

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider Pegasus Footgear Management Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

These financial statements are presented in United States dollars because that is the currency in which the majority of the Group's transactions are denominated.

The Group is engaged principally in the manufacture and sale of footwear products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land use rights and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

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

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

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

Revenue recognition

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

The gain or loss arising from disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Medium-term land use rights and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land use rights and buildings is credited to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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

Medium-term land use rights and buildings	Over the term of the lease
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33 $\frac{1}{3}$ %
Motor vehicles	20%

Construction in progress is stated at cost which includes all development expenditure and the direct costs attributable to such projects. Construction in progress is not depreciated or amortised until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Foreign currencies

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

Taxation

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

Cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

3. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, during the year.

The Group's turnover analysed by geographical markets is as follows:

	2000 US\$'000	1999 <i>US\$'000</i>
North America	99,730	99,637
Europe	43,264	36,935
Asia	23,764	20,321
Others	5,920	3,654
	<u>172,678</u>	<u>160,547</u>

The contribution to operating profit by geographical markets is not presented as the contribution to profit from each geographical market is in line with the ratio of operating profit to turnover achieved by the Group.

4. OTHER REVENUE

	2000 US\$'000	1999 <i>US\$'000</i>
Exchange gain	58	231
Sales of moulds and samples	2,195	2,660
Sundry	1,131	1,072
	<u>3,384</u>	<u>3,963</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

5. PROFIT FROM OPERATIONS

	2000	1999
	US\$'000	US\$'000
Profit from operations has been arrived at after charging:		
Staff costs	33,422	28,252
Provident fund contributions	3	—
	33,425	28,252
Auditors' remuneration	98	99
Depreciation and amortisation	10,030	10,007
Loss on disposal of property, plant and equipment	3	347
Rental payments in respect of premises under operating leases	549	313

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The following directors' emoluments have been charged in arriving at the profit from operations:

	2000	1999
	US\$'000	US\$'000
Directors' fees:		
Executive	73	73
Non-executive	8	8
Independent non-executive	23	15
Other emoluments (executive directors):		
Basic salaries and allowances	582	560
Bonus	1,429	1,423
	2,115	2,079

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Emoluments of the directors were within the following bands:

		Number of directors	
		2000	1999
Nil	to HK\$1,000,000	4	5
HK\$1,000,001	to HK\$1,500,000	1	1
HK\$1,500,001	to HK\$2,000,000	1	1
HK\$2,000,001	to HK\$2,500,000	1	1
HK\$3,000,001	to HK\$3,500,000	1	1
HK\$7,500,001	to HK\$8,000,000	1	1
		<u>1</u>	<u>1</u>

The five highest paid employees of the Group were all executive directors of the Company and details of their emoluments are included above.

None of the directors waived any emoluments during the year.

7. TAXATION

	2000	1999
	US\$'000	US\$'000
The charge comprises:		
Hong Kong Profits Tax	2	6
Taxation in other jurisdictions		
— People's Republic of China (the "PRC")	475	536
— Republic of China ("Taiwan")	66	10
	<u>543</u>	<u>552</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

7. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for both years.

The PRC tax charge for the year represents provision for PRC income tax for Pan Yu Fang Chun Footwear Co., Ltd. and Panyu Pegasus Footwear Co. Ltd. at 13.2% of their estimated assessable profits for the year.

The Taiwan tax charge is calculated at 25% of the estimated assessable profits of a subsidiary which operates in Taiwan.

In the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's net profit attributable to shareholders for the year dealt with in the financial statements of the Company amounted to US\$6,700,000 (1999: US\$6,729,000).

9. DIVIDENDS

	2000 US\$'000	1999 US\$'000
Interim dividend of 3 Hong Kong cents per ordinary share (1999: 3 Hong Kong cents per ordinary share) paid	2,792	2,792
Final proposed dividend of 1.5 Hong Kong cents per ordinary share (1999: 3.5 Hong Kong cents per ordinary share)	1,396	3,257
Dividend paid for convertible non-voting preference shares	637	637
	<u>4,825</u>	<u>6,686</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2000 US\$'000	1999 US\$'000
Earnings		
Profit attributable to shareholders	16,371	16,004
Dividend for convertible non-voting preference shares	(637)	(637)
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Earnings for the purpose of basic earnings per share	15,734	15,367
Effect of dilutive potential ordinary shares:		
— Dividend for convertible non-voting preference shares	637	637
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Earnings for the purpose of diluted earnings per share	<u>16,371</u>	<u>16,004</u>
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	721,200,000	721,200,000
Effect of dilutive potential ordinary shares:		
— Share options	9,177,320	5,152,184
— Convertible non-voting preference shares	67,229,910	67,229,910
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>797,607,230</u>	<u>793,582,094</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

11. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights and buildings US\$'000	Construction in progress US\$'000	Leasehold improvements US\$'000	Plant and machinery US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2000	42,122	5,673	1,489	64,042	9,174	670	123,170
Additions	70	6,002	28	11,855	728	93	18,776
Transfers	4,249	(5,269)	—	56	964	—	—
Disposals	—	—	—	—	(29)	—	(29)
Revaluation deficit	(1,093)	—	—	—	—	—	(1,093)
At 31st December, 2000	<u>45,348</u>	<u>6,406</u>	<u>1,517</u>	<u>75,953</u>	<u>10,837</u>	<u>763</u>	<u>140,824</u>
Comprising:							
At cost	—	6,406	1,517	75,953	10,837	763	95,476
At valuation							
— December 2000	<u>45,348</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,348</u>
	<u>45,348</u>	<u>6,406</u>	<u>1,517</u>	<u>75,953</u>	<u>10,837</u>	<u>763</u>	<u>140,824</u>
DEPRECIATION AND AMORTISATION							
At 1st January, 2000	—	—	1,441	20,883	4,969	506	27,799
Provided for the year	936	—	20	7,432	1,594	48	10,030
Eliminated on disposals	—	—	—	—	(17)	—	(17)
Eliminated on revaluation	(936)	—	—	—	—	—	(936)
At 31st December, 2000	<u>—</u>	<u>—</u>	<u>1,461</u>	<u>28,315</u>	<u>6,546</u>	<u>554</u>	<u>36,876</u>
NET BOOK VALUE							
At 31st December, 2000	<u>45,348</u>	<u>6,406</u>	<u>56</u>	<u>47,638</u>	<u>4,291</u>	<u>209</u>	<u>103,948</u>
At 31st December, 1999	<u>42,122</u>	<u>5,673</u>	<u>48</u>	<u>43,159</u>	<u>4,205</u>	<u>164</u>	<u>95,371</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The medium-term land use rights and buildings and the factory under construction included in construction in progress are situated in the PRC.

The medium-term land use rights and buildings were revalued as at 31st December, 2000 by Sallmanns (Far East) Limited, an independent firm of property valuers. The valuation is made on the basis that there is a willing buyer and that the subject assets are in their continued use. Had the revalued land use rights and buildings been carried at cost less accumulated depreciation and amortisation, their carrying value would have been stated at approximately US\$34,698,000 (1999: US\$31,082,000).

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	US\$'000	US\$'000
Unlisted shares, at cost	26,465	26,465
Amounts due from subsidiaries	40,015	39,987
	<u>66,480</u>	<u>66,452</u>

Particulars of the Company's principal subsidiaries at 31st December, 2000 are set out in note 29.

The amounts due from subsidiaries are unsecured and non-interest bearing. In the opinion of the directors, no part of the amounts is expected to be received within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

13. INTEREST IN AN ASSOCIATE/AMOUNT DUE TO AN ASSOCIATE

	THE GROUP	
	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Share of an associate's net assets	<u>455</u>	<u>—</u>
Amount due to an associate	<u>519</u>	<u>—</u>

Particulars of the associate at 31st December, 2000 are as follows:

Name of associate	Place of incorporation	Proportion of nominal value of issued share capital held by the Group	Principal activity
Hi-Tech Pacific Limited	British Virgin Islands	40%	Manufacture of footwear materials

The amount due to an associate is unsecured, interest-free and has no fixed repayment terms.

14. INVENTORIES

	THE GROUP	
	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Raw materials	16,982	14,467
Work in progress	8,058	9,887
Finished goods	<u>9,922</u>	<u>3,625</u>
	<u>34,962</u>	<u>27,979</u>

At the balance sheet date, all inventories are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

15. TRADE AND OTHER RECEIVABLES

The Group grants an average credit period of approximately 30 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP 2000 US\$'000
0-30 days	10,757
31-60 days	1,486
>60 days	1,697
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Total trade receivables	13,940
Other receivables	1,657
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	15,597
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16. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP 2000 US\$'000
0-30 days	5,469
31-60 days	2,492
>60 days	5,605
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Total trade payables	13,566
Other payables	12,680
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	26,246
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NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

17. BANK BORROWINGS, UNSECURED

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Bank loans	17,974	10,185
Trust receipt loans	4,931	5,819
	22,905	16,004
Less: Amounts due within one year shown under current liabilities	17,562	15,884
Amounts due after one year	5,343	120
The bank borrowings carry interest at prevailing market rates and are repayable as follows:		
Within one year or on demand	17,562	15,884
Between one to two years	4,677	120
Between two to five years	666	—
	22,905	16,004

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

18. SHARE CAPITAL

	2000 & 1999	
	Number of shares	Amount US\$'000
Authorised		
Ordinary shares of HK\$0.10 each	1,500,000,000	19,355
Convertible non-voting preference shares of US\$100,000 each (<i>Note</i>)	150	<u>15,000</u>
		<u>34,355</u>
Issued and fully paid		
Ordinary shares of HK\$0.10 each	721,200,000	9,306
Convertible non-voting preference shares of US\$100,000 each (<i>Note</i>)	150	<u>15,000</u>
		<u>24,306</u>

There were no changes in the Company's share capital during both years.

Note:

The principal rights, privileges and restrictions of the convertible non-voting preference shares (the "CP Shares") are as follows:

- (a) a fixed cumulative cash dividend in United States dollar at the rate of 4.25% per annum on the principal amount payable half yearly in arrears on 30th June and 31st December in each year;
- (b) an additional dividend calculated in accordance with predetermined formulae set out in the Company's By-laws;
- (c) convertible into fully paid ordinary shares of HK\$0.10 each in the Company, in accordance with a specific schedule after the first anniversary and no later than the 4th anniversary of the date of issue (i.e. 15th September, 2001) at a conversion price of HK\$1.7272 per ordinary share, subject to adjustment.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

18. SHARE CAPITAL (Continued)

Note: (Continued)

- (d) on the occurrence of certain events, the Company shall be entitled to convert the CP Shares into ordinary shares of the Company;
- (e) redeemable on the 4th anniversary of the date of issue (i.e. 15th September, 2001) at the option of the CP Shares holders, or on the occurrence of any redemption events specified in the resolution dated 8th September, 1997;
- (f) rank in priority to any other classes of share capital of the Company for the accrual of dividend and principal amount on a return of capital, in the case of a winding up or otherwise; and
- (g) receive notice of, but does not have the right to vote at, general meetings of the Company.

19. SHARE OPTION SCHEME

Under the terms of the Company's share option scheme (the "Scheme") which became effective on 25th September, 1996, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at any time for a period of three years commencing on the first anniversary of the date of grant of the option. The subscription price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of the offer to grant an option.

A summary of the options granted under the Scheme are as follows:

Date of grant	Exercise price per share <i>HK\$</i>	Number of share options outstanding at 1.1.2000 and 31.12.2000
4th January, 1997	0.77	17,500,000
23rd April, 1999	0.60	14,600,000
		<u>32,100,000</u>

No options under the Scheme were granted or exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

20. RESERVES

	Share premium <i>US\$'000</i>	Contributed surplus <i>US\$'000</i>	Assets revaluation reserve <i>US\$'000</i>	Merger reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>
THE GROUP						
At 1st January, 1999	21,029	—	11,531	(4,512)	38,599	66,647
Surplus arising on revaluation of the land use rights and buildings	—	—	41	—	—	41
Net profit for the year	—	—	—	—	16,004	16,004
Dividends (<i>note 9</i>)	—	—	—	—	(6,686)	(6,686)
At 31st December, 1999	21,029	—	11,572	(4,512)	47,917	76,006
Deficit arising on revaluation of the land use rights and buildings	—	—	(157)	—	—	(157)
Net profit for the year	—	—	—	—	16,371	16,371
Dividends (<i>note 9</i>)	—	—	—	—	(4,825)	(4,825)
At 31st December, 2000	<u>21,029</u>	<u>—</u>	<u>11,415</u>	<u>(4,512)</u>	<u>59,463</u>	<u>87,395</u>
THE COMPANY						
At 1st January, 1999	21,029	19,486	—	—	5,323	45,838
Net profit for the year (<i>note 8</i>)	—	—	—	—	6,729	6,729
Dividends (<i>note 9</i>)	—	—	—	—	(6,686)	(6,686)
At 31st December, 1999	21,029	19,486	—	—	5,366	45,881
Net profit for the year (<i>note 8</i>)	—	—	—	—	6,700	6,700
Dividends (<i>note 9</i>)	—	—	—	—	(4,825)	(4,825)
At 31st December, 2000	<u>21,029</u>	<u>19,486</u>	<u>—</u>	<u>—</u>	<u>7,241</u>	<u>47,756</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

20. RESERVES (Continued)

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the share capital of the acquiring companies issued in exchange pursuant to a corporate reorganisation.

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under a corporate reorganisation undertaken in 1996.

The accumulated profits of the Group include US\$55,000 (1999: Nil) retained by the Group's associate.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders as at 31st December, 2000 are represented by its accumulated profits and contributed surplus, totalling US\$26,727,000 (1999: US\$24,852,000).

21. DEFERRED TAXATION

No deferred taxation has been provided on the surplus arising on revaluation of land use rights and buildings as in the opinion of the Company's directors, the Group does not have any intention to dispose of these properties in the foreseeable future.

No provision for deferred taxation has been recognised for the other timing difference in the financial statements as the amount involved is not significant.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

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

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Profit before taxation	16,914	16,556
Share of results of an associate	(55)	—
Interest income	(464)	(496)
Interest expenses	1,366	1,008
Depreciation and amortisation	10,030	10,007
Loss on disposal of property, plant and equipment	3	347
Increase in inventories	(6,983)	(3,736)
Decrease (increase) in trade and other receivables	1,083	(2,935)
(Decrease) increase in trade and other payables	(4,832)	3,304
Increase in amount due to an associate	519	—
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>17,581</u>	<u>24,055</u>

23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans <i>US\$'000</i>	Trust receipt loans <i>US\$'000</i>
At 1st January, 1999	7,831	5,238
Net increase in trust receipt loans	—	581
New bank loans raised	11,175	—
Repayments of bank loans	<u>(8,821)</u>	<u>—</u>
At 31st December, 1999	10,185	5,819
Net decrease in trust receipt loans	—	(888)
New bank loans raised	22,199	—
Repayments of bank loans	<u>(14,410)</u>	<u>—</u>
At 31st December, 2000	<u>17,974</u>	<u>4,931</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

24. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Bills discounted with recourse	<u>64</u>	<u>78</u>

THE COMPANY

The Company has provided corporate guarantees to certain banks to secure general banking facilities granted to its subsidiaries. At the balance sheet date, the amount of facilities utilised by the subsidiaries was approximately US\$22,337,000 (1999: US\$16,004,000).

25. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the purchase of property, plant and equipment	605	4,102
Capital expenditure authorised but not contracted for in respect of the purchase of property, plant and equipment	<u>—</u>	<u>52</u>

At 31st December, 2000 and 1999, the Company did not have any significant capital commitment.

26. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at 31st December, 2000 and 1999, its subsidiaries were committed to pay rentals in the following year in respect of land and buildings under non-cancellable operating leases which expire:

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Within one year	230	117
In the second to fifth year inclusive	131	357
Over five years	<u>64</u>	<u>24</u>
	<u>425</u>	<u>498</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

27. PROVIDENT FUND SCHEME

In December 2000, the Group joined the Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Authority. Contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the income statement as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme, the mandatory contributions are fully vested with the employee.

28. RELATED PARTY TRANSACTIONS AND BALANCES

During the current year, the Group purchased finished goods from the associate, Hi-Tech Pacific Limited, amounting to approximately US\$737,000.

In the opinion of the directors, the transactions were entered into at terms determined by reference to the market price.

Details of the balance with the associate as at 31st December, 2000 are set out in the consolidated balance sheet and in note 13.

Save as disclosed above, there were no significant transactions with related parties during the year or significant balances with them at 31st December, 2000.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

29. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
W.P.T. Development Inc.	British Virgin Islands	Ordinary US\$8	100%	—	Investment holding
Pacific Footgear Corporation	British Virgin Islands	Ordinary US\$1	—	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands	Ordinary US\$8	—	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands	Ordinary US\$11	—	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK\$10,000	—	100%	Provision of administrative services to group companies
Pan Yu Fang Chun Footwear Co., Ltd. 番禺豐群鞋業有限公司	PRC	US\$7,600,000	—	100%	Manufacture of footwear and footwear materials
Panyu Pegasus Footwear Co. Ltd. 番禺創信鞋業有限公司	PRC	US\$19,000,000	—	100%	Manufacture of footwear and footwear materials
Topstair International (Taiwan) Ltd. 台灣松鄰國際有限公司	Taiwan	NT\$5,000,000	—	99.92%	Trading in raw materials of footwear

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st December, 2000

29. PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at 31st December, 2000 or at any time during the year.