

## NOTES TO FINANCIAL STATEMENTS

31 March 2002

### 1. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”) and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of this revised SSAP. The revised requirements have not had a material effect on the amounts previously recorded in the financial statements and therefore, no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 27 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s financial statements for the year. The adoption of the SSAP has resulted in prior year adjustments, further details of which are included in notes 11 and 24 to the financial statements.

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

31 March 2002

### **1. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)**

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements have been prepared in accordance with SSAPs, 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 2002. 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 Company's investments 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 (CONTINUED)

31 March 2002

### 2. 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 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, which is stated at cost less any impairment losses, 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 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 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. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 2. 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.

#### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. 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 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 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) 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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

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

#### Revenue recognition *(continued)*

(c) dividends, when the shareholders' right to receive payment has been established.

The revised accounting treatment for dividends resulting from the adoption of SSAP 18 (Revised) has given rise to prior year adjustments for the Company, further details of which are set out in notes 11 and 24 to the financial statements.

#### 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 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.

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in 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.

The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised) has given rise to prior year adjustments in both the Company's and the Group's financial statements, further details of which are included in notes 11, 12 and 24 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

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

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

### 3. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

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 sport shoes.

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\$936,600 (2001: HK\$940,000) to Kingmaker Footwear Company Limited, a related company in which Chen Ming-hsiung, Mickey, Chen Cheng-hsiung, Lee Kung and Huang Hsiu-duan, Helen, certain directors and shareholders 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.

### 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year as detailed in note 1 to the financial statements. 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 other business segments. Summary details of the business segments are as follows:

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 4. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues and results 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. Geographical segment includes United States of America, Europe and others. Europe mainly includes United Kingdom and the Netherlands.

#### (a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

#### Group

	Rugged footwear		Casual footwear		Baby and children's footwear		Sportswear and sport shoes		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	265,322	420,274	327,274	275,316	418,853	347,273	24,260	14,736	1,035,709	1,057,599
Segment results										
	33,994	59,061	38,057	38,671	50,903	53,377	(10,578)	(7,454)	112,376	143,655
Unallocated income									14,461	29,072
Unallocated expenses									(7,328)	(7,381)
Profit from operating activities									119,509	165,346
Finance costs									(2,011)	(2,424)
Profit before tax									117,498	162,922
Tax									(6,576)	(14,077)
Net profit from ordinary activities attributable to shareholders									110,922	148,845
Segment assets	68,173	68,607	112,774	124,826	115,765	112,057	15,772	18,352	312,484	323,842
Unallocated assets									520,945	508,996
Total assets									833,429	832,838
Unallocated liabilities									254,356	306,782

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

##### Group

	Rugged footwear		Casual footwear		Baby and children's footwear		Sportswear and sport shoes		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Capital expenditure										
Segment	5,470	26,300	7,082	33,028	5,658	25,749	985	880	19,195	85,957
Unallocated									95,612	38
									114,807	85,995
Depreciation										
Segment	3,530	2,483	6,863	5,832	6,937	6,319	569	239	17,899	14,873
Unallocated									1,704	1,179
									19,603	16,052
Impairment of/(reversal of impairment of) long term listed investments										
									(77)	388

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 4. SEGMENT INFORMATION (continued)

#### (b) Geographical segments

The following tables present revenue, results and certain assets and expenditure information for the Group's geographical segments.

#### Group

	United States		Europe		Others		Consolidated	
	of America							
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	688,770	735,032	288,379	227,384	58,560	95,183	1,035,709	1,057,599
Segment results	74,665	103,575	34,360	33,041	3,351	7,039	112,376	143,655
Segment assets	31,942	44,143	24,928	19,899	472,848	349,297	529,718	413,339
Unallocated assets							303,711	419,499
Total assets							833,429	832,838
Other segment information:								
Capital expenditure	-	-	-	-	114,807	85,995	114,807	85,995

### 5. TURNOVER

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cost of inventories sold	807,767	794,165
Depreciation	19,603	16,052
Minimum lease payments under operating leases for land and buildings	3,206	3,127
Auditors' remuneration	1,134	1,095
Loss on disposal of fixed assets	223	–
Staff costs (excluding directors' remuneration, note 8)		
Wages and salaries	134,756	128,818
Provident fund contributions	271	85
	135,027	128,903
Impairment of/(reversal of impairment of) long term listed investments	(77)	388
Interest income	(12,949)	(28,609)

Cost of inventories sold includes HK\$192,004,000 (2001: HK\$190,059,000) relating to direct staff costs, minimum lease payments under operating leases for 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.

### 7. FINANCE COSTS

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	2,011	2,424

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	300	228
	300	228
Other emoluments:		
Executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	7,003	7,075
Bonuses	651	662
Pension scheme contributions	12	3
Non-executive directors	–	–
	7,966	7,968

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$2,500,001 – HK\$3,000,000	1	1
	8	8

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

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2001: five) directors, details of whose remuneration are set out in note 8 above.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 10. TAX

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Group:		
Hong Kong	205	395
Overseas	8,702	13,922
Overprovision in prior year	(2,331)	(240)
Tax charge for the year	<u>6,576</u>	<u>14,077</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) 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.

Two of the subsidiaries operating in the People's of Republic of China (the "PRC") are exempted from income tax for two years from their first profit making year and are eligible for a 50% relief from income tax for the following three years under the Income Tax Law. The first profit-making year for one of the subsidiaries is 1992. Another subsidiary did not generate any assessable income from the PRC since its establishment date.

Taxes on the assessable profits of one of the PRC subsidiaries have been calculated at the applicable rates of tax prevailing in the PRC during the year as its tax holiday has expired. No provision for PRC income tax has been made for the other PRC subsidiaries because they did not generate any assessable profits for the year.

No deferred tax has been provided for the Company or the Group because there were no significant timing differences at the balance sheet date (2001: Nil).

### 11. 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\$114,578,000 (2001: HK\$54,286,000).

During each of the two years ended 31 March 2001 and 2002, the Company recorded dividend income of HK\$50,000,000 from a subsidiary which were declared and approved by the subsidiary after the respective balance sheet dates. The comparative amount for 2001 has been restated by prior year adjustments resulting in a net debit and a net credit of each of HK\$50,000,000 to the Company's net profit for the year ended 31 March 2001, and a net credit and a net debit of each of the same amount to the amount due from the subsidiary in the Company's balance sheet. The prior year adjustments resulted in a decrease of the Company's retained profits as at 1 April 2001 by HK\$50,000,000 and the net profit of the Company for the year ended 31 March 2002 has been increased by HK\$50,000,000. This change in accounting policy arose from the adoption of the revised SSAP 18 as further detailed in notes 1 and 24 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 12. DIVIDENDS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interim – HK3.5 cents (2001: HK3.5 cents) per ordinary share	22,777	20,142
Proposed final and special – HK7 cents (2001: HK7 cents) and HK2.5 cents (2001: Nil), respectively, per ordinary share	61,717	40,191
	<b>84,494</b>	<b>60,333</b>

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted SSAP 9 (Revised) "Events after the balance sheet date", as detailed in note 1 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 March 2001 of HK\$40,191,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 March 2001, by HK\$40,191,000.

The effect of this change in accounting policy as at 31 March 2002 is that the current year's proposed final and special dividends of HK7 cents and HK2.5 cents respectively, have been included in the proposed final and special dividends reserve account within the capital and reserves section of the balance sheet, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

### 13. EARNINGS PER SHARE

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>Earnings</b>		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	<b>110,922,000</b>	<b>148,845,000</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 13. EARNINGS PER SHARE (continued)

	Number of shares	
	2002	2001
<hr/>		
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	636,377,009	632,793,060
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	8,973,911	4,626,535
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Weighted average number of ordinary shares used in diluted earnings per share calculation	645,350,920	637,419,595
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The weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations for both 2002 and 2001 have been adjusted to reflect the bonus issue of shares, as detailed in note 23 to the financial statements, during the year.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 14. FIXED ASSETS

#### Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Machinery, furniture, equipment, leasehold improvements and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>				
At beginning of year	183,547	38,394	96,516	318,457
Additions	9,961	63,000	27,110	100,071
Acquisition of a subsidiary	14,695	41	–	14,736
Disposals	–	–	(1,083)	(1,083)
Reclassification	38,394	(38,394)	–	–
Exchange adjustment	–	–	(452)	(452)
<b>At 31 March 2002</b>	<b>246,597</b>	<b>63,041</b>	<b>122,091</b>	<b>431,729</b>
<b>Accumulated depreciation:</b>				
At beginning of year	29,799	–	56,050	85,849
Provided during the year	7,004	–	12,599	19,603
Disposals	–	–	(600)	(600)
Exchange adjustment	–	–	(205)	(205)
<b>At 31 March 2002</b>	<b>36,803</b>	<b>–</b>	<b>67,844</b>	<b>104,647</b>
<b>Net book value:</b>				
<b>At 31 March 2002</b>	<b>209,794</b>	<b>63,041</b>	<b>54,247</b>	<b>327,082</b>
At 31 March 2001	153,748	38,394	40,466	232,608
			<b>2002</b>	<b>2001</b>
			<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Land and buildings held in Hong Kong under medium term leases			<b>30,996</b>	30,996
Land and buildings held outside Hong Kong under medium term leases			<b>215,601</b>	152,551
			<b>246,597</b>	183,547

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	67,190	67,190

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 issued and paid-up shares/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
<b>Directly held</b>					
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
<b>Indirectly held</b>					
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	Subcontracting of footwear
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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 15. INVESTMENTS 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
			2002	2001	
Lightening Star Limited	PRC	RMB500,000	100	100	Footwear and sportswear trading
Maystar Footwear Company Limited	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
Profit Success Investment Limited	Hong Kong	Ordinary HK\$1,000	100	–	Investment holding
King Star Footwear (Zhong Shan) Co., Ltd.	PRC	US\$7,520,916	100	–	Footwear manufacturing
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.

During the year, the Group acquired Profit Success Investment Limited from certain independent third parties. Further details of this acquisition are included in note 25(d) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 16. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong listed investments, at cost	1,621	1,621
Provision for impairment	(1,156)	(1,233)
	465	388
Market value of listed investments	465	388

### 17. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	68,243	41,707
Work in progress	34,703	26,673
Finished goods	31,185	33,240
	134,131	101,620

As at 31 March 2002, no inventories (2001: Nil) were stated at net realisable value.

### 18. ACCOUNTS AND BILLS RECEIVABLE

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

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

	2002	2001
	HK\$'000	HK\$'000
Within 90 days	63,094	71,396
Between 91 and 180 days	744	433
Between 181 and 365 days	78	1,955
	63,916	73,784

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	51,770	45,619	16	46
Time deposits	251,476	373,493	–	–
	303,246	419,112	16	46

### 20. ACCOUNTS PAYABLE

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

	2002 HK\$'000	2001 HK\$'000
Within 90 days	76,969	92,314
Between 91 and 180 days	325	1,487
	77,294	93,801

### 21. BANK LOAN, UNSECURED

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loan repayable:		
Within one year	19,500	19,500
In the second year	–	19,500
	19,500	39,000
Portion classified as current liabilities	(19,500)	(19,500)
Long term portion	–	19,500

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 22. BANKING FACILITIES

At 31 March 2002, the Group had available banking facilities amounting to HK\$459,500,000 (2001: HK\$248,500,000) of which approximately HK\$25,348,000 (2001: HK\$42,900,000) was utilised. The banking facilities were supported by corporate guarantees executed by the Company and certain of its subsidiaries.

### 23. SHARE CAPITAL

#### Shares

	Number of ordinary shares of HK\$0.10 each		HK\$'000	
	2002	2001	2002	2001
<i>Authorised:</i>				
Balance at beginning and end of year	1,000,000,000	1,000,000,000	100,000	100,000
Issued and fully paid:				
Balance at beginning of year	574,163,750	460,406,200	57,416	46,041
Exercise of share options	6,727,500	–	673	–
Bonus shares issued	58,035,125	115,101,550	5,804	11,510
Shares repurchased and cancelled	–	(1,344,000)	–	(135)
Balance at end of year	638,926,375	574,163,750	63,893	57,416

During the year, there were the following movements in share capital:

#### (a) Exercise of share options

During the year ended 31 March 2002, 5,987,500, 540,000 and 200,000 share options were exercised at exercise prices of HK\$0.816, HK\$0.918 and HK\$1.01, respectively. The premium of HK\$4,911,000 received on the exercise of the 6,727,500 share options was credited directly to the share premium account during the year ended 31 March 2002.

#### (b) Issue of bonus shares

Pursuant to the resolution passed at the annual general meeting of the Company held on 15 August 2001, 58,035,125 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 15 August 2001, by way of the capitalisation of the sum of HK\$5,803,513 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 of the Company in all respects.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 23. SHARE CAPITAL (continued)

#### Share options

The Company operates a share option scheme (the “Scheme”), further details of which are set out under the heading “Share option scheme” in the Report of the Directors.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 16,523,750 additional shares of HK\$0.1 each and proceeds of approximately HK\$13,916,040.

Subsequent to the balance sheet date, on 4 April 2002, 6,888,750 and 3,839,000 share options were exercised at exercise prices of HK\$0.742 and HK\$0.918, respectively. Accordingly, 10,727,750 new ordinary shares were issued and allotted by the Company.

### 24. 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 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 foreign subsidiaries	–	–	48	–	48
Net profit for the year	–	–	–	148,845	148,845
Interim 2001 dividend (note 12)	–	–	–	(20,142)	(20,142)
Proposed final 2001 dividend (note 12)	–	–	–	(40,191)	(40,191)
At 31 March 2001 and 1 April 2001	60,636	135	(2,096)	369,774	428,449
Exercise of share options	4,911	–	–	–	4,911
Bonus shares issued	(5,669)	(135)	–	–	(5,804)
Exchange reserve arising on consolidation of foreign subsidiaries	–	–	(521)	–	(521)
Net profit for the year	–	–	–	110,922	110,922
Interim 2002 dividend (note 12)	–	–	–	(22,777)	(22,777)
Proposed final and special 2002 dividends (note 12)	–	–	–	(61,717)	(61,717)
At 31 March 2002	59,878	–	(2,617)	396,202	453,463

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 24. RESERVES (continued)

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 2000:					
As previously reported	69,176	2,970	66,982	30,069	169,197
Prior year adjustment ( <i>note 11</i> )	–	–	–	(50,000)	(50,000)
As restated	69,176	2,970	66,982	(19,931)	119,197
Bonus shares issued	(8,540)	(2,970)	–	–	(11,510)
Shares repurchased and cancelled	–	135	–	(1,805)	(1,670)
Net profit for the year ( <i>note 11</i> )	–	–	–	54,286	54,286
Interim 2001 dividend ( <i>note 12</i> )	–	–	–	(20,142)	(20,142)
Proposed final 2001 dividend ( <i>note 12</i> )	–	–	–	(40,191)	(40,191)
At 31 March 2001	60,636	135	66,982	(27,783)	99,970
At 31 March 2001 and 1 April 2001:					
As previously reported	60,636	135	66,982	22,217	149,970
Prior year adjustment ( <i>note 11</i> )	–	–	–	(50,000)	(50,000)
As restated	60,636	135	66,982	(27,783)	99,970
Exercise of share options	4,911	–	–	–	4,911
Bonus shares issued	(5,669)	(135)	–	–	(5,804)
Net profit for the year ( <i>note 11</i> )	–	–	–	114,578	114,578
Interim 2002 dividend ( <i>note 12</i> )	–	–	–	(22,777)	(22,777)
Proposed final and special 2002 dividends ( <i>note 12</i> )	–	–	–	(61,717)	(61,717)
At 31 March 2002	59,878	–	66,982	2,301	129,161

The proposed final and special dividend account within the capital and reserve section of the balance sheet represent an appropriation from retained profits and therefore forms part of the total of such reserves until the dividend is declared and paid. In addition, any excess of the appropriation over the retained profits reserve will be replenished by dividends declared to the Company by its subsidiaries when they are approved subsequent to the balance sheet date.

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 (CONTINUED)

31 March 2002

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operating activities	119,509	165,346
Interest income	(12,949)	(28,609)
Depreciation	19,603	16,052
Loss on disposal of fixed assets	223	–
Impairment of/(reversal of impairment of) long term listed investments	(77)	388
Decrease/(increase) in inventories	(32,511)	8,774
Decrease/(increase) in accounts and bills receivable	9,868	(16,537)
Decrease/(increase) in prepayments, deposits and other receivables	(1,097)	95
Decrease in accounts payable	(16,507)	(55,798)
Decrease in accrued liabilities and other payables	(23,647)	(56,345)
Net cash inflow from operating activities	62,415	33,366

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) <i>HK\$'000</i>	Bank loan <i>HK\$'000</i>
At 1 April 2000	115,217	–
Cash inflow/(outflow) from financing activities, net	(1,805)	39,000
Net transfer from capital redemption reserve	2,835	–
Transfer from retained profits	1,805	–
At 31 March 2001 and 1 April 2001	118,052	39,000
Cash inflow/(outflow) from financing activities, net	5,584	(19,500)
Transfer from capital redemption reserve	135	–
At 31 March 2002	123,771	19,500

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Major non-cash transactions

During the year ended 31 March 2002, 58,035,125 (2001: 115,101,550) bonus shares were issued by the capitalisation of approximately HK\$5,669,000 (2001: HK\$8,540,000) of the share premium account and of approximately HK\$135,000 (2001: HK\$2,970,000) of the capital redemption reserve.

#### (d) Acquisition of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	14,736	–
Other receivables	115	–
Cash and bank balances	126	–
Other payables	(71)	–
	<hr/> 14,906	<hr/> –
Satisfied by:		
Cash	14,906	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration	14,906	–
Cash and bank balances acquired	(126)	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<hr/> 14,780	<hr/> –

On 7 August 2001, the Group acquired a 100% interest in Profit Success Investment Limited and King Star Footwear (Zhong Shan) Co., Ltd. from independent third parties. Profit Success Investment Limited and King Star Footwear (Zhong Shan) Co., Ltd. are engaged in investment holding and footwear manufacturing, respectively. The purchase consideration for the acquisition of HK\$14,906,000 was settled in the form of cash, and was paid on 13 August 2001.

The subsidiaries acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated net profit from ordinary activities attributable to shareholders for the year.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 March 2002

### 26. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 March 2002 (2001: Nil).

As at 31 March 2002, the Company has provided corporate guarantees in respect of bank facilities granted to certain of its subsidiaries which were utilised to the extent of HK\$25,348,000 (2001: HK\$42,904,000).

### 27. OPERATING LEASE ARRANGEMENTS

The Group leases certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> (Restated)
Within one year	1,491	1,714
In the second to fifth years, inclusive	992	1,278
	<u>2,483</u>	<u>2,992</u>

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee as set out above have been restated to accord with the current year's presentation.

### 28. COMMITMENTS

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

- (i) At 31 March 2002, the Group had commitments in respect of investments in a wholly-foreign owned enterprise in the PRC amounting to HK\$48,385,000 (2001: HK\$48,385,000).
- (ii) At 31 March 2002, the Group had commitments in respect of the construction of a factory building in the PRC amounting to HK\$25,559,000 (2001: Nil).
- (iii) At 31 March 2001, the Group had commitments in respect of the purchase of a factory building and a dormitory in Macau amounting to HK\$650,000.

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

31 March 2002

### **28. COMMITMENTS** *(continued)*

- (iv) At 31 March 2001, the Group had commitments in respect of investments in a wholly-foreign owned enterprise in Vietnam amounting to US\$520,000.

The Company had no significant commitments as at 31 March 2002 (2001: Nil).

### **29. COMPARATIVE AMOUNTS**

As further explained in note 1 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### **30. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 9 July 2002.