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# Corporate Information

## **DIRECTORS**

*Executive Directors:*

Chang Wen I (*Chairman*)

Chen Hsien Min (*Managing Director*)

Chen Ying-Chieh

*Independent Non-Executive Directors:*

Kuo Jung-Cheng

Huang Shun-Tsai

## **COMPANY SECRETARY**

Ip Ching Bun Ben *AHKSA, ACCA*

## **AUDITORS**

PricewaterhouseCoopers

## **PRINCIPAL BANKERS**

Bank of Overseas Chinese

Citibank, N.A.

Hang Seng Bank Limited

UFJ Bank Limited

## **REGISTRAR AND TRANSFER OFFICE**

Secretaries Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## **REGISTERED OFFICE**

Ugland House

South Church Street

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

## **HEAD OFFICE AND PRINCIPAL PLACE**

Room 608 Austin Tower

22-26A Austin Avenue

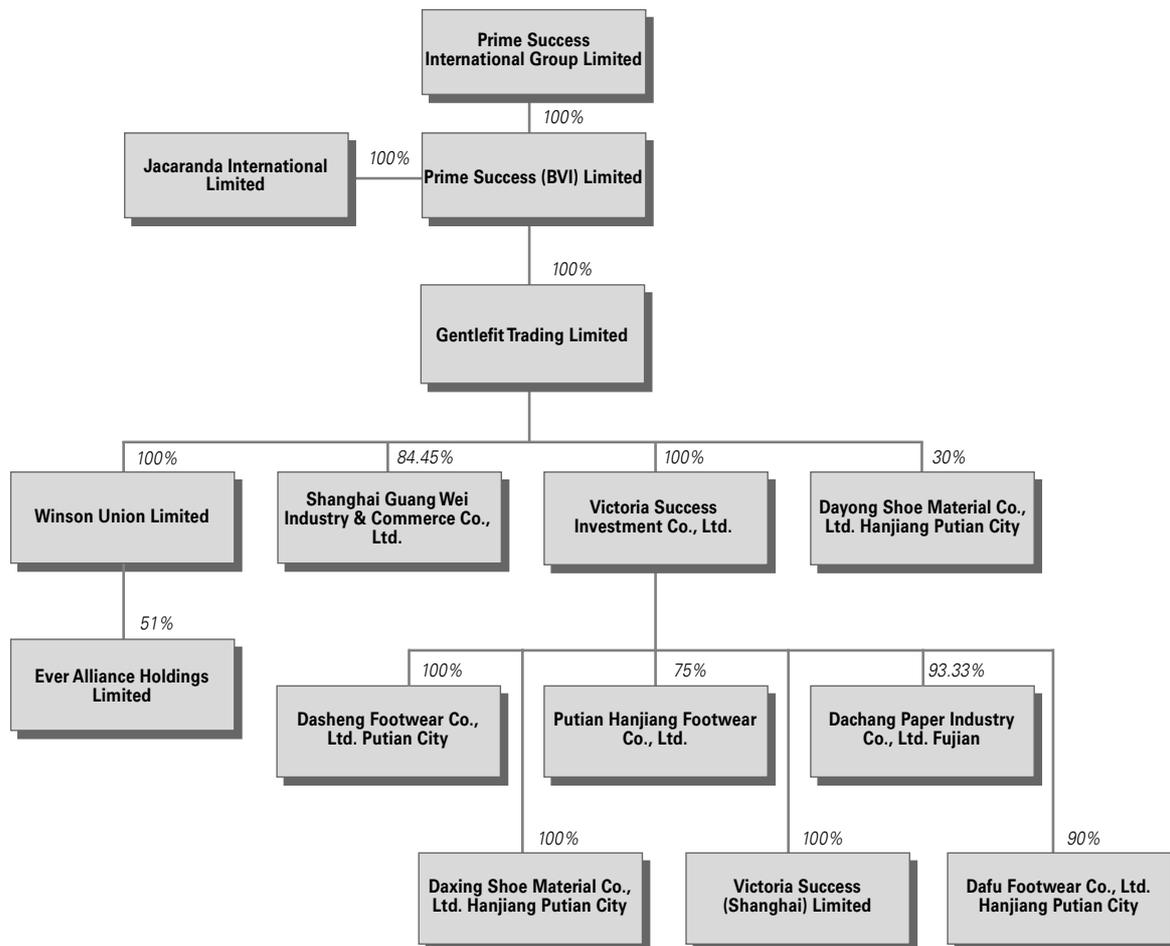
Tsimshatsui

Kowloon

Hong Kong

# Corporate Structure

The following chart shows all the principal subsidiaries and an associated company of the Group as at 16th April 2003:



# Chairman's Statement

*To shareholders of the Company:*

On behalf of the board, I am pleased to present the annual results of Prime Success International Group Limited (the "Company") and its subsidiaries (together called the "Group") for the fiscal year ended 31st December 2002.

## **DIVIDENDS**

The board of directors has proposed a final dividend of HK1.2 cents per ordinary share of HK\$0.10 each in the Company (the "Share(s)") (2001: Nil) for the year ended 31st December 2002. Together with the interim dividend of HK0.8 cents per Share already paid, the total dividends for the year ended 31st December 2002 would amount to HK2.0 cents per Share (2001: Nil). Subject to shareholders' approval for the payment of the final dividend at the Company's forthcoming annual general meeting, the final dividend will be payable to the shareholders on or before 10th June 2003 whose names appear on the register of members of the Company at 4:00 p.m. on Monday, 26th May 2003.

## **CLOSURE OF REGISTER**

The register of members of the Company will be closed from Tuesday, 27th May 2003 to Thursday, 29th May 2003, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the registrar of the Company in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on Monday, 26th May 2003.

## **BUSINESS OVERVIEW**

The year of 2002 has been another difficult year for the global economy. The Group made the right decision in applying the strategy of lower pricing in return for a higher turnover throughout the year of 2002. The overall sales have increased; the overall expenses have decreased and the Group's overall resources have been more effectively utilized. As a result, the Group has achieved encouraging results in 2002. Net profit of approximately HK\$25.6 million was recorded for the year ended 31st December 2002 (2001: loss of approximately HK\$99.8 million).

For the overseas market, the Group continued to build on the strong relationships with existing major overseas OEM customers while developing new customers to be included into our portfolio. For the PRC market, the Group continued to expand its retail and distribution operations throughout the major cities in the PRC by opening an additional of about 150 retail outlets. With the steady growth in the number of new overseas OEM customers and a rapid growth in the number of retail outlets in the PRC in 2002, the Group's turnover has increased by 8.5% to approximately HK\$1,180.7 million for the year ended 31st December 2002 (2001: approximately HK\$1,088.5 million).

### *The US market*

The US market remains the major sales market of the Group, with a steady growth of 2.5% in turnover from approximately HK\$634.1 million for the year 2001 to approximately HK\$650.2 million for the year of 2002. The segment results for the year of 2002 amounted to approximately HK\$21.4 million compared to a loss of approximately HK\$54.2 million last year. The profitability was boosted up mainly by focusing on the strategy of higher margin products.

# Chairman's Statement

## *The PRC market*

With the momentum of economic growth in the PRC, the turnover in the PRC market has increased by 20.1%, from approximately HK\$411.8 million for the year of 2001 to approximately HK\$494.7 million for the year of 2002. The PRC market has also contributed a profit of approximately HK\$9.3 million to the Group for the year ended 31st December 2002, which marked a great improvement compared to 2001. The success, in addition to implementing tight cost controls, was mainly attributable to the Group's well-developed retail and distribution networks in the PRC, both in terms of quantity and quality. The total number of retail outlets for our own brand name "**Daphne**" has increased from over 350 to over 500 by the end of 2002. The Group currently has more than 1,500 "**Daphne**" selling points all over the PRC.

## **PROSPECTS**

In view of the sluggish global market environment, the Group will cautiously formulate its future operating strategies. Our aggressive marketing team will continue to explore new business opportunities, while keeping close relationship with our existing customers. Meanwhile, the management will continue to remain highly alert to any changes to the Group's business environment, and will face the changes with prudence.

With the PRC's accession to the World Trade Organisation and the hosting of the 2008 Olympic Games in Beijing, the PRC market has become increasingly important to the Group. In August 2002, the Group formed a joint venture with several popular entertainers and obtained the exclusive retail shop rights for **Adidas** "*Original*" collection in the PRC. The joint venture has granted to an agent in the PRC the rights to operate the **Adidas** "*Original*" collection retail shops. The agent so far has set up three **Adidas** "*Original*" collection retail shops in Shanghai and expects to add another 20 **Adidas** "*Original*" collection retail shops in the major cities of the PRC. The Group will continue to look for other business opportunities in the PRC.

At the end of 2002, the Group had over 500 "**Daphne**" retail outlets and over 1,500 "**Daphne**" selling points all over the PRC. In 2003, the Group intends to establish a total of 80 additional new "**Daphne**" retail outlets so as to further strengthen our market share in the PRC. With the competitive advantage in its sales and distribution networks in the PRC, the Group has every confidence in achieving better performance for the years to come.

## **FINANCIAL REVIEW**

### *Liquidity and Capital Structure*

As at 31st December 2002, the total shareholders' equity of the Group was approximately HK\$337.6 million (2001: HK\$326.0 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.48 as at 31st December 2002 (2001: 1.53).

Inventories and trade receivables were approximately HK\$278.1 million (2001: HK\$183.5 million) and HK\$132.1 million (2001: HK\$166.7 million) respectively at the end of 2002.

At the year end of 2002, the Group's total borrowings from banks amounted to approximately HK\$150.6 million representing a decrease of approximately HK\$22.8 million compared with approximately HK\$173.4 million in 2001. Interests were based on fixed rates. Due to the decline of bank borrowings by the Group and trimming of interest rates during the year, the Group's interest expense decreased by about 45.5% as compared with the previous year.



# Chairman's Statement

As at 31st December 2002, cash and cash equivalents of the Group amounted to approximately HK\$129.9 million, decreased by 8.2% from approximately HK\$141.5 million last year.

## *Charges on Group Assets*

As at 31st December 2002, certain leasehold land and buildings of the Group having a carrying amount of approximately HK\$40.8 million, certain of the Group's investment securities with nil carrying value and PRC value added tax recoverable of approximately HK\$4.4 million were pledged to banks to secure general banking facilities granted to the Group.

## *Gearing Ratio*

The gearing ratio of the Group has improved from 53.2% to 44.6% as at 31st December 2002. Computation was based on the total borrowings divided by shareholders' funds.

## *Significant Investments*

The Group holds a 30% equity interest in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing"). As at 31st December 2002, the carrying value of the investment in Jingxing was HK\$37 million (2001: HK\$24.0 million). The fair value of the investment in Jingxing as at 31st December 2002 was valued by an independent professional valuer. The valuation surplus of HK\$13 million has been included in the operating profit for the year to offset the amount previously debited.

## *Future Plan of Capital Investments*

In order to enhance our retail and distribution networks as well as market share in the PRC, the Group plans to set up approximately 80 retail outlets all over the PRC in 2003. The average setup cost is about RMB200,000 per shop. The funding of these capital investments will be financed by internal resources.

## *Material Acquisitions and Disposals*

There are no material acquisitions and disposals of subsidiaries and associated companies in the year 2002.

## *Foreign Currency Exposure*

Whilst the sales of the Group were mainly denominated in US dollars and Renminbi, the purchases of raw materials were mainly in the US dollars, New Taiwanese dollars, Renminbi and Hong Kong dollars. Bank borrowings were also denominated in the US dollars, New Taiwanese dollars, Renminbi and Hong Kong dollars. As the currencies denominated on our receipts relatively balanced with our payments and any material devaluation of the above currencies against Hong Kong dollars in 2003 seems not likely, the directors believe that the Group's exposure to currency exchange fluctuations is minimal.

## *Contingent Liabilities*

As at 31st December 2002, the Group has no significant contingent liabilities.

# Chairman's Statement

## EMPLOYEES

On 31st December 2002, the Group employed over 13,000 staff. The Group remunerates its employees according to the prevailing industry practice in the respective regions in which it operates. The total remuneration for the year ended 31st December 2002 was approximately HK\$231.1 million (2001: HK\$242.9 million), including retirement benefit costs of approximately HK\$4.8 million (2001: HK\$3.5 million). In addition to basic salaries and retirement pension schemes, employees are rewarded with performance-related bonuses. All staff in the PRC are provided with lodging. The Group believes that human resources are very important, thus always provides and encourages internal trainings and promotions.

## APPRECIATION

On behalf of the board of directors, I would like to express our sincere gratitude to our shareholders, business associates, suppliers and customers as well as the Group's workforce for their continuous support. I also wish to give due appreciation to our management and staff for their commitment and dedication to the Group. The Group will make every endeavour to make another aspiring achievement.

## CHANG Wen I

*Chairman*

Hong Kong, 16th April 2003



# Biographical Details of Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

## EXECUTIVE DIRECTORS

**Mr Chang Wen I**, aged 54, is the chairman and one of the founders of the Group. Mr Chang is also the Honourable Chairman of the Taiwan Footwear Manufacture Association. Mr Chang is responsible for formulating the Group's corporate strategy and planning. Mr Chang joined the Group since 1988 and has over 27 years of experience in the footwear industry.

**Mr Chen Hsien Min**, aged 52, is the managing director and one of the founders of the Group. Mr Chen is responsible for the overall corporate planning and day-to-day operations of the Group, including its production, marketing and sales activities. He has a bachelor's degree in Land Economics from the National Cheng Chi University of Taiwan. Mr Chen joined the Group since 1988 and has over 27 years of experience in the footwear industry. Mr Chen is a brother-in-law of Mr Chang Wen I.

**Mr Chen Ying-Chieh**, aged 34, is the general manager of the Group's PRC domestic sales department. Mr Chen is responsible for promoting sales and formulating the Group's marketing strategy for the PRC market. Mr Chen has a bachelor's degree in International Trade Business from the University of Zhengyou. He has been working with the Group since 1992. Mr Chen is a nephew of Mr Chang Wen I.

## NON-EXECUTIVE DIRECTORS

**Mr Kuo Jung-Cheng**, aged 53, is a former senator of the Legislative House in Taiwan. He has been serving the communities in Taiwan as senator or representative for over 10 years. Mr Kuo holds a MBA from the University of Hawaii.

**Mr Huang Shun-Tsai**, aged 50, is the director of six technology companies in Taiwan. He has been active in the technology field for over 11 years.

## SENIOR MANAGEMENT

**Mr Cheung Chun Hay, Hayes**, aged 29, is the financial controller of the Group. He has over five years of experience in auditing, accounting and financial management in Hong Kong. Prior to joining the Group, he was an audit manager with an international accounting firm. He holds a bachelor's degree from the City University of Hong Kong, and is an associate member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants.

**Mr Ip Ching Bun Ben**, aged 31, is the company secretary of the Group. Mr Ip is responsible for company secretarial and accounting works of the Group. He has eight years of experience in the field of accounting. Mr Ip has a bachelor's degree from Hong Kong Baptist University. Prior to joining the Group in June 2000, he worked for a listed company in Hong Kong.

**Mr Chang Chun Wang**, aged 51, is the vice general manager of the Group. Mr Chang is responsible for the Group's production activities. Mr Chang has over 21 years of experience in the footwear industry. He has been working with the Group since 1994.

# Biographical Details of Directors and Senior Management

**Mr Hsu Szu Che**, aged 50, is the senior manager responsible for general administration and management of the Group's sales office and manufacturing facilities in Fuzhou. Mr Hsu has over 21 years of experience in the administration and management of footwear manufacturing facilities. He has been working with the Group since 1994.

**Madam Lai Tseng Chun Mei**, aged 58, is the manager of Shanghai Guang Wei. Madam Lai is responsible for the day-to-day operations of the Shanghai Guang Wei. Madam Lai has over 22 years of experience in the administration and operations of footwear manufacturing facilities. She has been working with the Group since 1994.

**Madam Chi Shu Tzu**, aged 36, is the sales manager of ladies' footwear. She is responsible for sales and marketing of certain overseas customers. Madam Chi has over 19 years of experience in the footwear industry. She has been working with the Group since 1994.

**Madam Chen Li Hui**, aged 38, is the sales manager of sports footwear. She is responsible for sales and marketing of sports products. Madam Chen has over 18 years of experience in the footwear industry. She has been working with the Group since 1994.

**Mr Chou Chang Hsuing**, aged 56, is the manager of central administration department in the PRC. Mr Chou is in charge of the planning and supervision of resources allocations among the factories and the implementation of cost control program. Mr Chou has over 28 years of experience in the administration and management in the footwear industry. He has been working with the Group since 1994.



# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of the Company will be held at Tang Room of Sheraton Hong Kong Hotel and Towers at No. 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, on Thursday, 29th May 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the Directors and auditors for the year ended 31st December 2002.
2. To re-elect Directors and to fix the remuneration of Directors.
3. To re-appoint auditors and to authorize the Directors to fix their remunerations.
4. To consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:
  - A. "THAT:
    - (a) subject to paragraph (b) below, the exercise by the board of directors of the Company ("Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose under the Hong Kong Code of Share Repurchase, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
    - (b) the aggregate nominal amount of shares of the Company which the Directors are authorized to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the approval shall be limited accordingly; and
    - (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
      - (i) the conclusion of the next annual general meeting of the Company;
      - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the memorandum and articles of association of the Company to be held; and
      - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company."

# Notice of Annual General Meeting

B. "THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares as scrip dividends pursuant to the memorandum and articles of association of the Company from time to time; or (iii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution, and the approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the memorandum and articles of association of the Company to be held;
  - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company)."

# Notice of Annual General Meeting

C. "THAT subject to the passing of Resolutions No. 4A and No. 4B set out in the notice convening this meeting, the general mandate granted to the Directors to allot, issue and deal with additional shares pursuant to Resolution No. 4B set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 4A set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the Resolution No. 4A."

5. To transact any other business.

By Order of the Board

**Prime Success International Group Limited**

**CHANG Wen I**

*Chairman*

Hong Kong, 16th April 2003

Notes:

1. *Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.*
2. *To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the registrar of the Company in Hong Kong, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*
3. *The register of members of the Company will be closed from Tuesday, 27th May 2003 to Thursday, 29th May 2003, both days inclusive, during which no share transfers will be effected. In order to qualify for the attendance of the annual general meeting, all transfers of shares accompanied by the relevant share certificate(s) must be lodged with the registrar of the Company in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 26th May 2003.*
4. *Concerning the Resolution No. 4A above, an explanatory statement relating thereto is set out in Appendix I of the circular of the Company containing information regarding, amongst other things, the proposal for general mandates to repurchase and issue shares which will be sent to each member of the Company together with this annual report.*

# Report of the Directors

The directors present their report together with the audited accounts for the year ended 31st December 2002.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by geographical segment is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 20.

The board of directors has declared an interim dividend of HK0.8 cents per ordinary share, totalling approximately HK\$11,987,000, which was paid on 28th October 2002.

The board of directors recommends the payment of a final dividend of HK1.2 cents per ordinary share, totalling approximately HK\$17,981,000 for the year ended 31st December 2002.

## **RESERVES**

Movement in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31st December 2002 amounted to approximately HK\$179,905,000 (2001: HK\$156,807,000).

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out on page 52.



# Report of the Directors

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

## **DIRECTORS**

The directors during the year were:

*Executive directors:*

Chang Wen I (*Chairman*)  
Chen Hsien Min (*Managing Director*)  
Chen Ying-Chieh

*Independent non-executive directors:*

Kuo Jung-Cheng  
Huang Shun-Tsai

In accordance with Article 99 of the Company's Articles of Association, Mr Chen Ying-Chieh retires by rotation and, being eligible, offers himself for re-election.

## **DIRECTORS' SERVICE CONTRACTS**

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details of directors and senior management are set out on pages 8 and 9.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Report of the Directors

## SHARE OPTIONS

In accordance with the Company's share option scheme adopted on 9th October 1995 for a period of 10 years (the "Scheme"), the board of directors may grant options to eligible employees, including director(s) of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The options are exercisable in whole or in part at any time not less than six months from the date of acceptance granted under the Scheme for a period of two years. The subscription price is set at no less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the grant of the option.

At 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 remained outstanding. These share options entitled 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 share options were exercised during the year and all the outstanding share options lapsed on 28th March 2002. No new share options were granted during the year ended 31st December 2002.

In order to comply with the revised rules relating to share option scheme as stipulated in Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), a resolution for the adoption of a new share option scheme will be proposed at the forthcoming annual general meeting.



# Report of the Directors

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2002, the interests of the directors and chief executive in the shares of the Company and of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares of HK\$0.10 each</b>
Chang Wen I	Corporate ( <i>Note</i> )	449,669,995

*Note: These securities are registered in the name of and beneficially owned by Lucky Earn International Ltd., a company incorporated in the British Virgin Islands. The entire issued share capital of Lucky Earn International Ltd. is beneficially owned by Mr Chang Wen I.*

In addition to the above, as at 31st December 2002, the following directors beneficially owned the non-voting deferred shares in certain subsidiaries of the Company:

<b>Name of subsidiary</b>	<b>Name of director</b>	<b>Number of non-voting deferred shares of HK\$1 each</b>
Gentlefit Trading Limited	Chang Wen I	6,425,051
	Chen Hsien Min	3,013,917
Modern City Development Limited	Chang Wen I	3,400
	Chen Hsien Min	3,300

The non-voting deferred shares carry no rights to dividends, nor rights to receive notice, nor rights to attend and vote at any general meetings of the respective companies, nor rights to participate in any distributions on winding up.

Save as disclosed above and certain nominee shares in subsidiaries held by certain directors of the Company in trust for the Group, as at 31st December 2002, none of the directors or chief executives, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations as defined by the SDI Ordinance.

Save as disclosed under the section headed "Share Options", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31st December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

<b>Name</b>	<b>Number of ordinary shares of HK\$0.10 each</b>
Top Glory Assets Limited	217,692,895

*Note: At 31st December 2002, Mr Chen Yi Hsun and Ms Chen Yi Chen, the son and daughter of Mr Chen Hsien Min, Managing Director of the Company, have beneficial interests in 50% each in Top Glory Assets Limited.*

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales for the year attributable to the Group's largest customer and five largest customers combined are 14% and 51%, respectively.

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of the directors, their associates or any shareholder of the Company which to the knowledge of the directors owns more than 5% of the Company's share capital, had an interest in the major customers of the Group noted above.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company were not appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

## AUDIT COMMITTEE

In compliance with the requirements of The Stock of Exchange of Hong Kong Limited, an audit committee comprising two independent non-executive directors was formed. Reporting to the board of directors of the Company, the audit committee is dedicated to the review and supervision of the Group's financial reporting process.



# Report of the Directors

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## AUDITORS

The accounts for the year ended 31st December 2002 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

The accounts for the years ended 31st December 2001 and 31st December 2000 were audited by Deloitte Touche Tohmatsu and the accounts for the year ended 31st December 1999 were audited jointly by Deloitte Touche Tohmatsu and W. O. Lo & Co..

On behalf of the board

**CHANG Wen I**

*Chairman*

Hong Kong, 16th April 2003

# Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF PRIME SUCCESS INTERNATIONAL GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 20 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 16th April 2003



# Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	2	1,180,669	1,088,527
Other revenues	2	7,492	13,007
Changes in inventories of finished goods and work-in-progress		77,796	5,285
Raw materials and consumables used		(745,617)	(668,926)
Staff costs	9	(231,072)	(242,871)
Depreciation		(20,848)	(13,036)
Surplus on valuation of an unlisted investment	15	13,000	–
Impairment losses on investment securities	15	–	(13,898)
Other operating expenses		(230,087)	(236,971)
Operating profit/(loss)	3	51,333	(68,883)
Finance costs	4	(9,009)	(16,528)
Share of results of an associated company		243	140
Profit/(loss) before taxation		42,567	(85,271)
Taxation	5	(11,309)	(12,365)
Profit/(loss) after taxation		31,258	(97,636)
Minority interests		(5,674)	(2,143)
Profit/(loss) attributable to shareholders	6	25,584	(99,779)
Dividends	7	29,968	–
Earnings/(loss) per share – basic and diluted	8	HK1.7 cents	(HK6.7 cents)

# Consolidated Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
<b>Non-current assets</b>			
Fixed assets	11	128,898	120,976
Interest in an associated company	14	2,326	2,258
Investment securities	15	37,437	24,437
Negative goodwill	16	–	(1,850)
		<u>168,661</u>	<u>145,821</u>
<b>Current assets</b>			
Inventories	17	278,090	183,539
Trade receivables	18	132,140	166,692
Other receivables and prepayments		52,602	67,798
Pledged bank deposit		–	7,800
Bank balances and cash		129,944	141,506
		<u>592,776</u>	<u>567,335</u>
<b>Current liabilities</b>			
Trade payables	19	188,157	128,206
Other payables and accrued charges		52,398	64,016
Amount due to an associated company	20	656	807
Amount due to an investee company	21	1,389	958
Taxation payable		6,032	2,691
Bank loans and overdrafts	22	150,580	173,441
		<u>399,212</u>	<u>370,119</u>
<b>Net current assets</b>		<u>193,564</u>	<u>197,216</u>
<b>Total assets less current liabilities</b>		<u>362,225</u>	<u>343,037</u>
<b>Financed by:</b>			
Share capital	23	149,839	149,839
Reserves	24	187,744	176,165
<b>Shareholders' funds</b>		<u>337,583</u>	<u>326,004</u>
<b>Minority interests</b>		<u>24,642</u>	<u>17,033</u>
		<u>362,225</u>	<u>343,037</u>

**CHANG WEN I**  
Chairman

**CHEN HSIEN MIN**  
Managing Director



# Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	12	<u>165,635</u>	<u>165,635</u>
<b>Current assets</b>			
Other receivables		204	5
Amounts due from subsidiaries	13	178,522	156,370
Bank balances		<u>41</u>	<u>91</u>
		<u>178,767</u>	<u>156,466</u>
<b>Current liabilities</b>			
Other payables and accrued charges		1,969	2,766
Amount due to a subsidiary	13	<u>9,807</u>	<u>9,807</u>
		<u>11,776</u>	<u>12,573</u>
<b>Net current assets</b>		<u>166,991</u>	<u>143,893</u>
<b>Total assets less current liabilities</b>		<u>332,626</u>	<u>309,528</u>
<b>Financed by:</b>			
Share capital	23	149,839	149,839
Reserves	24	<u>182,787</u>	<u>159,689</u>
		<u>332,626</u>	<u>309,528</u>

**CHANG WEN I**  
Chairman

**CHEN HSIEN MIN**  
Managing Director

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity at the beginning of the year		<b>326,004</b>	412,414
Exchange differences arising on translation of the accounts of foreign subsidiaries and an associated company	24	<u>(2,018)</u>	<u>13,369</u>
Net (losses)/gains not recognised in the consolidated profit and loss account		<u>(2,018)</u>	<u>13,369</u>
Profit/(loss) attributable to shareholders	24	<b>25,584</b>	(99,779)
Dividend	24	<u>(11,987)</u>	<u>–</u>
		<u><b>13,597</b></u>	<u>(99,779)</u>
Total equity at the end of the year		<u><b>337,583</b></u>	<u>326,004</u>



# Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Operating activities			
Cash generated from operations	25(a)	60,734	13,275
Overseas tax paid		(7,881)	(12,496)
Hong Kong profits tax refunded		–	10
Net cash inflow from operating activities		<u>52,853</u>	<u>789</u>
Investing activities			
Interest received		596	967
Dividend received from an associated company		84	240
Purchase of fixed assets		(30,223)	(9,031)
Acquisition of additional interest in a subsidiary		–	(5,225)
Additional investment in an unlisted investment		–	(3,317)
Proceeds from disposal of investment securities		–	1,113
Proceeds from disposal of fixed assets		15	216
Net cash outflow from investing activities		<u>(29,528)</u>	<u>(15,037)</u>
Net cash inflow/(outflow) before financing activities		<u>23,325</u>	<u>(14,248)</u>
Financing activities			
Interest paid		(9,009)	(16,528)
Dividend paid	25(b)	(11,987)	–
Dividends paid to minority shareholders	25(b)	(1,744)	(2,881)
Increase in amounts due to minority shareholders	25(b)	4,099	–
Repayment of bank loans	25(b)	(187,655)	(264,756)
New bank loans raised	25(b)	164,699	229,845
Decrease/(increase) in a pledged bank deposit		7,800	(7,800)
Net cash outflow from financing activities		<u>(33,797)</u>	<u>(62,120)</u>
Decrease in cash and cash equivalents		(10,472)	(76,368)
Cash and cash equivalents at 1st January		141,497	228,333
Effect of foreign exchange rate changes		(1,108)	(10,468)
Cash and cash equivalents at 31st December	25(c)	<u>129,917</u>	<u>141,497</u>

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings, plant and machinery and investment securities.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these revised standards are set out in the accounting policies below.

### (b) Basis of consolidation

The consolidated accounts include the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill and accumulative exchange difference taken to reserves and which were not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (d) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the consolidated profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets that are amortisable. Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition.

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) Fixed assets

Fixed assets are stated at cost or valuation in 1995 less subsequent accumulated depreciation and accumulated impairment losses.

Effective from 1st September 1995, no further revaluations of the Group's leasehold land and buildings and plant and machinery have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations of such assets.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 3 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

### (f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.



# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (g) Investment securities

Investments which are held for non-trading purposes are stated at fair value at the consolidated balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities/investments which are unlisted and not actively traded, fair value is determined by the Group using a variety of methods and techniques, such as estimated discounted value of future cash flows, with assumptions that are based on market conditions existing at each balance sheet date. Changes in the fair value of individual investment are credited or debited to the investment revaluation reserve until the investment is sold, or is determined to be impaired by the directors.

Where there is evidence that individual investment is impaired the cumulative loss recorded in the revaluation reserve is taken to the consolidated profit and loss account. Any subsequent increase in the fair value is credited to the consolidated profit and loss account up to the amount previously debited.

Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the consolidated profit and loss account.

### (h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investments and bank overdrafts.

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow becomes probable, it will then be recognised as a provision.

### (l) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (m) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and the associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate during the year. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of a foreign entity, the related accumulative exchange differences are included in the consolidated profit and loss account as part of the gain or loss on disposal.

### (n) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease rental income is recognised on a straight-line basis over the periods of the respective leases.

Subcontracting income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.



# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Revenue recognition *(Continued)*

Dividend income is recognised when the right to receive payment is established.

Export incentives from government are recognised on a systematic basis to match the related costs which they are intended to compensate.

### (o) Employee benefits

#### (i) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within the next twelve months and are measured at the amounts expected to be paid when they are settled.

#### (ii) Pension obligations

The Group participated in a defined contribution retirement scheme which is available for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the scheme by the Group are expensed as incurred and/or are reduced by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also participated in the defined contribution retirement schemes operated by the municipal governments of various cities in the People's Republic of China (the "PRC"). The relevant municipal governments are responsible for the entire pension obligations payable to retired employees of the respective cities. The only obligation of the Group is to pay the ongoing required contributions under these schemes. The contributions are charged to the profit and loss account as incurred.

### (p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting format is by business segment and the secondary segment reporting is by geographical segment.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on the region in which the assets are located.

Unallocated costs represent corporate expenses. Segment assets comprise primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude intangible assets, interest in an associated company and investment securities. Capital expenditure comprises additions to fixed assets.

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of footwear products. Revenues recognised during the year are as follows:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Sales of goods	<u>1,180,669</u>	<u>1,088,527</u>
Other revenues		
Income derived from an unlisted investment ( <i>note 15(a)</i> )	<b>3,000</b>	6,317
Subcontracting income	<b>2,714</b>	4,108
Export incentives from government	<b>1,074</b>	1,346
Interest income	<b>596</b>	967
Gross rental income	–	153
Others	<b>108</b>	116
	<u>7,492</u>	<u>13,007</u>
Total revenues	<u><b>1,188,161</b></u>	<u>1,101,534</u>

### Business segments

The Group has only one single business segment which is the manufacturing and distribution of footwear products. Accordingly, the consolidated figures represent the segment information for this sole business segment for the year.



# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

### Geographical segments

In presenting information on the basis of geographical segments, segment turnover and segment results are based on the geographical location of customers. Segment assets and capital expenditure are based on geographical location of the assets.

	2002		2001	
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>
United States of America	650,164	21,400	634,124	(54,224)
People's Republic of China	494,700	9,287	411,761	(7,645)
Others	35,805	5,559	42,642	8,083
	<b>1,180,669</b>	<b>36,246</b>	<b>1,088,527</b>	<b>(53,786)</b>
Gain on disposal of investment securities		-		1,111
Income derived from an unlisted investment		3,000		6,317
Interest income		596		967
Surplus on valuation of an unlisted investment		13,000		-
Impairment losses on investment securities		-		(13,898)
Unallocated costs		(1,509)		(9,594)
Operating profit/(loss)		<b>51,333</b>		<b>(68,883)</b>
	2002		2001	
	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
People's Republic of China	555,877	28,938	449,150	8,901
Hong Kong	115,371	100	155,220	80
Others	50,426	1,185	83,941	50
	<b>721,674</b>	<b>30,223</b>	<b>688,311</b>	<b>9,031</b>
Interest in an associated company	2,326		2,258	
Investment securities	37,437		24,437	
Negative goodwill	-		(1,850)	
Total assets	<b>761,437</b>		<b>713,156</b>	

# Notes to the Accounts

## 3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>Crediting</b>		
Gain on disposal of fixed assets	–	51
Gain on disposal of investment securities	–	1,111
Negative goodwill recognised	<b>1,850</b>	150
Net exchange gains	<b>56</b>	–
Reversal of provision for bad and doubtful debts	<b>3,050</b>	–
Reversal of write-down of inventories	<b>7,636</b>	–
	<hr/>	<hr/>
<b>Charging</b>		
Auditors' remuneration	<b>1,289</b>	1,226
Loss on disposal of fixed assets	<b>189</b>	–
Net exchange losses	–	11,203
Operating lease rentals		
– Land and buildings	<b>75,887</b>	47,871
– Plant and machinery	<b>88</b>	336
Provision for bad and doubtful debts	–	8,784
Provision for slow-moving inventories	–	4,820
	<hr/>	<hr/>

## 4. FINANCE COSTS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts	<b>9,009</b>	16,528
	<hr/>	<hr/>

## 5. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions including tax holiday and reduced enterprise income tax rate. Accordingly, PRC enterprise income tax for such subsidiaries has been provided after taking account of these tax exemptions and concessions.



# Notes to the Accounts

## 5. TAXATION *(Continued)*

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Current taxation		
– Taxation outside Hong Kong	<b>10,643</b>	6,948
– Under provision in prior years	<b>600</b>	5,380
	<b>11,243</b>	12,328
Share of taxation attributable to an associated company	<b>66</b>	37
	<b>11,309</b>	12,365

No deferred taxation on the revaluation surplus of the Group's properties in the PRC arising from the revaluation performed in 1995 has been recognised in the accounts as these properties are held for the long-term and the directors have no intention to dispose of these properties in the foreseeable future.

There was no material unprovided deferred taxation for the year.

## 6. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$35,085,000 (2001: HK\$4,532,000).

## 7. DIVIDENDS

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Interim dividend, paid, of HK0.8 cents (2001: Nil) per ordinary share	<b>11,987</b>	–
Final dividend, proposed, of HK1.2 cents (2001: Nil) per ordinary share <i>(Note)</i>	<b>17,981</b>	–
	<b>29,968</b>	–

*Note:* At a meeting held on 16th April 2003, the board of directors declared a final dividend of HK1.2 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

# Notes to the Accounts

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK\$25,584,000 (2001: loss of HK\$99,779,000) and the weighted average number of 1,498,392,384 (2001: 1,498,392,384) ordinary shares in issue during the year.

As the respective prices of the share options were greater than the average market prices of the Company's share for the year ended 31st December 2001 and for the period from 1st January 2002 to 28th March 2002, there was no dilution effect on the basic earnings per share. All share options granted by the Company to employees lapsed on 28th March 2002.

## 9. STAFF COSTS

Staff costs including directors' emoluments represent:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Wages, salaries and bonuses	<b>225,787</b>	231,576
Termination benefits	<b>442</b>	7,773
Retirement benefit costs ( <i>Note</i> )	<b>4,843</b>	3,522
	<b>231,072</b>	242,871

*Note:* All Hong Kong employees of the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. 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, both the employer and employees are required to contribute 5% of the employee's relevant income or HK\$1,000, whichever is lower, as mandatory contributions.

The Group is also required to make contributions to pension schemes operated by the municipal governments of various cities in the PRC at certain percentages of the salaries of its employees in the PRC. The municipal governments are responsible for the entire pension obligations payable to retired employees. The Group does not have other obligations under these pension schemes in the PRC other than the contribution payments.

As at 31st December 2002, no forfeited contributions are available to reduce the contribution payable in the future.

Contributions totalling approximately HK\$415,000 (2001: approximately HK\$413,000) payable to the funds as at 31st December 2002 are included in other payables and accrued charges.



# Notes to the Accounts

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Fees	–	–
Basic salaries and bonuses	<b>13,814</b>	15,389
Performance related incentive payments	<b>884</b>	68
	<b><u>14,698</u></b>	<u>15,457</u>

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2002</b>	2001
Emolument bands		
HK\$nil to HK\$1,000,000	<b>2</b>	7
HK\$3,500,001 to HK\$4,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	<b>2</b>	2
	<b><u>2</u></b>	<u>2</u>

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) executive directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining two (2001: two) individuals during the year are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Basic salaries and bonuses	<b>3,276</b>	3,872
Performance related incentive payments	<b>546</b>	–
	<b><u>3,822</u></b>	<u>3,872</u>

# Notes to the Accounts

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### (b) Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	1

- (c) No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors or the five highest paid individuals waived or agreed to waive any emoluments during the year.

## 11. FIXED ASSETS

	Group					Total HK\$'000
	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	
Cost or valuation						
At 1st January 2002	124,320	–	89,346	27,935	11,614	253,215
Exchange adjustment	(1,301)	–	(1,024)	(138)	(126)	(2,589)
Additions	3,332	18,246	4,578	1,841	2,226	30,223
Disposals	–	–	(811)	(201)	(332)	(1,344)
<b>At 31st December 2002</b>	<b>126,351</b>	<b>18,246</b>	<b>92,089</b>	<b>29,437</b>	<b>13,382</b>	<b>279,505</b>
Accumulated depreciation						
At 1st January 2002	28,921	–	77,169	17,205	8,944	132,239
Exchange adjustment	(232)	–	(909)	(106)	(93)	(1,340)
Charge for the year	472	9,741	6,989	2,322	1,324	20,848
Disposals	–	–	(659)	(183)	(298)	(1,140)
<b>At 31st December 2002</b>	<b>29,161</b>	<b>9,741</b>	<b>82,590</b>	<b>19,238</b>	<b>9,877</b>	<b>150,607</b>
Net book value						
<b>At 31st December 2002</b>	<b>97,190</b>	<b>8,505</b>	<b>9,499</b>	<b>10,199</b>	<b>3,505</b>	<b>128,898</b>
At 31st December 2001	95,399	–	12,177	10,730	2,670	120,976



# Notes to the Accounts

## 11. FIXED ASSETS (Continued)

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

	<b>Group</b>					<b>Total</b>
	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost	106,851	18,246	49,504	29,437	13,382	217,420
At 1995 valuation (Note b)	19,500	-	42,585	-	-	62,085
<b>At 31st December 2002</b>	<b>126,351</b>	<b>18,246</b>	<b>92,089</b>	<b>29,437</b>	<b>13,382</b>	<b>279,505</b>
At cost	104,820	-	46,761	27,935	11,614	191,130
At 1995 valuation (Note b)	19,500	-	42,585	-	-	62,085
At 31st December 2001	124,320	-	89,346	27,935	11,614	253,215

Notes:

- (a) At 31st December 2002 and 31st December 2001, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases between 10 to 50 years.
- (b) Such leasehold land and buildings and plant and machinery were revalued as at 31st August 1995 by Chesterton Petty Limited, an independent firm of chartered surveyors, on the basis of their open market value. The carrying amount of the leasehold land and buildings and plant and machinery would have been approximately HK\$11,878,000 (2001: HK\$12,274,000) and HK\$nil (2001: HK\$nil) respectively had they been stated at cost less accumulated depreciation.
- (c) At 31st December 2002, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans amounted to approximately HK\$40,763,000 (2001: HK\$91,390,000).

## 12. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<i>HK\$'000</i>
Unlisted investments, at cost	<b>165,635</b>	165,635

# Notes to the Accounts

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at 31st December 2002:

Name	Place of incorporation and kind of legal entity	Particulars of issued share held/ registered capital	Interest held %	Principal activities and place of operation
Dachang Paper Industry Co., Ltd. Fujian	PRC; equity joint venture	Registered capital of US\$900,000	93.33	Manufacture of shoe components in the PRC
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	Registered capital of US\$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	Registered capital of US\$4,285,700	100	Manufacture of shoe components in the PRC
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	PRC; wholly-owned foreign enterprise	Registered capital of US\$1,199,925	100	Manufacture of footwear products in the PRC
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK\$1 each	51	Retail sales right holder of footwear and apparel products in the PRC
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK\$1 each; 13,055,667 non-voting deferred shares of HK\$1 each <i>(note (b) below)</i>	100	Export trading of footwear products, investment and trademarks holding in Hong Kong
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US\$1 each	100	Export trading of footwear products in Hong Kong



# Notes to the Accounts

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share held/ registered capital	Interest held %	Principal activities and place of operation
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US\$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	PRC; equity joint venture	Registered capital of US\$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	Registered capital of US\$3,600,000	84.45	Manufacture of footwear products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	Registered capital of US\$12,000,000	100	Distribution and retail of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	Registered capital of US\$5,000,000	100	Manufacture of footwear products in the PRC
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK\$1 each	100	Investment holding in Hong Kong

# Notes to the Accounts

## 12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

- (a) Other than investment in 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 carry no rights to dividends, nor rights to receive notice, nor rights to attend and vote at any general meeting of the respective companies, nor rights to participate in any distributions on winding up.
- (c) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## 13. AMOUNTS DUE FROM/TO SUBSIDIARIES – COMPANY

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

## 14. INTEREST IN AN ASSOCIATED COMPANY

	<b>2002</b> <b>HK\$'000</b>	<b>Group</b> 2001 <b>HK\$'000</b>
Share of net assets	<u>2,326</u>	<u>2,258</u>
Unlisted investment, at cost	<u>2,340</u>	<u>2,340</u>

Particulars of the associated company at 31st December 2002 are as follows:

<b>Name</b>	<b>Place of establishment</b>	<b>Particulars of registered capital</b>	<b>Interest held indirectly</b> %	<b>Principal activity</b>
Dayong Shoe Material Co., Ltd. Hanjiang Putian City	PRC	Registered capital of RMB5,457,000	30	Manufacture of shoe materials in the PRC



# Notes to the Accounts

## 15. INVESTMENT SECURITIES

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	2001
		<b>HK\$'000</b>
Unlisted investments ( <i>Note a</i> ), at fair value	<b>37,437</b>	24,437
Listed securities ( <i>Note b</i> ), at fair value	—	—
	<b>37,437</b>	24,437

*Notes:*

- (a) Unlisted investments mainly comprise an investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") in which the Group holds 30% interest in its registered capital. Jingxing is a sino-foreign equity joint venture established in the PRC for a term of 70 years commencing November 1991. Jingxing is engaged in the manufacturing and distribution of footwear products.

The directors do not regard Jingxing as an associated company of the Group as they are of the opinion that the Group cannot exercise significant influence in the financial and operational decisions of Jingxing.

As at 31st December 2002, the carrying value of the investment in Jingxing was HK\$37,000,000 (2001: HK\$24,000,000). The fair value of the investment in Jingxing as at 31st December 2002 was valued by Chesterton Petty Limited, an independent professional valuer. The valuation surplus of HK\$13,000,000 was credited to the consolidated profit and loss account to offset the amount previously debited.

In 1999, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for annual payments by the Guarantor for each of the four years ended 31st December 2002, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31st December 2002 was approximately HK\$3,000,000 (2001: HK\$6,317,000) and has been recognised in the consolidated profit and loss account.

Subsequent to the year end date, the Group extended the period of the above agreement with the Guarantor whereby in return for a minimum annual payment of HK\$3,000,000 by the Guarantor for each of the three years ending 31st December 2005, the Group has agreed to surrender its right to the share of any profit in Jingxing for the same period.

- (b) At 31st December 2002, the Group held approximately 14.4% interest in Sun Home Leather Corporation ("Sun Home"), a company engaged in the manufacturing and trading of leather materials.

On 30th November 2001, Sun Home was delisted from the Taiwan Stock Exchange Corporation and authorised to be traded on Over-the-Counter market on the same date. Since the volume of transactions of the shares in Sun Home is infrequent and the volume of trade is low, the directors considered that the fair value of the investment in Sun Home was negligible as at 31st December 2001. As a result, the carrying amount of the securities was written down to zero during the year ended 31st December 2001 and the loss recorded in the investment revaluation reserve of approximately HK\$10,581,000 was taken to the consolidated profit and loss account in that year as an impairment loss. The directors do not consider that there has been any material change in the fair value of the investment in Sun Home as at 31st December 2002.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (note 22).

# Notes to the Accounts

## 16. NEGATIVE GOODWILL

	<b>2002</b>	<b>Group</b>
		2001
At the beginning of the year	<b>(1,850)</b>	–
Arising on acquisition of additional interest in a subsidiary	–	(2,000)
Amount recognised in the consolidated profit and loss account	<b>1,850</b>	150
	<hr/>	<hr/>
At the end of the year	<b>–</b>	<b>(1,850)</b>

The negative goodwill arose on the Group's acquisition of an additional 28% equity interests in Dasheng Footwear Co., Ltd. Putian City on 7th April 2001. In the previous year, the negative goodwill was taken to the consolidated profit and loss account on a straight-line basis over a period of 10 years. During the year, the directors decided that the full carrying amount of the negative goodwill of HK\$1,850,000 should be recognised as income in the consolidated profit and loss account to reflect their new estimation of the subsequent changes in the expectation of future losses and expenses in association with such acquisition.

## 17. INVENTORIES

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	<b>50,051</b>	33,296
Work-in-progress	<b>22,202</b>	20,842
Finished goods	<b>205,837</b>	129,401
	<hr/>	<hr/>
	<b>278,090</b>	<b>183,539</b>

At 31st December 2002, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$11,750,000 (2001: HK\$24,514,000).



# Notes to the Accounts

## 18. TRADE RECEIVABLES

The ageing analysis of trade receivables by invoice date is as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2001</b>
		<b>HK\$'000</b>
Current	<b>55,193</b>	57,760
31 – 60 days	<b>31,147</b>	34,720
61 – 90 days	<b>18,892</b>	13,487
91 – 120 days	<b>8,802</b>	23,631
121 – 180 days	<b>5,186</b>	20,449
181 – 360 days	<b>12,040</b>	10,286
Over 360 days	<b>880</b>	6,359
	<b>132,140</b>	166,692

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long established customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

## 19. TRADE PAYABLES

The ageing analysis of trade payables by invoice date is as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2001</b>
		<b>HK\$'000</b>
Current	<b>115,907</b>	59,406
31 – 60 days	<b>41,846</b>	42,281
61 – 90 days	<b>15,444</b>	7,382
91 – 120 days	<b>7,896</b>	3,567
121 – 180 days	<b>1,915</b>	9,248
181 – 360 days	<b>4,569</b>	2,021
Over 360 days	<b>580</b>	4,301
	<b>188,157</b>	128,206

## 20. AMOUNT DUE TO AN ASSOCIATED COMPANY

The amount due to an associated company is unsecured, interest-free and repayable on demand.

# Notes to the Accounts

## 21. AMOUNT DUE TO AN INVESTEE COMPANY

The amount due to an investee company, Sun Home, is unsecured, interest-free and repayable according to trade terms agreed between both parties.

## 22. BANK LOANS AND OVERDRAFTS

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	2001 HK\$'000
Bank loans and overdrafts		
– Secured ( <i>note (b)</i> )	<b>73,683</b>	91,159
– Unsecured	<b>76,897</b>	82,282
	<b>150,580</b>	173,441

Notes:

- (a) As at 31st December 2002 and 2001, the Group's bank loans are repayable within one year.
- (b) As at 31st December 2002, the Group's short-term bank loans of approximately HK\$70,593,000 (2001: HK\$86,434,000) were secured by the following assets of the Group:
- (i) certain leasehold land and buildings of net book value of approximately HK\$40,763,000 (2001: HK\$91,390,000); and
  - (ii) a listed investment securities of Sun Home with nil (2001: nil) carrying value.
- (c) As at 31st December 2002, an export value-added tax recoverable of approximately HK\$4,418,000 (2001: nil) was pledged against the Group's short-term bank loan of approximately HK\$3,090,000. As at 31st December 2001, a bank deposit of HK\$7,800,000 was pledged against the Group's short-term bank loan of approximately HK\$4,725,000.

## 23. SHARE CAPITAL

	<b>2002</b>	<b>Company</b>
	<b>HK\$'000</b>	2001 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<b>1,000,000</b>	1,000,000
<i>Issued and fully paid:</i>		
1,498,392,384 ordinary shares of HK\$0.10 each	<b>149,839</b>	149,839

In accordance with the Company's share option scheme (the "Scheme") adopted on 9th October 1995 for a period of ten years, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.



# Notes to the Accounts

## 23. SHARE CAPITAL *(Continued)*

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of the year	<b>80,000,000</b>	80,000,000
Lapsed	<b>(80,000,000)</b>	–
At the end of the year	<b>–</b>	<b>80,000,000</b>

As at 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 was 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 share options were exercised during the period and all the outstanding share options lapsed on 28th March 2002. No new share options were granted during the year ended 31st December 2002.

## 24. RESERVES

	Group									
	Share premium	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Exchange difference	Goodwill	Merger reserve	Other reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Note (a))</i>					<i>(Note (b))</i>	<i>(Note (c))</i>		
At 1st January 2001	2,315	2,882	1,184	–	(20,945)	(36,782)	322	7,318	306,281	262,575
Exchange differences	–	–	–	–	13,443	–	–	–	–	13,443
Transfer	–	–	–	–	–	–	–	1,004	(1,004)	–
Share of an associated company's reserves	–	–	–	–	(74)	–	–	6	(6)	(74)
Profit for the year	–	–	–	–	–	–	–	–	(99,779)	(99,779)
Deficits on revaluation	–	–	–	(13,898)	–	–	–	–	–	(13,898)
Impairment losses transfer to the consolidated profit and loss account	–	–	–	13,898	–	–	–	–	–	13,898
At 31st December 2001	<b>2,315</b>	<b>2,882</b>	<b>1,184</b>	<b>–</b>	<b>(7,576)</b>	<b>(36,782)</b>	<b>322</b>	<b>8,328</b>	<b>205,492</b>	<b>176,165</b>
Company and subsidiaries	2,315	2,882	1,184	–	(6,729)	(36,782)	322	7,917	205,138	176,247
An associated company	–	–	–	–	(847)	–	–	411	354	(82)
	<b>2,315</b>	<b>2,882</b>	<b>1,184</b>	<b>–</b>	<b>(7,576)</b>	<b>(36,782)</b>	<b>322</b>	<b>8,328</b>	<b>205,492</b>	<b>176,165</b>

# Notes to the Accounts

## 24. RESERVES (Continued)

	<b>Group</b>									
	Share premium	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Exchange difference	Goodwill	Merger reserve	Other reserves	Retained profits	Total
	HK\$'000	HK\$'000 (Note (a))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note (b))	HK\$'000 (Note (c))	HK\$'000	HK\$'000
At 1st January 2002	2,315	2,882	1,184	-	(7,576)	(36,782)	322	8,328	205,492	176,165
Exchange differences	-	-	-	-	(1,993)	-	-	-	-	(1,993)
Transfer	-	-	-	-	-	-	-	730	(730)	-
Share of an associated company's reserves	-	-	-	-	(25)	-	-	2	(2)	(25)
Profit for the year	-	-	-	-	-	-	-	-	25,584	25,584
2002 interim dividend paid	-	-	-	-	-	-	-	-	(11,987)	(11,987)
<b>At 31st December 2002</b>	<b>2,315</b>	<b>2,882</b>	<b>1,184</b>	<b>-</b>	<b>(9,594)</b>	<b>(36,782)</b>	<b>332</b>	<b>9,060</b>	<b>218,357</b>	<b>187,744</b>
Representing:										
Reserves	2,315	2,882	1,184	-	(9,594)	(36,782)	322	9,060	200,376	169,763
2002 final dividend proposed	-	-	-	-	-	-	-	-	17,981	17,981
At 31st December 2002	<b>2,315</b>	<b>2,882</b>	<b>1,184</b>	<b>-</b>	<b>(9,594)</b>	<b>(36,782)</b>	<b>322</b>	<b>9,060</b>	<b>218,357</b>	<b>187,744</b>
Company and subsidiaries	2,315	2,882	1,184	-	(8,722)	(36,782)	322	8,647	218,005	187,851
An associated company	-	-	-	-	(872)	-	-	413	352	(107)
	<b>2,315</b>	<b>2,882</b>	<b>1,184</b>	<b>-</b>	<b>(9,594)</b>	<b>(36,782)</b>	<b>322</b>	<b>9,060</b>	<b>218,357</b>	<b>187,744</b>

	<b>Company</b>				
	Share premium	Capital redemption reserve	Contributed surplus	(Accumulated losses)/ retained profits	Total
	HK\$'000	HK\$'000 (Note (a))	HK\$'000 (Note (d))	HK\$'000	HK\$'000
At 1st January 2001		2,315	2,882	(2,931)	155,157
Profit for the year		-	-	4,532	4,532
At 31st December 2001 and 1st January 2002		<b>2,315</b>	<b>2,882</b>	<b>1,601</b>	<b>159,689</b>
Profit for the year		-	-	35,085	35,085
2002 interim dividend paid		-	-	(11,987)	(11,987)
<b>At 31st December 2002</b>		<b>2,315</b>	<b>2,882</b>	<b>24,699</b>	<b>182,787</b>
Representing:					
Reserves		2,315	2,882	6,718	164,806
2002 final dividend proposed		-	-	17,981	17,981
At 31st December 2002		<b>2,315</b>	<b>2,882</b>	<b>24,699</b>	<b>182,787</b>

# Notes to the Accounts

## 24. RESERVES (Continued)

Notes:

(a) **Capital redemption reserve**

The capital redemption reserve represents the nominal amount of shares repurchased by the Company in 1999.

(b) **Merger reserve**

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 Company and the nominal amount of the share capital issued by the Company as consideration for the acquisition pursuant to the corporate reorganisation in 1995.

(c) **Other reserves**

Other reserves comprising general reserve fund of approximately HK\$4,477,000 (2001: HK\$3,888,000) and enterprise expansion fund of approximately HK\$4,583,000 (2001: HK\$4,440,000) required to be set up pursuant to relevant PRC laws for the Group's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

(d) **Contributed surplus**

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.

(e) **Distributable reserves**

The Company's reserves available for its distribution to its shareholders comprise share premium, contributed surplus and retained profits. 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.

## 25. CONSOLIDATED CASH FLOW STATEMENT

(a) **Reconciliation of operating profit/(loss) to net cash inflow generated from operations**

	2002 HK\$'000	2001 HK\$'000
Operating profit/(loss)	51,333	(68,883)
Interest income	(596)	(967)
Depreciation	20,848	13,036
Gain on disposal of investment securities	–	(1,111)
Loss/(gain) on disposal of fixed assets	189	(51)
Surplus on valuation of an unlisted investment	(13,000)	–
Impairment losses on investment securities	–	13,898
Negative goodwill recognised	(1,850)	(150)
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	56,924	(44,228)
(Increase)/decrease in inventories	(94,551)	2,887
Decrease in trade receivables, other receivables and prepayments	49,748	41,825
Increase in trade payables, other payables and accrued charges	48,333	15,099
Decrease in amount due to an associated company	(151)	(533)
Increase/(decrease) in amount due to an investee company	431	(1,775)
	<hr/>	<hr/>
Net cash inflow generated from operations	<b>60,734</b>	<b>13,275</b>

# Notes to the Accounts

## 25. CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Analysis of changes in financing during the year

	Bank loans		Dividend payable		Minority interests	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st January	173,432	210,611	-	-	17,033	24,628
Exchange differences	77	(2,268)	-	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	-	(7,225)
Dividend declared	-	-	11,987	-	-	-
Dividend paid	-	-	(11,987)	-	-	-
Dividends paid to minority shareholders	-	-	-	-	(1,744)	(2,881)
Minority interests in share of profits and exchange reserves	-	-	-	-	5,254	2,511
Increase in amounts due to minority shareholders	-	-	-	-	4,099	-
New bank loans raised	164,699	229,845	-	-	-	-
Repayment of bank loans	(187,655)	(264,756)	-	-	-	-
At 31st December	<b>150,553</b>	173,432	-	-	<b>24,642</b>	17,033

### (c) Cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	129,944	141,506
Bank overdrafts	(27)	(9)
	<b>129,917</b>	141,497



# Notes to the Accounts

## 26. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31st December 2002 and 31st December 2001.

At 31st December 2002, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting in total to approximately HK\$30,800,000 (2001: HK\$75,875,000). At 31st December 2002, the utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company was approximately HK\$11,556,000 (2001: HK\$21,591,000).

## 27. COMMITMENTS

### (a) Capital commitments for fixed assets

	<b>2002</b> <b>HK\$'000</b>	<b>Group</b> 2001 <b>HK\$'000</b>
Contracted but not provided for	—	1,817

### (b) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2002</b>		2001	
	<b>Land and buildings HK\$'000</b>	<b>Plant and machinery HK\$'000</b>	Land and buildings HK\$'000	Plant and machinery HK\$'000
Not later than one year	<b>64,556</b>	—	53,047	32
Later than one year and not later than five years	<b>77,847</b>	—	62,029	—
Later than five years	<b>8,841</b>	—	12,682	—
	<b>151,244</b>	—	127,758	32

The Company did not have any commitments as at 31st December 2002 (2001: nil).

# Notes to the Accounts

## 28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the accounts, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	<i>Note</i>	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Purchases from an associated company	(a)	<b>2,968</b>	4,103
Purchases from an investee company	(b)	<b>7,508</b>	<b>7,375</b>

*Notes:*

- (a) Purchases of goods from an associated company, Dayong Shoe Material Co., Ltd., Hanjiang Putian City, were carried out in accordance with terms as determined and agreed between both parties.
- (b) Purchases of shoe materials from an investee company, Sun Home, were carried out in accordance with terms as determined and agreed between both parties. The Company's directors, Mr Chang Wen I and Mr Chen Hsien Min are directors of Sun Home.

## 29. COMPARATIVE FIGURES

Certain comparative figures of the consolidated cash flow statement for the year ended 31st December 2001 have been reclassified to conform with current year's presentation due to the adoption of SSAP 15 (revised).

Certain comparative figures of the consolidated profit and loss account for the year ended 31st December 2001 have been reclassified to conform with current year's presentation.

## 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16th April 2003.



# Five Year Financial Summary

## For the years ended 31st December

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
<b>Results</b>					
Turnover	<b><u>1,180,669</u></b>	<u>1,088,527</u>	<u>1,013,816</u>	<u>1,017,322</u>	<u>1,008,415</u>
Profit/(loss) attributable to shareholders	<b><u>25,584</u></b>	<u>(99,779)</u>	<u>(51,151)</u>	<u>33,885</u>	<u>10,918</u>

## As at 31st December

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
<b>Assets and liabilities</b>					
Total assets	<b>761,437</b>	713,156	835,059	809,016	944,330
Total liabilities	<b>(399,212)</b>	(370,119)	(398,017)	(335,137)	(451,236)
Minority interests	<b>(24,642)</b>	(17,033)	(24,628)	(23,774)	(29,740)
	<b><u>337,583</u></b>	<u>326,004</u>	<u>412,414</u>	<u>450,105</u>	<u>463,354</u>

Note: The financial summary of 1998 has been restated to reflect the change in accounting policy for the adoption of SSAP 9 (Revised) "Events after the balance sheet date" issued by the HKSA. To conform with SSAP 9 (Revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. Proposed dividends previously recorded as liabilities have been reversed.