at a total consideration of approximately HK\$1,804,420.

The premium of HK\$1,670,000 paid on the repurchase of such shares has been charged against retained profits and an amount of HK\$134,400 was transferred from retained profits to the capital redemption reserve, as set out in note 22 to the financial statements.

(b) Issue of bonus shares

Pursuant to the resolution passed at the annual general meeting of the Company held on 28 August 2000, 115,101,550 ordinary shares of HK\$0.10 each were issued as bonus shares and were credited as fully paid at par to the holders of shares on the register of members at the close of business on 28 August 2000, by way of the capitalisation of the sum of HK\$11,510,155 standing to the credit of the share premium account and capital redemption reserve of the Company. These bonus shares issued rank *pari passu* with the existing shares in all respects.

(c) Exercise of share options

During the year ended 31 March 2000, 11,860,000 and 6,250,000 share options were exercised at exercise prices of HK59 cents and HK48 cents, respectively. The premium of HK\$8,187,000 received on the exercise of the 18,110,000 share options was credited directly to the share premium account during the year ended 31 March 2000.

Share options

Pursuant to the Company's share option scheme approved and adopted by the shareholders of the Company on 3 September 1994, the directors of the Company may, at their discretion, grant to any directors or employees of the Group options to subscribe for shares in the Company at HK\$1.00 per grant of options. The subscription price is required to be the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the options and the nominal value of the shares.

21. SHARE CAPITAL *(continued)***Share options** *(continued)**(i) Options granted on 31 December 1996 and 19 December 1997*

Share options were granted by the Company to all of the executive directors and certain full time employees of the Company on 31 December 1996 and 19 December 1997, which entitled them to subscribe for a total of 12,000,000 and 6,430,000 ordinary shares, respectively. The share options are exercisable at prices of HK59 cents and HK48 cents per share, respectively, at any time from the respective dates of grant to 2 September 2004.

At 1 April 1999, the Company had 11,920,000 and 6,340,000 outstanding options at exercise prices of HK59 cents and HK48 cents, respectively. During the ended 31 March 2000, 11,860,000 and 6,250,000 share options at the exercise prices of HK59 cents and HK48 cents, respectively, were exercised. The premium of HK\$8,187,000 received on the exercise of the 18,110,000 share options was credited directly to the share premium account during the year ended 31 March 2000.

At 1 April 2000, the Company had 60,000 and 90,000 outstanding share options at exercise prices of HK59 cents and HK48 cents, respectively. During the year ended 31 March 2001, 90,000 share options at the exercise price of HK48 cents lapsed upon the resignation of an employee of the Group.

At 31 March 2001, the Company had 60,000 outstanding share options of at the exercise price of HK59 cents. As a result of the issue of bonus shares, as mentioned in note (b) above, the number of options exercisable and the subscription price of the options were adjusted from 60,000 share options to 75,000 share options, and from HK59 cents to HK47.2 cents per share option, respectively. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 75,000 additional ordinary shares of HK\$0.10 each at a total consideration of HK\$35,400. At the balance sheet date, all of these share options remained outstanding.

21. SHARE CAPITAL *(continued)***Share options** *(continued)**(ii) Options granted on 22 March 2000*

On 22 March 2000, 10,000,000 share options were granted by the Company to all executive directors and certain full time employees of the Company, which entitle them to subscribe for a total of 10,000,000 ordinary shares. The share options are exercisable at a price of HK\$1.02 per share at any time from their date of grant to 2 September 2004. As a result of the issue of bonus shares, as mentioned in note (b) above, the number of options exercisable and the subscription price of the options were adjusted from 10,000,000 share options to 12,500,000 share options, and from HK\$1.02 to HK\$0.816 per share option, respectively. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 12,500,000 additional ordinary shares of HK\$0.10 each at a total consideration of HK\$10,200,000. At the balance sheet date, all of these share options remained outstanding.

(iii) Options granted on 2 January 2001

On 2 January 2001, 10,000,000 share options were granted by the Company to all executive directors and certain full time employees of the Company, which entitle them to subscribe for a total of 10,000,000 ordinary shares. The share options are exercisable at a price of HK\$1.01 per share at any time from the date of grant to 2 September 2004.

The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of HK\$0.10 each at a total consideration of HK\$10,100,000. At the balance sheet date, all of these share options remained outstanding.

22. RESERVES

| Group | Share premium account HK\$'000 | Capital redemption reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|--|---|---|-------------------------------------|--------------------------|
| At beginning of year | 60,989 | 2,970 | (2,045) | 202,932 | 264,846 |
| Exercise of share options | 8,187 | - | - | - | 8,187 |
| Exchange reserve arising on consolidation of foreign subsidiaries | - | - | (99) | - | (99) |
| Net profit for the year | - | - | - | 128,475 | 128,475 |
| Dividends - note 9 | - | - | - | (48,340) | (48,340) |
| At 31 March 2000 and 1 April 2000 | 69,176 | 2,970 | (2,144) | 283,067 | 353,069 |
| Bonus shares issued | (8,540) | (2,970) | - | - | (11,510) |
| Shares repurchased and cancelled | - | 135 | - | (1,805) | (1,670) |
| Exchange reserve arising on consolidation of subsidiaries | - | - | 48 | - | 48 |
| Net profit for the year | - | - | - | 148,845 | 148,845 |
| Dividends - note 9 | - | - | - | (60,333) | (60,333) |
| At 31 March 2001 | 60,636 | 135 | (2,096) | 369,774 | 428,449 |

| Company | Share premium account HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|--|---|--|-------------------------------------|--------------------------|
| At beginning of year | 60,989 | 2,970 | 66,982 | 30,768 | 161,709 |
| Exercise of share options | 8,187 | - | - | - | 8,187 |
| Net profit for the year | - | - | - | 47,641 | 47,641 |
| Dividends - note 9 | - | - | - | (48,340) | (48,340) |
| At 31 March 2000 and 1 April 2000 | 69,176 | 2,970 | 66,982 | 30,069 | 169,197 |
| Bonus shares issued | (8,540) | (2,970) | - | - | (11,510) |
| Shares repurchased and cancelled | - | 135 | - | (1,805) | (1,670) |
| Net profit for the year | - | - | - | 54,286 | 54,286 |
| Dividends - note 9 | - | - | - | (60,333) | (60,333) |
| At 31 March 2001 | 60,636 | 135 | 66,982 | 22,217 | 149,970 |

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.

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|--------------------------------|------------------|
| Profit from operating activities | 165,346 | 141,313 |
| Interest income | (28,609) | (24,094) |
| Depreciation | 16,052 | 12,530 |
| Provisions for / (write back of provisions for) diminutions in values of listed investments | 388 | (220) |
| Increase in accounts and bills receivable | (16,537) | (13,844) |
| Decrease/(increase) in inventories | 8,774 | (21,862) |
| Decrease in prepayments, deposits and other receivables | 95 | 3,942 |
| Increase/(decrease) in accounts payable | (55,798) | 23,092 |
| Increase/(decrease) in accrued liabilities and other payables | (56,345) | 21,004 |
| Net cash inflow from operating activities | <u>33,366</u> | <u>141,861</u> |

(b) Analysis of changes in financing during the year

| | Share capital (including premium) HK\$'000 | Bank loans HK\$'000 |
|---|---|-------------------------------|
| Balance at 1 April 1999 | 105,219 | 2,276 |
| Cash inflows/(outflows) from financing activities | 9,998 | (2,276) |
| Balance at 31 March 2000 and 1 April 2000 | 115,217 | – |
| Cash inflows/(outflows) from financing activities | (1,805) | 39,000 |
| Net transfer from capital redemption reserve | 2,835 | – |
| Transfer from retained profits | 1,805 | – |
| | <u>118,052</u> | <u>39,000</u> |

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Major non-cash transactions**

During the year ended 31 March 2001, 115,101,550 bonus shares were issued by the capitalisation of approximately HK\$8,540,000 of the share premium account and of approximately HK\$2,970,000 of the capital redemption reserve.

24. CONTINGENT LIABILITIES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Guarantee of banking facilities utilised by subsidiaries | - | - | 42,904 | 2,982 |

25. COMMITMENTS**(i) Operating lease commitments**

Payments in respect of non-cancellable operating leases committed at the balance sheet date to be made by the Group during the next year are as follows:

| | Group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Land and buildings expiring: | | |
| Within one year | 437 | 88 |
| In the second to fifth years, inclusive | 1,225 | 1,328 |
| | 1,662 | 1,416 |

(ii) At the balance sheet date, the Group had commitments in respect of the purchase of a factory building and a dormitory in Macau amounting to HK\$650,000 (2000: Nil).

(iii) At the balance sheet date, the Group had commitments in respect of investments in wholly-foreign owned enterprises in the PRC and Vietnam amounting to HK\$48,385,000 (2000: HK\$33,257,000) and US\$520,000 (equivalent to HK\$4,056,000) (2000: US\$3,000,000, equivalent to HK\$23,400,000), respectively.

25. COMMITMENTS *(continued)*

- (iv) At 31 March 2000, the Group had contracted commitments in respect of the construction of a dormitory in the PRC amounting to approximately HK\$1,150,000.
- (v) At 31 March 2000, the Group had commitments in respect of the purchase of a factory building and a dormitory in the PRC amounting to HK\$1,988,000.
- (vi) At 31 March 2000, the Group had commitments in respect of the acquisition of land use rights in Vietnam amounting to US\$1,800,000 (equivalent to approximately HK\$14,000,000).
- (vii) At 31 March 2000, the Group had contracted commitments in respect of the construction of a factory in Vietnam amounting to US\$2,130,845 (equivalent to approximately HK\$16,621,000).

The Company had no significant commitments as at 31 March 2001 (2000: Nil).

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 6 July 2001.