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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

Chairman's Statement

RESULTS

I am pleased to report to you that 2003 was a year of substantial progress and achievement for Prime Success International Group Limited (the "Company") and its subsidiaries (together called the "Group"), even though there were some disruptions caused by the SARS outbreak in the first half year in certain Asia countries. Nevertheless, the recovery of the second half came more quickly than initially expected, particularly in China. Profit attributable to shareholders jumped by more than twofold to HK\$83 million.

DIVIDENDS

The board of directors (the "Board") recommends a final dividend of HK1.5 cents per share (2002: HK1.2 cents) for the year ended 31st December 2003. Together with the interim dividend of HK1.0 cent (2002: HK0.8 cent) per share already paid, the total dividends for the year ended 31st December 2003 would amount to HK2.5 cents per share (2002: HK2.0 cents). Subject to shareholders' approval of the final dividend at the Company's forthcoming annual general meeting on 31st May 2004, payment of the dividend will be made on 8th June 2004 to shareholders registered on 25th May 2004. The register of members of the Company will be closed from 25th May 2004 to 31st May 2004, both days inclusive.

EXCELLENCE IN OPERATING PERFORMANCE

Remarkable Achievements in Core Businesses

The Group's two core businesses, namely OEM products and own-brand products, performed well during the year under review. The OEM products reported growth in turnover to HK\$758 million, a 10.5% increase over previous year. Profit contribution to the Group amounted to HK\$47 million, representing a treble year on year. Turnover for own-brand products totalled HK\$649 million, a 31.2% increase, mainly due to the strong consumer demand for ladies shoes in the PRC market.

Huge Potential of "Adidas" Retail Business

The Group is also the exclusive retail shops licensee for "Adidas" "Original Collection" in the PRC. Currently, over 15 specialty shops are operated by an authorised agent in the PRC's major cities. Agency fee income rendered from the appointed agent in 2003 was nearly HK\$0.8 million.

Keeping Track on an Effective Strategy with Right Directions

In accordance with the corporate strategy of products expansion and diversification, the Group speeded up the process of increasing production capacity and offerings of high value-added products with higher profit margin. Although there was pressure for downward price adjustment owing to keen competitions from other manufacturers, our effective cost control and efficient operation policies helped to abate these pressure.

Chairman's Statement

PROMISING OUTLOOK

Creating Synergies through Well-equipped Production Developments

During the year of 2003, the Group decided to set up four logistic centres which will be located in Shanghai, Beijing, Shenyang and Fujian, being transportation hubs in the PRC, and two production plants located in Fujian and Jiangsu to cope with the increased future orders. We believe our costs in warehousing, transportation and freight will be further reduced effectively and efficiently.

Implementing Enterprise Resources Planning ("ERP") System

The Board has also decided to implement an ERP system and has always advocated its establishment of ERP system since it would further enhance and speed up the financial and management reporting process of the Group.

Heading Towards New Business Opportunities

Capitalising on the well-developed sales and distribution network and the growth opportunities in the footwear industry in the PRC, the Group has to open mega shoe-marts in some major cities.

Continuous Growth through Further Expansion

As we move into 2004, the Group plans to make further penetration and to expand the sales and distribution network in the PRC. Meanwhile, we will broaden our sources of profits with a solid base for higher growth. The Group will continue to develop and grow its core businesses while seeking new opportunities that could create shareholders' value.

APPRECIATION

On behalf of the Board, I would like to express our sincere thanks to all the Group's employees for their hard work, dedication as well as overwhelming support from customers, suppliers and shareholders. The management will strive to steer a path for continuous growth for the Group.

CHANG Wen I

Chairman

Hong Kong, 20th April 2004

Management's Discussion and Analysis

BUSINESS REVIEW

During the year, the Group's turnover increased by 19.1%, to HK\$1,407 million (2002: HK\$1,181 million), reflecting improved underlying performances. Profit attributable to shareholders recorded HK\$83 million (2002: HK\$26 million), an increase of 221% compared to the year 2002. Basic earnings per share was HK5.51 cents (2002: HK1.73 cents).

OEM Business

Being one of the two core businesses of the Group, sales from OEM products totalled HK\$758 million (2002: HK\$686 million), a steady increase year on year by 10.5%, which accounted for 53.9% (2002: 58.1%) of the Group's turnover. The products mix has shifted gradually towards own-brand products because the potential of sales growth in the PRC market will be much faster than in other places of the world.

Profit contribution for this business segment to the Group was HK\$47 million (2002: HK\$15 million). Better results were mainly due to the stringent control in production cost through various measures and focus of higher margin products. More favourable business environment worldwide was one of the factors that made the recovery of confidence in consumer sentiments, particularly in the US, faster than expected.

"Daphne" – Own-brand Business

Own-brand products reported a record high in turnover to HK\$649 million (2002: HK\$495 million), a 31.2% increase over last year. Profit contribution from this segment also surged by 1.7 times compared to last year, from HK\$20 million to HK\$54 million. This was mainly attributable to the fact that the Daphne brand has benefited from its brand name recognition and a well-established sales and distribution network.

During the year under review, over 2,000 Daphne selling points including over 500 specialty shops and over 200 counters were distributed across various regions in China. The operation became more mature and is contributing stable earnings to the Group. Revenue growth in future will be mainly driven by this well-established brand and sales and distribution network throughout China.

The Group will continue to explore further business opportunities by gradually distributing "Daphne" footwear to more outlets, with the objective of building a more extensive sales and distribution network to increase the market share and improve its competitive advantage.

"Adidas" – Exclusive Retail Shop Right Business

Being the exclusive retail shop licensee for "Adidas" "Original Collection" in the PRC, the Group has appointed an agent to operate the specialty shops in the PRC. Currently, more than 15 shops were operated in 3 major cities in the PRC. Agency fee income from the appointed agent was nearly HK\$0.8 million for the year ended 31st December 2003. With the ever-increasing demand for prestigious branded athletic and casual footwear and apparel in the PRC, the Group foresees that a higher growth in revenue will be attained. The agent plans to open additional 30 specialty shops in 2004.

Management's Discussion and Analysis

FINANCIAL REVIEW

Strong Financial Resources and Liquidity

As at 31st December 2003, cash and cash equivalents of the Group amounted to HK\$147 million (2002: HK\$130 million). With the decrease in short-term bank borrowings of HK\$41 million from HK\$151 million as at 31st December 2002 to HK\$110 million as at 31st December 2003, the net cash position was HK\$37 million compared to the net debt position of HK\$21 million last year. The Group will continue to keep a healthy financial position.

All of the bank borrowings as at 31st December 2003 were short-term in nature, repayable within one year and were denominated in New Taiwanese dollar, US dollar, Renminbi and Hong Kong dollar. Interest was charged on these bank borrowings based on fixed rates.

Improved Liquidity and Gearing Ratios

The Group's current ratio, being the proportion of total current assets against total current liabilities, improved from 1.48 as at 31st December 2002 to 1.64 as at 31st December 2003.

As a result of the remarkable profit generated from operation, total debt to equity ratio as at 31st December 2003 was only 0.94 compared to 1.15 in last year, which was calculated by dividing total liabilities of HK\$378 million (2002: HK\$400 million) by the total shareholders' equity of HK\$403 million (2002: HK\$348 million).

In line with the continuous improvement in the quality of assets, the gearing ratio of the Group has decreased from 43.3% to 27.4% as at 31st December 2003. Computation was based on the total borrowings of HK\$110 million (2002: HK\$151 million) divided by shareholders' equity of HK\$403 million (2002: HK\$348 million).

Foreign Exchange Exposure

The Group's monetary assets, liabilities and transactions are primarily denominated in Hong Kong dollar, Renminbi, US dollar and New Taiwanese dollar. As Hong Kong dollar is pegged to the US dollar, there is no significant fluctuation in the exchange rate. However, since most of the operations were carried out in the PRC, in which transactions were denominated in Renminbi, forward exchange contracts are utilised when suitable opportunities arise, and when considered appropriate, to hedge against major non-US dollar currency exposures.

During the year, the Group entered into forward exchange contracts to hedge its foreign currencies against fluctuations in exchange rates. As at 31st December 2003, the Group had commitments amounting to HK\$230 million in respect of forward exchange contracts entered into with banks.

Management's Discussion and Analysis

Significant Capital Investments

In order to satisfy the growth and to increase the production capacity of our existing factories, the Group set up a foreign wholly-owned subsidiary in Anhui Province in China with total registered capital of HK\$31.2 million. Up to the year under review, HK\$5.7 million has been injected. The remaining amount will be invested by the end of 2006. The Board has also authorised to establish two additional production plants located in Fujian and Jiangsu in the beginning of 2004. The registered capitals for Fujian plant and Jiangsu plant are estimated to be HK\$23.4 million and HK\$2.8 million respectively.

By optimising the allocation of resources, the leverage of various resources and enhancing the Group's competitiveness, the Group plans to set up four logistic centres located in Shanghai, Beijing, Fujian and Shenyang. The total investments are estimated to be HK\$24.1 million. Commercial operations of these four logistic centres are scheduled to commence from the second quarter of 2004 to December 2005.

As the economic outlook of China remains upbeat and there is keen demand for fashionable footwear, the Group is forming a joint venture company (the "JV Company") to launch a new brand of footwear for all genders and ages. The Group has a 50% shareholding in the JV Company. The JV Company will appoint an agent in the PRC to open up footwear mega stores selling footwear. The total investment in the JV Company is RMB50 million of which the Group has to contribute RMB25 million.

The funding of the above investments will be financed by internal resources and/or bank borrowings.

Charges on Group Assets

As at 31st December 2003, the Group's short-term bank loans of HK\$50 million were secured by certain leasehold land and buildings of net book value of HK\$10 million and investment securities with nil carrying value.

Material Acquisition and Disposals

There are no material acquisitions or disposals of subsidiaries and associated companies in the year 2003.

Contingent Liabilities

As at 31st December 2003, the Group had no significant contingent liabilities.

Human Resources

The Group had over 13,000 staff in Hong Kong, Taiwan and in the PRC as at 31st December 2003. The Group recognises the importance of human resources for its success. As a result, qualified and experienced personnel are recruited to enhance production capability and to develop new products. Remuneration is maintained at competitive levels with performance-related bonuses, retirement pension schemes and share options.

During the year, 43,500,000 and 16,000,000 share options were granted to directors and employees with exercise price of HK\$0.20 and HK\$0.16 per share, respectively.

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 55, 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 28 years of experience in the footwear industry.

Mr Chen Hsien Min, aged 53, 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 28 years of experience in the footwear industry. Mr Chen is a brother-in-law of Mr Chang Wen I.

Mr Chen Ying-Chieh, aged 35, 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 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 54, 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 University of Hawaii.

Mr Huang Shun-Tsai, aged 51, is a director of six technology companies in Taiwan. He has been active in the technology field for over 12 years.

SENIOR MANAGEMENT

Mr Cheung Chun Hay, Hayes, aged 30, is the financial controller of the Group. He has over six 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 32, is the company secretary of the Group. Mr Ip is responsible for accounting and company secretarial work of the Group. He has nine 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.

Biographical Details of Directors and Senior Management

Mr Chang Chun Wang, aged 52, is the vice general manager of the Group. Mr Chang is responsible for the Group's production activities. Mr Chang has over 22 years of experience in the footwear industry. He has been working with the Group since 1994.

Mr Hsu Szu Che, aged 51, 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 22 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 59, 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 23 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 37, is the sales manager of ladies' footwear. She is responsible for sales and marketing of certain overseas customers. Madam Chi has over 20 years of experience in the footwear industry. She has been working with the Group since 1994.

Madam Chen Li Hui, aged 39, is the sales manager of sports footwear. She is responsible for sales and marketing of sports products. Madam Chen has over 19 years of experience in the footwear industry. She has been working with the Group since 1994.

Mr Chou Chang Hsuing, aged 57, 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 29 years of experience in the administration and management in the footwear industry. He has been working with the Group since 1994.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

Details of analysis of the Group's turnover and contribution to operating profit for the year by business and 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 18.

The board of directors has declared an interim dividend of HK1.0 cent per ordinary share, totalling HK\$15,289,000, which was paid on 6th November 2003.

The board of directors recommends the payment of a final dividend of HK1.5 cents per share, totalling HK\$22,933,000 in respect of the year ended 31st December 2003.

RESERVES

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2003 amounted to HK\$182,399,000 (before the declaration of a final dividend), comprising share premium, contributed surplus and retained profits.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

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 the last five financial years is set out on page 57.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has 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 Kuo Jung-Cheng retires by rotation and, being eligible, offers himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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.

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

The share option scheme of the Company adopted on 9th October 1995 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was approved by the shareholders at an extraordinary general meeting held on 29th May 2003 to comply with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As a result, the Company may no longer grant further options under the Old Share Option Scheme and no share options granted under the Old Share Option Scheme were outstanding as at 31st December 2003.

Details of the New Share Option Scheme are as follows:

i) Purpose

The purpose of the scheme is to provide incentives to the employees, including any executive or non-executive directors and officers of the Company and its subsidiaries, to contribute to the Company and to enable the Company to recruit high-calibre employees and attract or retain human resources that are valuable to the Group.

ii) Qualifying participants

Any individual is an employee, officer, agent or consultant of the Company or any subsidiary including any executive or non-executive director.

iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the scheme if this will result in such limit exceed. As at 31st December 2003, the number of shares available for issue in respect thereof is 90,339,238 shares.

iv) Limit for each participant

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

v) Option period

The option period within which the shares must be taken up an option shall be determined by the board of directors in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The board of directors has the authority to determine the minimum period for which an option must be held before it can vest. The scheme itself does not specify any minimum holding period.

Report of the Directors

SHARE OPTIONS *(Continued)*

vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of grant. A consideration of HK\$1 shall be paid by a participant upon the acceptance of the option.

vii) Subscription price

The subscription price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the grant date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) the nominal value of the shares.

viii) Remaining life of the scheme

The board of directors is entitled at any time within 10 years between 29th May 2003 and 28th May 2013 to offer the grant of an option to any qualifying participants.

Details of the share options outstanding as at 31st December 2003 which were granted under the New Share Option Scheme are as follows:

	Number of options				Exercise price HK\$	Grant date	Exercisable period
	Held at 1st January 2003	Granted during the year	Exercised during the year	Held at 31st December 2003			
Category I: Directors of the Company							
Chang Wen I	–	14,500,000 <i>(Note 1)</i>	–	14,500,000	0.20	28th July 2003	28th July 2003 to 27th July 2009
Chen Hsien Min	–	14,500,000 <i>(Note 1)</i>	(14,500,000) <i>(Note 2)</i>	–	0.20	28th July 2003	28th July 2003 to 27th July 2009
Chen Ying-Chieh	–	14,500,000 <i>(Note 1)</i>	–	14,500,000	0.20	28th July 2003	28th July 2003 to 27th July 2009
Category II:							
Employees	–	16,000,000 <i>(Note 1)</i>	(16,000,000) <i>(Note 3)</i>	–	0.16	1st July 2003	1st July 2003 to 30th June 2009

Report of the Directors

SHARE OPTIONS (Continued)

Notes:

1. At the date before the options were granted on 1st July 2003 and 28th July 2003, the market value per share was HK\$0.137 and HK\$0.200, respectively.
2. The options were exercised on 25th October 2003. At the date before the options were exercised, the market value per share was HK\$0.310.
3. 8,000,000 options were exercised on 23rd October 2003 and the remaining 8,000,000 options were exercised on 25th October 2003. At the date before the options were exercised, the market value per share was HK\$0.305 and HK\$0.310, respectively.
4. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumption would be meaningless and could be misleading to the shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 2003, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and of its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO 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:

Ordinary shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of shares held	Percentage
Chen Hsien Min	Long position Personal	14,500,000	0.95%

In addition to the above, Mr Chang Wen I, Chairman of the Company, and Mr Chen Hsien Min, Managing Director of the Company, also hold non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

Save as disclosed above, as at 31st December 2003, none of the directors or chief executive, 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 SFO.

Saved 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 and chief executive of the Company 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' INTERESTS

As at 31st December 2003, other than the interests and short positions of the directors or chief executive of the Company as disclosed above, the following persons had interests and short positions in the shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:

Name	Interest held		Number of shares held	Percentage
Lucky Earn International Limited	Long position	Corporate	449,669,995 (Note 1)	29.41%
Top Glory Assets Limited	Long position	Corporate	217,692,895 (Note 2)	14.24%
Pushkin Holding Ltd.	Long position	Corporate	149,838,920 (Note 3)	9.80%

Notes:

1. Mr Chang Wen I, Chairman of the Company and his four children, have beneficial interests in 4% and 24% each in Lucky Earn International Limited, a company incorporated in the British Virgin Islands, respectively.
2. Two children of Mr Chen Hsien Min, Managing Director of the Company have beneficial interests in 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands, respectively.
3. A brother of Mr Chen Ying-Chieh, a director of the Company, has 60% of the issued share capital of Pushkin Holding Ltd., a company incorporated in the British Virgin Islands.

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 9% and 35%, 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 Article of Association.

Report of the Directors

AUDIT COMMITTEE

The Audit Committee is composed of two independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2003.

AUDITORS

The accounts for the year ended 31st December 2003 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

The accounts for the year ended 31st December 2001 were audited by Deloitte Touche Tohmatsu.

On behalf of the board

CHANG Wen I

Chairman

Hong Kong, 20th April 2004

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 18 to 56 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 the Group as at 31st December 2003 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, 20th April 2004

Consolidated Profit and Loss Account

For the year ended 31st December 2003

		2003	As restated
	<i>Note</i>	HK\$'000	2002 HK\$'000
Turnover	2	1,407,007	1,180,669
Cost of sales		(988,604)	(879,855)
Gross profit		418,403	300,814
Other revenues	2	6,212	7,492
Selling and distribution expenses		(205,739)	(166,477)
General and administrative expenses		(111,067)	(103,496)
Surplus on valuation of an unlisted investment	15	–	13,000
Operating profit	3	107,809	51,333
Finance costs	4	(5,780)	(9,009)
Share of results of an associated company		230	243
Profit before taxation		102,259	42,567
Taxation	5	(15,444)	(11,044)
Profit after taxation		86,815	31,523
Minority interests		(3,880)	(5,674)
Profit attributable to shareholders	6	82,935	25,849
Dividends	7	38,222	29,968
Earnings per share	8		
– basic		HK5.51 cents	HK1.73 cents
– diluted		HK5.50 cents	HK1.73 cents

Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Non-current assets			
Fixed assets	11	143,568	128,898
Interest in an associated company	14	2,163	2,326
Investment securities	15	37,437	37,437
Deferred tax assets	25	13,322	10,769
		<u>196,490</u>	<u>179,430</u>
Current assets			
Inventories	16	305,056	278,090
Trade receivables	17	83,651	132,140
Other receivables, deposits and prepayments		61,618	52,602
Trading investments	18	15,890	–
Pledged bank deposits	28(c)	7,242	–
Bank balances and cash		146,680	129,944
		<u>620,137</u>	<u>592,776</u>
Current liabilities			
Trade payables	19	201,103	188,157
Other payables and accrued charges		55,359	52,398
Amount due to an associated company	20	457	656
Amounts due to investee companies	21	3,089	1,389
Taxation payable		7,079	6,032
Bank loans and overdrafts	22	110,313	150,580
		<u>377,400</u>	<u>399,212</u>
Net current assets		<u>242,737</u>	<u>193,564</u>
Total assets less current liabilities		<u>439,227</u>	<u>372,994</u>
Financed by:			
Share capital	23	152,889	149,839
Reserves	24	227,088	179,997
Proposed final dividend	24	22,933	17,981
Shareholders' funds		<u>402,910</u>	<u>347,817</u>
Minority interests		<u>35,566</u>	<u>24,642</u>
Deferred tax liabilities	25	<u>751</u>	<u>535</u>
		<u>439,227</u>	<u>372,994</u>

CHANG WEI I
Chairman

CHEN HSIEN MIN
Managing director

Balance Sheet

As at 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investments in subsidiaries	12	<u>165,635</u>	<u>165,635</u>
Current assets			
Other receivables		204	204
Amounts due from subsidiaries	13	183,000	178,522
Bank balances		<u>183</u>	<u>41</u>
		<u>183,387</u>	<u>178,767</u>
Current liabilities			
Accrued charges		1,045	1,969
Amount due to a subsidiary	13	<u>9,807</u>	<u>9,807</u>
		<u>10,852</u>	<u>11,776</u>
Net current assets		<u>172,535</u>	<u>166,991</u>
Total assets less current liabilities		<u>338,170</u>	<u>332,626</u>
Financed by:			
Share capital	23	152,889	149,839
Reserves	24	162,348	164,806
Proposed final dividend	24	<u>22,933</u>	<u>17,981</u>
		<u>338,170</u>	<u>332,626</u>

CHANG WEI I
Chairman

CHEN HSIEN MIN
Managing director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

		2003	As restated
	<i>Note</i>	HK\$'000	2002 HK\$'000
Total equity at 1st January, as previously reported		337,583	326,004
Effect of the adoption of SSAP 12	24	<u>10,234</u>	<u>9,969</u>
Total equity at 1st January, as restated		347,817	335,973
Exchange differences arising on translation of the accounts of foreign subsidiaries and an associated company	24	<u>(32)</u>	<u>(2,018)</u>
Net losses not recognised in the consolidated profit and loss account		----- (32) -----	----- (2,018) -----
Profit attributable to shareholders	24	82,935	25,849
Dividends	24	(33,270)	(11,987)
Issue of shares	23	<u>5,460</u>	<u>–</u>
		----- 55,125 -----	----- 13,862 -----
Total equity at 31st December		<u>402,910</u>	<u>347,817</u>

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Cash generated from operations	26(a)	140,288	60,734
Taxation outside Hong Kong paid		(16,672)	(7,881)
Net cash from operating activities		<u>123,616</u>	<u>52,853</u>
Investing activities			
Interest received		636	596
Dividend received from an associated company		329	84
Purchase of fixed assets		(34,120)	(30,223)
Proceeds from disposal of fixed assets		221	15
Net cash used in investing activities		<u>(32,934)</u>	<u>(29,528)</u>
Net cash before financing activities		<u>90,682</u>	<u>23,325</u>
Financing activities			
Interest paid		(5,780)	(9,009)
Dividends paid	26(b)	(33,270)	(11,987)
Dividends paid to minority shareholders	26(b)	(2,718)	(1,744)
Increase in amounts due to minority shareholders	26(b)	9,780	4,099
Repayments of bank loans	26(b)	(178,308)	(187,655)
New bank loans raised	26(b)	138,015	164,699
Issue of shares	26(b)	5,460	–
(Increase)/decrease in pledged bank deposits		(7,242)	7,800
Net cash used in financing activities		<u>(74,063)</u>	<u>(33,797)</u>
Increase/(decrease) in cash and cash equivalents		16,619	(10,472)
Cash and cash equivalents at 1st January		129,917	141,497
Effect of foreign exchange rate changes		91	(1,108)
Cash and cash equivalents at 31st December	26(c)	<u>146,627</u>	<u>129,917</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 investment securities, trading investments, certain land and buildings, and plant and machinery.

In 2003, the Group adopted Statement of Standard Accounting Practice ("SSAP") No. 35 "Accounting for Government Grants and Disclosure of Government Assistance" and SSAP No. 12 (revised) "Income Taxes" which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively.

The adoption of SSAP 35 did not have significant impact to the accounts. The changes to the Group's accounting policy and the effect of adopting SSAP 12 (revised) 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 goodwill and accumulated exchange difference taken to reserves and which were not previously charged 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 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) 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.

Construction-in-progress represents buildings and plant under construction and equipment pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

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.

(e) 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.

(f) Investment securities

Investments which are held for non-trading purposes are stated at fair value at the 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 investments are credited or debited to the investment revaluation reserve until the investments are sold, or are determined to be impaired by the directors.

Where there is evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in the fair value is credited to the 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 profit and loss account.

(g) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Gains or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 the date of investment and bank overdrafts.

(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 the outflow becomes probable, it will then be recognised as a provision.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Deferred taxation *(Continued)*

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

As detailed in note 24 to the accounts, opening retained profits at 1st January 2002 and 2003 have been increased by approximately HK\$10,359,000 and HK\$10,624,000, respectively, which represent the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by approximately HK\$10,769,000 and HK\$535,000, respectively. The profit and amount charged to equity for the year ended 31st December 2002 have been increased by approximately HK\$265,000 and reduced by approximately HK\$390,000, respectively.

(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 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 leases.

Subcontracting income is recognised when the services are rendered.

Agency fee income is recognised on an accrual basis.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

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

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 expenses as incurred and/or are reduced by those employees who leave the scheme 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") where the Group operates. 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 contribution under these schemes. The contributions are charged to the profit and loss account as incurred.

(iii) Equity compensation benefits

Share options are granted to directors and to employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, investment securities, trading investments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate liabilities. Capital expenditure comprises additions to fixed assets.

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.

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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods, net of discounts	1,407,007	1,180,669
Other revenues		
Income derived from an unlisted investment <i>(note 15(a))</i>	3,000	3,000
Export incentives from government	918	1,074
Agency fee income	815	–
Interest income	636	596
Subcontracting income	234	2,714
Gross rental income	230	–
Dividend income from investment securities	118	–
Others	261	108
	6,212	7,492
Total revenues	1,413,219	1,188,161

Notes to the Accounts

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

Primary reporting format – business segments

The Group is organised into two main business segments:

OEM products – Manufacturing and distribution of footwear products under original-equipment manufacturing arrangements (“OEM”).

Own-brand products – Manufacturing and distribution of footwear products and accessories under “Daphne” and other brands owned by the Group.

There are no material transactions between the business segments.

	2003			2002		
	OEM products HK\$'000	Own- brand products HK\$'000	Group HK\$'000	OEM products HK\$'000	Own- brand products HK\$'000	Group HK\$'000
Turnover	<u>757,856</u>	<u>649,151</u>	<u>1,407,007</u>	685,969	494,700	<u>1,180,669</u>
Segment results	<u>46,811</u>	<u>53,620</u>	<u>100,431</u>	<u>14,737</u>	<u>19,556</u>	34,293
Income derived from an unlisted investment			<u>3,000</u>			3,000
Unrealised gains on forward exchange contracts			<u>4,465</u>			–
Surplus on valuation of an unlisted investment			–			13,000
Negative goodwill recognised			–			1,850
Unallocated revenues			<u>1,116</u>			24
Unallocated costs			<u>(1,203)</u>			(834)
Operating profit			<u>107,809</u>			<u>51,333</u>
Segment assets	<u>304,054</u>	<u>420,699</u>	<u>724,753</u>	321,082	389,841	710,923
Interest in an associated company			<u>2,163</u>			2,326
Investment securities			<u>37,437</u>			37,437
Other unallocated assets			<u>52,274</u>			21,520
Total assets			<u>816,627</u>			<u>772,206</u>
Segment liabilities	<u>213,765</u>	<u>155,499</u>	<u>369,264</u>	236,166	155,027	391,193
Other unallocated liabilities			<u>8,887</u>			8,554
Total liabilities			<u>378,151</u>			<u>399,747</u>
Capital expenditure	<u>13,976</u>	<u>20,144</u>	<u>34,120</u>	7,033	23,190	30,223
Depreciation	<u>6,928</u>	<u>11,583</u>	<u>18,511</u>	<u>7,695</u>	<u>13,153</u>	<u>20,848</u>

Notes to the Accounts

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

Secondary reporting format – geographical segments

The Group's operations are divided into two main geographical areas, the United States of America (the "US") and the People's Republic of China (the "PRC"). In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

Turnover

	2003	2002
	HK\$'000	HK\$'000
The US	731,058	650,164
The PRC	649,151	494,700
Others	26,798	35,805
	1,407,007	1,180,669

As the Group's assets are mainly located in the PRC, no segment assets and segment capital expenditures are presented.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003	2002
	HK\$'000	HK\$'000
Crediting		
Negative goodwill recognised	–	1,850
Net exchange gains	–	56
Unrealised gains on forward exchange contracts	4,465	–
Reversal of provision for bad and doubtful debts	988	3,050
Reversal of write-down of inventories	–	7,636
Charging		
Auditors' remuneration	1,224	1,289
Depreciation	18,511	20,848
Staff costs <i>(note 9)</i>	241,559	231,072
Loss on disposal of fixed assets	579	189
Net exchange losses	871	–
Operating lease rentals		
– Land and buildings	105,396	75,887
– Plant and machinery	–	88
Provision for slow-moving inventories	8,488	–

Notes to the Accounts

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	<u>5,780</u>	<u>9,009</u>

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.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 HK\$'000	As restated 2002 HK\$'000
Current taxation		
– Taxation outside Hong Kong	14,594	10,643
– Under provision in prior years	3,125	600
Deferred taxation (<i>note 25</i>)	(2,337)	(265)
	<u>15,382</u>	<u>10,978</u>
Share of taxation attributable to an associated company	62	66
	<u>15,444</u>	<u>11,044</u>

Notes to the Accounts

5. TAXATION (Continued)

Reconciliation between taxation charge and profit before taxation at applicable tax rates is as follows:

	2003 HK\$	2002 HK\$
Profit before taxation	<u>102,259</u>	<u>42,567</u>
Calculated at applicable tax rates from 12% to 33% to profits in the countries concerned	21,221	11,572
Income not subject to taxation	(23,574)	(19,216)
Expenses not deductible for taxation purposes	13,947	16,621
Tax losses not recognised	531	2,662
Under provision in prior years	3,125	600
Temporary differences not recognised	<u>194</u>	<u>(1,195)</u>
Taxation charge	<u>15,444</u>	<u>11,044</u>

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of approximately HK\$33,354,000 (2002: HK\$35,085,000).

7. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend, paid, of HK1.0 cent (2002: HK0.8 cent) per share	15,289	11,987
Final dividend, proposed, of HK\$1.5 cents (2002: HK1.2 cents) per share (Note)	<u>22,933</u>	<u>17,981</u>
	<u>38,222</u>	<u>29,968</u>

Note: At a meeting held on 20th April 2004, the board of directors recommends a final dividend of HK1.5 cents per share for the year ended 31st December 2003. 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 2004.

Notes to the Accounts

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$82,935,000 (Restated 2002: HK\$25,849,000). The basic earnings per share is based on the weighted average number of 1,504,118,411 (2002: 1,498,392,384) shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2003 is based on 1,507,682,404 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 3,563,993 shares deemed to be issued at no consideration if all outstanding options had been exercised.

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

9. STAFF COSTS

Staff costs including directors' emoluments represent:

	2003	2002
	HK\$'000	HK\$'000
Wages, salaries and bonuses	234,364	225,787
Termination benefits	–	442
Retirement benefit costs (<i>Note</i>)	7,195	4,843
	241,559	231,072

Note: All Hong Kong employees of the Group have 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 contribution.

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 2003, no forfeited contribution is available to reduce the contribution payable in the future.

Contributions totalling approximately HK\$606,000 (2002: HK\$415,000) payable to the funds as at 31st December 2003 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	240	–
Other emoluments:		
Basic salaries, bonuses and benefits in kind	10,549	13,814
Performance related incentive payments	–	884
	10,789	14,698

Directors' fees disclosed above were paid to two independent non-executive directors (2002: Nil).

During the year, 43,500,000 options (2002: Nil) were granted to certain directors under the share option scheme approved by the shareholders at an extraordinary general meeting on 29th May 2003. Benefits in kind included the difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration paid by the directors under the option scheme during the year. More details of share options granted and exercised during the year are set out in note 23 to the accounts.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Emolument bands		
HK\$nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	2
HK\$6,000,001 to HK\$6,500,000	1	–

Notes to the Accounts

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: three) executive director whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining four (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Basic salaries and bonuses	8,302	3,276
Performance related incentive payments	1,384	546
	<u>9,686</u>	<u>3,822</u>

The emoluments fell within the following bands:

	Number of individuals	
	2003	2002
Emolument bands		
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	3	1
HK\$3,000,001 to HK\$3,500,000	1	–
	<u>1</u>	<u>–</u>

- (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.

Notes to the Accounts

11. FIXED ASSETS

	Group						
	Leasehold land and buildings	Leasehold improvements	Construction- in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation							
At 1st January 2003	126,351	18,246	–	92,089	29,437	13,382	279,505
Exchange adjustment	(134)	(19)	–	(106)	(28)	(19)	(306)
Additions	2,378	11,433	8,122	6,701	2,278	3,208	34,120
Disposals	–	(8,533)	–	(1,562)	(3,550)	(630)	(14,275)
At 31st December 2003	<u>128,595</u>	<u>21,127</u>	<u>8,122</u>	<u>97,122</u>	<u>28,137</u>	<u>15,941</u>	<u>299,044</u>
Accumulated depreciation							
At 1st January 2003	29,161	9,741	–	82,590	19,238	9,877	150,607
Exchange adjustment	(24)	(10)	–	(98)	(23)	(12)	(167)
Charge for the year	6,499	6,859	–	2,531	1,503	1,119	18,511
Disposals	–	(8,171)	–	(1,507)	(3,207)	(590)	(13,475)
At 31st December 2003	<u>35,636</u>	<u>8,419</u>	<u>–</u>	<u>83,516</u>	<u>17,511</u>	<u>10,394</u>	<u>155,476</u>
Net book value							
At 31st December 2003	<u>92,959</u>	<u>12,708</u>	<u>8,122</u>	<u>13,606</u>	<u>10,626</u>	<u>5,547</u>	<u>143,568</u>
At 31st December 2002	97,190	8,505	–	9,499	10,199	3,505	128,898

Notes to the Accounts

11. FIXED ASSETS (Continued)

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

	Group						Total
	Leasehold land and buildings	Leasehold improve- ments	Construction- in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	
	<i>HK\$'000</i>	<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	109,095	21,127	8,122	54,537	28,137	15,941	236,959
At 1995 valuation (Note b)	19,500	-	-	42,585	-	-	62,085
At 31st December 2003	128,595	21,127	8,122	97,122	28,137	15,941	299,044
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
At 31st December 2002	126,351	18,246	-	92,089	29,437	13,382	279,505

- (a) At 31st December 2003 and 31st December 2002, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases of between 10 to 50 years.
- (b) Such leasehold land and buildings and plant and machinery were revalued 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\$10,106,000 (2002: HK\$11,878,000) and HK\$Nil (2002: HK\$Nil), respectively, had they been stated at cost less accumulated depreciation.
- (c) At 31st December 2003, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans amounted to approximately HK\$10,038,000 (2002: HK\$40,763,000).
- (d) During the year ended 31st December 2003, certain leasehold land and buildings were leased out under operating leases. The carrying amount of the leasehold land and buildings held for use in operating leases was approximately HK\$1,979,000 (2002: Nil).

Notes to the Accounts

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost	165,635	165,635

The following is a list of the principal subsidiaries at 31st December 2003:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	US\$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	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	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 (Note (b))	100	Export trading of footwear products, investment and trademarks holding 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 capital/paid-up capital	Interest held %	Principal activities and place of operation
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
Ji Wei Shoe Industrial Co., Ltd.	PRC; wholly-owned foreign enterprise	US\$730,000	100	Manufacture of footwear products in the PRC
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	US\$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	US\$3,600,000	84.45	Manufacture of footwear products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	US\$30,000,000	100	Distribution of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	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 practically 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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	2,163	2,326
Unlisted investment, at cost	2,340	2,340

Particulars of the associated company at 31st December 2003 are as follows:

Name	Place of establishment	Particulars of paid-up capital	Interest held indirectly	Principal activity
			%	
Dayong Shoe Material Co., Ltd. Hanjiang Putian City	PRC	RMB5,457,000	30	Manufacture of shoe materials in the PRC

Notes to the Accounts

15. INVESTMENT SECURITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments (<i>Note a</i>), at fair value	37,437	37,437
Listed securities (<i>Note b</i>), at fair value	—	—
	37,437	37,437

Note:

- (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 2003, the carrying value of the investment in Jingxing was approximately HK\$37,000,000 (2002: HK\$37,000,000). The fair value of the investment in Jingxing as at 31st December 2003 and 31st December 2002 was valued by the directors and Chesterton Petty Limited, an independent professional valuer, respectively.

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. During the year, 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. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31st December 2003 was approximately HK\$3,000,000 (2002: HK\$3,000,000) and has been recognised in the profit and loss account.

- (b) At 31st December 2003, the Group held approximately 14.4% (2002: 14.4%) interest in Sun Home Leather Corporation Limited ("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. The directors considered that the fair value of investment in Sun Home was negligible. 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 profit and loss account in that year as an impairment loss. Since the volume of transactions of the shares in Sun Home was infrequent and the volume of trade was low in 2003, the directors do not consider that there has been any material change in fair value of the investment in Sun Home as at 31st December 2003.

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. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	49,842	50,051
Work-in-progress	24,514	22,202
Finished goods	230,700	205,837
	<u>305,056</u>	<u>278,090</u>

At 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$38,439,000 (2002: HK\$11,750,000).

17. TRADE RECEIVABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	55,213	55,193
31 – 60 days	14,715	31,147
61 – 90 days	9,689	18,892
91 – 120 days	3,511	8,802
121 – 180 days	152	5,186
181 – 360 days	343	12,040
Over 360 days	28	880
	<u>83,651</u>	<u>132,140</u>

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.

Notes to the Accounts

18. TRADING INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at fair value	<u>15,890</u>	<u>–</u>

Note: Unlisted investments represents investment funds traded in Taiwan.

19. TRADE PAYABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	106,653	115,907
31 – 60 days	53,013	41,846
61 – 90 days	23,847	15,444
91 – 120 days	8,482	7,896
121 – 180 days	4,467	1,915
181 – 360 days	2,517	4,569
Over 360 days	2,124	580
	<u>201,103</u>	<u>188,157</u>

20. AMOUNT DUE TO AN ASSOCIATED COMPANY

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

21. AMOUNTS DUE TO investee COMPANIES

The amounts due to investee companies, are unsecured, interest-free and repayable according to trade terms agreed between both parties.

Notes to the Accounts

22. BANK LOANS AND OVERDRAFTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans and overdrafts		
– Secured (<i>Note (b)</i>)	49,602	73,683
– Unsecured	60,711	76,897
	110,313	150,580

Notes:

- (a) As at 31st December 2003 and 2002, the Group's bank loans were repayable within one year.
- (b) As at 31st December 2003, the Group's short-term bank loans of approximately HK\$49,602,000 (2002: HK\$70,593,000) were secured by the following assets of the Group:
- (i) certain leasehold land and buildings of net book value of approximately HK\$10,038,000 (2002: HK\$40,763,000); and
 - (ii) listed investment securities of Sun Home with nil (2002: nil) carrying value.
- (c) As at 31st December 2002, an export value-added tax recoverable of approximately HK\$4,418,000 was pledged against the Group's short-term bank loan of approximately HK\$3,090,000.

Notes to the Accounts

23. SHARE CAPITAL

	2003	2002
	HK\$'000	HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>

	2003		2002	
	No. of ordinary shares of HK\$0.10 each	HK\$'000	No. of ordinary shares of HK\$0.10 each	HK\$'000
<i>Issued and fully paid:</i>				
At 1st January	1,498,392,384	149,839	1,498,392,384	149,839
Exercise of share options	<u>30,500,000</u>	<u>3,050</u>	<u>–</u>	<u>–</u>
At 31st December	<u>1,528,892,384</u>	<u>152,889</u>	<u>1,498,392,384</u>	<u>149,839</u>

In accordance with the Company's share option scheme (the "Scheme") adopted on 29th May 2003 for a period of ten years, the board of directors may grant options to eligible employees, officers, agents or consultants of the Company and its subsidiaries (including any executive or non-executive directors), to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

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

	Number of options	
	2003	2002
At beginning of the year	–	80,000,000
Granted (<i>Note (i)</i>)	59,500,000	–
Exercised (<i>Note (ii)</i>)	(30,500,000)	–
Lapsed (<i>Note (iii)</i>)	–	(80,000,000)
At end of the year	<u>29,000,000</u>	<u>–</u>

Notes to the Accounts

23. SHARE CAPITAL (Continued)

Notes:

- (i) Share options were granted on 1st July 2003 and 28th July 2003 at the exercise price of HK\$0.16 and HK\$0.20 per share, respectively, and expire on 30th June 2009 and 27th July 2009, respectively. Consideration of HK\$5.00 was received in respect of the share options granted during the year.
- (ii) Options exercised on 23rd October 2003 and 25th October 2003 resulted in 16,000,000 and 14,500,000 shares being issued at HK\$0.16 and HK\$0.20 each, respectively, yielding the following proceeds:

	2003	2002
	HK\$'000	HK\$'000
Ordinary share capital – at par	3,050	–
Share premium	2,410	–
	<hr/>	<hr/>
Proceeds	5,460	–
	<hr/>	<hr/>
Fair value of shares issued at exercise date of:		
– 23rd October 2003		HK\$0.305
– 25th October 2003		HK\$0.310
		<hr/>

- (iii) As at 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 under the Company's share option scheme adopted on 9th October 1995 were 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 option was exercised during the period and all the outstanding share options lapsed on 28th March 2002.

Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price	2003	2002	2003	2002
		No. of options		Vested percentages	
Directors					
27th July 2009	HK\$0.20	29,000,000	–	100%	–
		<hr/>	<hr/>	<hr/>	<hr/>

No share options were cancelled during the year (2002: Nil).

Notes to the Accounts

24. RESERVES

	Group								
	Share premium	Capital redemption reserve	Property 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
		(Note a)				(Note b)	(Note c)		
At 1st January 2003, as previously reported	2,315	2,882	1,184	(9,594)	(36,782)	322	9,060	218,357	187,744
Effect of adopting SSAP 12 (revised) (Note 1 (ii))	-	-	(390)	-	-	-	-	10,624	10,234
At 1st January 2003, as restated	2,315	2,882	794	(9,594)	(36,782)	322	9,060	228,981	197,978
Exchange differences	-	-	-	(34)	-	-	-	-	(34)
Transfer	-	-	-	-	-	-	1,582	(1,582)	-
Share of an associated company's reserve	-	-	-	2	-	-	7	(7)	2
Profit for the year	-	-	-	-	-	-	-	82,935	82,935
Dividends	-	-	-	-	-	-	-	(33,270)	(33,270)
Issue of shares	2,410	-	-	-	-	-	-	-	2,410
At 31st December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Representing:									
Reserves	4,725	2,882	794	(9,626)	(36,782)	322	10,649	254,124	227,088
2003 final dividend proposed	-	-	-	-	-	-	-	22,933	22,933
At 31st December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Company and subsidiaries	4,725	2,882	794	(8,752)	(36,782)	322	10,229	276,780	250,198
An associated company	-	-	-	(874)	-	-	420	277	(177)
At 31st December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021

Notes to the Accounts

24. RESERVES (Continued)

	Group								
	Share premium	Capital redemption reserve	Property revaluation reserve	Exchange difference	Goodwill	Merger reserve	Other reserves	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i> <i>(Note c)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2002, as previously reported	2,315	2,882	1,184	(7,576)	(36,782)	322	8,328	205,492	176,165
Effect of adopting SSAP 12 (revised) <i>(Note 1 (l))</i>	-	-	(390)	-	-	-	-	10,359	9,969
At 1st January 2002, as restated	2,315	2,882	794	(7,576)	(36,782)	322	8,328	215,851	186,134
Exchange differences	-	-	-	(1,993)	-	-	-	-	(1,993)
Transfer	-	-	-	-	-	-	730	(730)	-
Share of an associated company's reserves	-	-	-	(25)	-	-	2	(2)	(25)
Profit for the year	-	-	-	-	-	-	-	25,849	25,849
Dividends	-	-	-	-	-	-	-	(11,987)	(11,987)
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>
Representing:									
Reserves	2,315	2,882	794	(9,594)	(36,782)	322	9,060	211,000	179,997
2002 final dividend proposed	-	-	-	-	-	-	-	17,981	17,981
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>
Company and subsidiaries	2,315	2,882	794	(8,722)	(36,782)	322	8,647	228,629	198,085
An associated company	-	-	-	(872)	-	-	413	352	(107)
At 31st December 2002	<u>2,315</u>	<u>2,882</u>	<u>794</u>	<u>(9,594)</u>	<u>(36,782)</u>	<u>322</u>	<u>9,060</u>	<u>228,981</u>	<u>197,978</u>

Notes to the Accounts

24. RESERVES (Continued)

	Company				Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000 (Note (a))	Contributed surplus HK\$'000 (Note (d))	Retained profits HK\$'000	
At 1st January 2002	2,315	2,882	152,891	1,601	159,689
Profit for the year	–	–	–	35,085	35,085
Dividends	–	–	–	(11,987)	(11,987)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1st January 2003	2,315	2,882	152,891	24,699	182,787
Profit for the year	–	–	–	33,354	33,354
Dividends	–	–	–	(33,270)	(33,270)
Issue of shares	2,410	–	–	–	2,410
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	4,725	2,882	152,891	24,783	185,281

(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\$5,535,000 (2002: approximately HK\$4,477,000) and enterprise expansion fund of approximately HK\$5,114,000 (2002: approximately HK\$4,583,000) required to be set up pursuant to 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.

Notes to the Accounts

24. RESERVES (Continued)

(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 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. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates.

The movement on the deferred tax liabilities/(assets) is as follows:

	2003 HK\$'000	2002 HK\$'000
At 1st January	(10,234)	(9,969)
Credited to profit and loss account (Note 5)	(2,337)	(265)
At 31st December	<u>(12,571)</u>	<u>(10,234)</u>

Deferred income tax assets are recognised for tax losses available to be carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$5,369,000 (2002: HK\$4,909,000) to be carried forward against future taxable income.

Notes to the Accounts

25. DEFERRED TAXATION *(Continued)*

The movements in deferred tax liabilities/(assets) (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2003	2002
	HK\$'000	HK\$'000
At 1st January	535	419
Charged to profit and loss account	216	116
	<hr/>	<hr/>
At 31st December	751	535
	<hr/>	<hr/>

Deferred tax assets

	Provisions		Decelerated tax depreciation		Deferred expenses		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	(7,085)	(7,397)	(3,552)	(1,908)	(132)	(1,083)	(10,769)	(10,388)
Charged/(credited) to profit and loss account	(758)	312	(1,143)	(1,644)	(652)	951	(2,553)	(381)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December	(7,843)	(7,085)	(4,695)	(3,552)	(784)	(132)	(13,322)	(10,769)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Accounts

26. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash generated from operations

	2003	2002
	HK\$'000	HK\$'000
Operating profit	107,809	51,333
Interest income	(636)	(596)
Depreciation	18,511	20,848
Loss on disposal of fixed assets	579	189
Surplus on valuation of an unlisted investment	–	(13,000)
Negative goodwill recognised	–	(1,850)
	<hr/>	<hr/>
Operating profit before working capital changes	126,263	56,924
Increase in inventories	(26,966)	(94,551)
Decrease in trade receivable, other receivables, deposits and prepayments	39,473	49,748
Increase in trade payables, other payables and accrued charges	15,907	48,333
Increase in trading investments	(15,890)	–
Decrease in amount due to an associated company	(199)	(151)
Increase in amounts due to investee companies	1,700	431
	<hr/>	<hr/>
Net cash generated from operations	140,288	60,734

Notes to the Accounts

26. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank loans		Dividend payable		Minority interests		Share capital including premium	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	150,553	173,432	-	-	24,642	17,033	152,154	152,154
Exchange differences	-	77	-	-	-	-	-	-
Dividend declared	-	-	33,270	11,987	-	-	-	-
Dividend paid	-	-	(33,270)	(11,987)	-	-	-	-
Dividends paid to minority shareholders	-	-	-	-	(2,718)	(1,744)	-	-
Minority interests' in share of profits and exchange reserves	-	-	-	-	3,862	5,254	-	-
Increase in amounts due to minority shareholders	-	-	-	-	9,780	4,099	-	-
Issue of shares	-	-	-	-	-	-	5,460	-
New bank loans raised	138,015	164,699	-	-	-	-	-	-
Repayment of bank loans	(178,308)	(187,655)	-	-	-	-	-	-
At 31st December	110,260	150,553	-	-	35,566	24,642	157,614	152,154

(c) Cash and cash equivalents

	2003 HK\$'000	2002 HK\$'000
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	146,680	129,944
Bank overdrafts	(53)	(27)
	<u>146,627</u>	<u>129,917</u>

27. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31st December 2003 and 31st December 2002.

At 31st December 2003, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to approximately HK\$63,000,000 (2002: HK\$30,800,000). At 31st December 2003, the utilised amount of such facilities covered by the Company's guarantees was HK\$8,616,000 (2002: HK\$11,556,000).

Notes to the Accounts

28. COMMITMENTS

(a) Capital commitments for purchase of fixed assets

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for	26,762	–
Contracted but not provided for	7,018	–
	<u>33,780</u>	<u>–</u>

(b) Commitments under operating leases

At 31st December 2003, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	84,936	64,556
Later than one year and not later than five years	106,040	77,847
Later than five years	2,710	8,841
	<u>193,686</u>	<u>151,244</u>

Payment obligations in respect of operating leases on properties with rentals vary with gross revenues are not included as future minimum lease payments.

(c) Forward exchange contracts

As at 31st December 2003, the Group had outstanding forward contracts to purchase United States dollars and sell Renminbi in the ordinary course of its business amounting to HK\$230,100,000 (2002: Nil).

As at 31st December 2003, bank deposits of HK\$7,242,000 (2002: Nil) were pledged against the above forward contracts.

(d) The Company did not have any commitments as at 31st December 2003 (2002: Nil).

Notes to the Accounts

29. 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 during the year are as follows:

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Purchases from an associated company	(a)	1,847	2,968
Purchases from investee companies	(b)	10,236	7,508

Notes:

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

30. COMPARATIVE FIGURES

- (a) In prior years, the expenses in the consolidated profit and loss account were classified according to their nature. With effect from the current year, such expenses are classified according to their functions. The directors consider that such classification more fairly presents the elements of the Group's performance. The comparative figures of the consolidated profit and loss account have been reclassified to conform to the current year's presentation and such reclassification has no effect on the Group's operating.
- (b) Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 1(l).

31. SUBSEQUENT EVENTS

On 8th January 2003, the board of directors authorised the Group to form a joint venture company in Hong Kong for the business of a new footwear brand in the PRC. The Group will invest RMB25 million for 50% shareholding in the joint venture company.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20th April 2004.

Five Year Financial Summary

For the years ended 31st December

	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Turnover	1,407,007	1,180,669	1,088,527	1,013,816	1,017,322
Profit/(loss) attributable to shareholders	82,935	25,849	(99,779)	(51,151)	33,885

As at 31st December

	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities					
Total assets	816,627	772,206	713,156	835,059	809,016
Total liabilities	(378,151)	(399,747)	(370,119)	(398,017)	(335,137)
Minority interests	(35,566)	(24,642)	(17,033)	(24,628)	(23,774)
	402,910	347,817	326,004	412,414	450,105

Note: The financial summary of 2002 has been restated to reflect the change in accounting policy on the adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants. The financial summary of 2001, 2000 and 1999 has not been restated as it is impracticable to determine the amounts relating to prior periods or to restate the comparative information.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at 4/F Ching Room of Sheraton Hong Kong Hotel and Towers at No. 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, on Monday, 31st May 2004 at 10:30 a.m. for the following purposes:-

1. To receive and consider the audited accounts and the reports of the Directors and auditors for the year ended 31st December 2003;
2. To declare a final dividend for the year ended 31st December 2003;
3. To re-elect Directors and to fix the remuneration of Directors;
4. To re-appoint auditors and to authorise the Directors to fix their remuneration;
5. 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 recognised 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 authorised 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 purposes 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 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 authorise 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 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 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; 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 recognised 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. 5A and No. 5B 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. 5B 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. 5A 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. 5A." and;
6. To transact any other business.

By Order of the Board
IP Ching Bun Ben
Company Secretary

Hong Kong, 20th April 2004

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, 25th May 2004 to Monday, 31st May 2004, 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, 24th May 2004.
4. Concerning the Resolution No. 5A above, an explanatory statement relating thereto is set out in Appendix 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 later.