1. GENERAL

The Company is 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 is denominated.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior years:

Dividend proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity in note 21. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment which increases both the Group's and Company's dividend reserve as at 1st January, 2000 by US$3,257,000 and as at 1st January, 2001 by US$1,396,000. Similarly, dividend income received from subsidiaries after the balance sheet date is not recognised in the income statement, resulting in prior period adjustments which decreases the Company's accumulated profits as at 1st January, 2000 by US$7,000,000 and as at 1st January, 2001 by the same amount, which resulting in a net decrease in the Company's accumulated profits by US$3,743,000, as at 1st January, 2000.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior year adjustment has been required. Disclosures for all the Group's leasing arrangements have been modified so as to comply with requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent

3. 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 disposed 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

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, less any identified impairment loss.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interests are referred to as jointly controlled entities.

The consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are stated at the Group's shares of the net assets of the jointly controlled entities, less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Turnover

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

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, are stated at cost or valuation less depreciation and amortisation and any accumulated impairment losses.

Medium-term land use rights and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. 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 revaluation increase 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 the increase is credited to the income statement to the extent of the decrease 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$^{1}/_{3}$%
Motor vehicles	20%

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is a land use right or building carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 currencies other than United States dollars 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 an asset will crystallise in the foreseeable future.

Retirement benefits scheme

The retirement benefits contribution charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

4. GEOGRAPHICAL AND BUSINESS SEGMENTS

Geographical segments

For management purposes, the Group is currently organised into three major geographical segments based on the location of its customers. These segments are the basis on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

2001

	North America	Europe	Asia	Others	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue					
Turnover	72,934	18,534	25,772	10,598	127,838
Results					
Segment results	7,799	1,982	2,756	1,133	13,670
Unallocated corporate expenses					(4,628)
Profit from operations					9,042
Interest on bank borrowings wholly repayable within five years					(1,414)
Interest income					164
Share of results of an associate					(23)
Share of results of a jointly controlled entity					(95)
Taxation					(163)
Net profit attributable to shareholders					7,511

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

Other information

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
Capital additions	1,795	456	634	261	3,146
Depreciation and amortisation	5,956	1,514	2,105	865	10,440

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
Balance sheet					
Assets					
Segment assets	78,958	20,068	27,902	11,473	138,401
Unallocated corporate assets					13,408
Consolidated total assets					151,809
Liabilities					
Segment liabilities	10,942	2,781	3,867	1,590	19,180
Unallocated corporate liabilities					29,490
Consolidated total liabilities					48,670

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

2000

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
Revenue					
Turnover	99,730	43,264	23,764	5,920	172,678
Results					
Segment results	12,702	5,509	3,026	757	21,994
Unallocated corporate expenses					(4,233)
Profit from operations					17,761
Interest on bank borrowings wholly repayable within five years					(1,366)
Interest income					464
Share of results of an associate					55
Taxation					(543)
Net profit attributable to shareholders					16,371

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

Other information

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
Capital additions	10,843	4,703	2,584	646	18,776
Depreciation and amortisation	5,792	2,513	1,380	345	10,030

	North America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Consolidated US$'000
Balance sheet					
Assets					
Segment assets	89,228	38,704	21,260	5,315	154,507
Unallocated corporate assets					8,612
Consolidated total assets					163,119
Liabilities					
Segment liabilities	15,157	6,575	3,611	903	26,246
Unallocated corporate liabilities					23,775
Consolidated total liabilities					50,021

The Group's operations are located in Mainland China ("PRC"), Hong Kong and Taiwan.

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, as analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2001	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*
PRC	**123,593**	138,112	**2,993**	18,628
Hong Kong	**14,527**	15,918	**91**	148
Taiwan	**281**	477	**62**	—
	138,401	154,507	**3,146**	18,776

No analysis of financial information by business segment is presented as all the Group's turnover and trading results are generated from the manufacture and sale of footwear products.

5. OTHER REVENUE

	2001	2000
	US$'000	*US$'000*
Exchange gain	**366**	58
Sales of moulds and samples	**—**	2,195
Sundry	**1,687**	1,131
	2,053	3,384

6. PROFIT FROM OPERATIONS

	2001	2000
	US$'000	*US$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 7)	**1,405**	2,115
Other staff costs	**21,854**	31,095
Retirements benefits contribution	**951**	440
Total staff costs	**24,210**	33,650
Auditors' remuneration	**100**	98
Depreciation and amortisation	**10,440**	10,030
Loss on disposal of property, plant and equipment	**48**	3

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2001	2000
	US$'000	*US$'000*
Directors' fees:		
Executive	**73**	73
Non-executive	**8**	8
Independent non-executive	**19**	23
Other emoluments (executive directors):		
Basic salaries and allowances	**583**	582
Bonus	**722**	1,429
	1,405	2,115

Emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK$1,000,000	**4**	4
HK$ 1,000,001 to HK$1,500,000	**2**	1
HK$ 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$3,500,000	**—**	1
HK$ 4,000,001 to HK$4,500,000	**1**	—
HK$ 7,500,001 to HK$8,000,000	**—**	1

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.

8. TAXATION

	2001	2000
	US$'000	*US$'000*
The charge comprises:		
Hong Kong Profits Tax	**3**	2
Taxation in other jurisdictions		
— PRC	**143**	475
— Taiwan	**17**	66
	163	543

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 at 26.4% (2000: 13.2%) of a subsidiary in PRC. The Group's other PRC subsidiaries had no assessable profit 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.

9. 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$9,677,000 (2000: US$6,700,000).

10. DIVIDENDS

(a) Dividends attributable for the year

	2001	2000
	US$'000	*US$'000*
Interim dividend, paid: 2001 — HK1 cent (2000 — HK 3 cents) per ordinary share	**931**	2,792
Dividend paid for convertible non-voting preference shares	**302**	637
Total dividends declared during the year	**1,233**	3,429
Final dividend proposed after the balance sheet date: 2001 — HK 1 cent (2000 — HK1.5 cents) per ordinary share	**931**	1,396
	2,164	4,825

The final dividend proposed after the balance sheet date is subject to approval by the shareholders in general meeting and has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the year

	2001	2000
	US$'000	*US$'000*
Final dividend in respect of the previous year approved and paid during the year: 2001 — HK1.5 cents (2000 — HK3.5 cents) per ordinary share *(see note 2)*	**1,396**	3,257

11. EARNINGS PER SHARE

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

	Earnings	
	2001	2000
	US$'000	*US$'000*
Net profit attributable to shareholders	**7,511**	16,371
Dividend for convertible non-voting preference shares	**(302)**	(637)
Earnings for the purpose of basic earnings per share	**7,209**	15,734
Effect of dilutive potential ordinary shares:		
— Dividend for convertible non-voting preference shares	**302**	637
Earnings for the purpose of diluted earnings per share	**7,511**	16,371

	Number of shares	
	2001	2000
Number of ordinary shares for the purpose of basic earnings per share	**721,299,452**	721,200,000
Effect of dilutive potential ordinary shares:		
— Share options	**2,920,000**	9,177,320
— Convertible non-voting preference shares	**31,588,848**	67,229,910
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**755,808,300**	797,607,230

12. 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, 2001	45,348	6,406	1,517	75,953	10,837	763	140,824
Additions	–	665	10	2,083	335	53	3,146
Transfers	4,855	(6,703)	–	42	1,806	–	–
Disposals	–	–	(59)	(159)	(6)	–	(224)
Revaluation deficit	(885)	–	–	–	–	–	(885)
At 31st December, 2001	49,318	368	1,468	77,919	12,972	816	142,861
Comprising:							
At cost	–	368	1,468	77,919	12,972	816	93,543
At valuation – December 2001	49,318	–	–	–	–	–	49,318
	49,318	368	1,468	77,919	12,972	816	142,861
Depreciation and amortisation							
At 1st January, 2001	–	–	1,461	28,315	6,546	554	36,876
Provided for the year	1,034	–	10	7,695	1,637	64	10,440
Eliminated on disposals	–	–	(12)	(32)	(8)	–	(52)
Eliminated on revaluation	(1,034)	–	–	–	–	–	(1,034)
At 31st December, 2001	–	–	1,459	35,978	8,175	618	46,230
Net book value							
At 31st December, 2001	49,318	368	9	41,941	4,797	198	96,631
At 31st December, 2000	45,348	6,406	56	47,638	4,291	209	103,948

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, 2001 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$38,723,000 (2000: US$34,698,000).

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	US$'000	*US$'000*
Unlisted shares, at cost	**26,465**	26,465
Amounts due from subsidiaries	**29,061**	40,015
	55,526	66,480

Particulars of the Company's principal subsidiaries at 31st December, 2001 are set out in note 30.

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.

14. INTEREST IN AN ASSOCIATE

	The Group	
	2001	2000
	US$'000	*US$'000*
Share of an associate's net assets	**432**	455
Amount due to an associate	**88**	519

Particulars of the associate at 31st December, 2001 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, non-interest bearing and repayable on demand.

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2001	2000
	US$'000	*US$'000*
Share of a jointly controlled entity's net assets	**1,405**	—
Amount due from a jointly controlled entity	**5**	—

Particulars of the jointly controlled entity at 31st December, 2001 are as follows:

Name of jointly controlled entity	**Place of incorporation**	**Proportion of nominal value of issued share capital held by the Group**	**Principal activity**
C.P.L. International Company Limited	British Virgin Islands	30%	Manufacture of leather materials

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand.

16. INVENTORIES

	The Group	
	2001	2000
	US$'000	*US$'000*
Raw materials	**18,948**	16,982
Work in progress	**5,799**	8,058
Finished goods	**3,403**	9,922
	28,150	34,962

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

17. TRADE AND OTHER RECEIVABLES

The Group grants an average credit period of 30 to 60 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	The Group	
	2001	2000
	US$'000	*US$'000*
0-30 days	**8,844**	10,757
31-60 days	**420**	1,486
> 60 days	**1,437**	1,697
Total trade receivables	**10,701**	13,940
Other receivables	**2,919**	1,657
	13,620	15,597

18. TRADE AND OTHER PAYABLES

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

	The Group	
	2001	2000
	US$'000	*US$'000*
0-30 days	**3,683**	5,469
31-60 days	**1,396**	2,492
> 60 days	**6,549**	5,605
Total trade payables	**11,628**	13,566
Other payables	**7,552**	12,680
	19,180	26,246

19. BANK BORROWINGS — UNSECURED

	THE GROUP	
	2001	2000
	US$'000	*US$'000*
Bank loans	**28,856**	17,974
Trust receipt loans	**423**	4,931
	29,279	22,905
Less: Amounts due within one year shown under current liabilities	**15,792**	17,562
Amounts due after one year	**13,487**	5,343

The bank borrowings carry interest at prevailing market rates and are repayable as follows:

Within one year or on demand	**15,792**	17,562
Between one to two years	**9,255**	4,677
Between two to five years	**4,232**	666
	29,279	22,905

20. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2000, 31st December, 2000 and 2001	**1,500,000,000**	19,355
Convertible non-voting preference shares of US$100,000 each		
At 1st January, 2000 and 31st December, 2000	**150**	15,000
Cancellation of shares	**(150)**	(15,000)
At 31st December, 2001	**—**	—
		19,355
Issued and fully paid		
Ordinary shares of HK$0.10 each		
At 1st January, 2000 and 31st December, 2000	**721,200,000**	9,306
Exercise of share options	**100,000**	1
At 31st December, 2001	**721,300,000**	9,307
Convertible non-voting preference shares of US$100,000 each		
At 1st January, 2000 and 31st December, 2000	**150**	15,000
Repurchase of shares	**(150)**	(15,000)
At 31st December, 2001	**—**	—
		9,307

On 31st May, 2001, the Company repurchased all of its 150 convertible non-voting preference shares at their full face value in the aggregate principal amount of US$15 million.

During the year, 100,000 share options were exercised at a subscription price of HK$0.77 per share, resulting in the issue of 100,000 ordinary shares of HK$0.10 each in the Company. The shares rank pari passu with the then existing shares in all respects.

21. RESERVES

	Share premium US$'000	Contributed surplus US$'000	Assets revaluation reserve US$'000	Merger reserve US$'000	Dividend reserve US$'000	Accumulated profits (losses) US$'000	Total US$'000
The Group							
At 1st January, 2000							
– As originally stated	21,029	–	11,572	(4,512)	–	47,917	76,006
– Prior period adjustments *(note 2)*	–	–	–	–	3,257	–	3,257
As restated	21,029	–	11,572	(4,512)	3,257	47,917	79,263
Deficit arising on revaluation of the land use rights and buildings	–	–	(157)	–	–	–	(157)
Net profit for the year	–	–	–	–	–	16,371	16,371
Dividends paid for 1999	–	–	–	–	(3,257)	–	(3,257)
Dividends declared/ proposed for 2000 *(note 10(a))*	–	–	–	–	4,825	(4,825)	–
Dividends paid for 2000	–	–	–	–	(3,429)	–	(3,429)
At 31st December, 2000	21,029	–	11,415	(4,512)	1,396	59,463	88,791
Issue of shares on exercise of options	9	–	–	–	–	–	9
Surplus arising on revaluation of the land use rights and buildings	–	–	149	–	–	–	149
Net profit for the year	–	–	–	–	–	7,511	7,511
Dividends paid for 2000	–	–	–	–	(1,396)	–	(1,396)
Dividends declared/ proposed for 2001 *(note 10(a))*	–	–	–	–	2,164	(2,164)	–
Dividends paid for 2001	–	–	–	–	(1,233)	–	(1,233)
At 31st December, 2001	21,038	–	11,564	(4,512)	931	64,810	93,831
The Company							
At 1st January, 2000							
– as originally stated	21,029	19,486	–	–	–	5,366	45,881
– Prior period adjustments *(note 2)*	–	–	–	–	3,257	(7,000)	(3,743)
As restated	21,029	19,486	–	–	3,257	(1,634)	42,138
Net profit for the year *(note 9)*	–	–	–	–	–	6,700	6,700
Dividends paid for 1999	–	–	–	–	(3,257)	–	(3,257)
Dividends declared/ proposed for 2000 *(note 10(a))*	–	–	–	–	4,825	(4,825)	–
Dividends paid for 2000	–	–	–	–	(3,429)	–	(3,429)
At 31st December, 2000	21,029	19,486	–	–	1,396	241	42,152
Issue of share on exercise of options	9	–	–	–	–	–	9
Net profit for the year *(note 9)*	–	–	–	–	–	9,677	9,677
Dividends paid for 2000	–	–	–	–	(1,396)	–	(1,396)
Dividends declared/ proposed for 2001 *(note 10(a))*	–	–	–	–	2,164	(2,164)	–
Dividends paid for 2001	–	–	–	–	(1,233)	–	(1,233)
At 31st December, 2001	21,038	19,486	–	–	931	7,754	49,209

21. 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 a profit of US$32,000 (2000: US$55,000) and a deficit of US$95,000 (2000: Nil) attributable to the Group's associate and jointly controlled entity, respectively.

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, 2001 are represented by its accumulated profits, dividend reserve and contributed surplus, totalling US$28,171,000 (2000: US$21,123,000).

22. 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.

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

	2001	2000
	US$'000	*US$'000*
Profit before taxation	**7,674**	16,914
Share of results of an associate	**23**	(55)
Share of results of a jointly controlled entity	**95**	—
Interest income	**(164)**	(464)
Interest expenses	**1,414**	1,366
Depreciation and amortisation	**10,440**	10,030
Loss on disposal of property, plant and equipment	**48**	3
Decrease (increase) in inventories	**6,812**	(6,983)
Decrease in trade and other receivables	**1,975**	1,083
Increase in amount due from a jointly controlled entity	**(5)**	—
Decrease in trade and other payables	**(7,040)**	(4,832)
(Decrease) increase in amount due to an associate	**(431)**	519
Net cash inflow from operating activities	**20,841**	17,581

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued capital and share premium	**Bank loans**	**Trust receipt loans**
	US$'000	*US$'000*	*US$'000*
At 1st January, 2000	45,335	10,185	5,819
New bank loans raised	—	22,199	—
Repayments of bank loans	—	(14,410)	—
Net decrease in trust receipt loans	—	—	(888)
At 31st December, 2000	45,335	17,974	4,931
Payment on repurchase of preference shares	(15,000)	—	—
Proceeds from issue of ordinary shares	10	—	—
New bank loans raised	—	23,922	—
Repayments of bank loans	—	(13,040)	—
Net decrease in trust receipt loans	—	—	(4,508)
At 31st December, 2001	30,345	28,856	423

25. CONTINGENT LIABILITIES

	THE GROUP	
	2001	2000
	US$'000	*US$'000*
Bills discounted with recourse	–	64

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$29,332,000 (2000: US$22,337,000).

26. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	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	**178**	605

At the respective balance sheet dates, the Company did not have any significant capital commitment.

27. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2001	2000
	US$'000	*US$'000*
Minimum lease payments paid under operating leases during the year	**519**	549

27. OPERATING LEASE COMMITMENTS *(Continued)*

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2001	2000
	US$'000	*US$'000*
Within one year	**435**	259
In the second to fifth year inclusive	**347**	387
Over five years	**1,073**	1,137
	1,855	1,783

Operating lease payments represent rentals payable by the Group for its factories and office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years, except the leases for its factories in PRC which are negotiated for a term of fifty years and rentals are fixed for a term of fifty years.

At the respective balance sheet dates, the Company had no commitments under non-cancellable operating leases.

28. RETIREMENT BENEFITS SCHEMES

The Group operated two defined contribution schemes (the "Schemes") for all qualifying employees in Hong Kong and PRC under the relevant rules and regulations. Contributions for the Scheme in Hong Kong are made based on a percentage of the participating employees' relevant income from the Group and contributions for the Scheme in PRC are made based on a percentage of the average salary as advised by the relevant authority in PRC. The assets of the Scheme in Hong Kong are held separately from those of the Group in funds under the control of trustee and the assets of the Scheme in PRC are held and managed by the PRC government. Contributions are charged to the income statement as they become payable in accordance with the rules of the Scheme. When an employee leaves the Schemes, contributions are fully vested with the employee.

29. RELATED PARTY TRANSACTIONS AND BALANCES

During the current year, the Group purchased finished goods from an associate, Hi-Tech Pacific Limited, amounting to approximately US$886,000 (2000: US$737,000).

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

Details of the balances with the associate and the jointly controlled entity as at 31st December, 2001 are set out in the consolidated balance sheet and in notes 14 and 15, respectively.

Save as disclosed above, there were no significant transactions with related parties during the year or significant balances with them at 31st December, 2001 and 2000.

30. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2001 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

30. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Pan Yu Fang Chun Footwear Co., Ltd. 番禺豐群鞋業有限公司	PRC	US$10,600,000	–	100%	Manufacture of footwear and footwear materials
Panyu Pegasus Footwear Co. Ltd. 番禺創信鞋業有限公司	PRC	US$26,500,000	–	100%	Manufacture of footwear and footwear materials
Topstair International (Taiwan) Ltd. 台灣松鄴國際有限公司	Taiwan	NT$5,000,000	–	99.92%	Trading in raw materials of footwear

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or 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, 2001 or at any time during the year.