



Nority International Group Limited
(Incorporated in the Cayman Islands with limited liability)



Interim Report 2002

HEADING FOR
A BETTER FUTURE

INTERIM RESULTS

The Directors present the Group's Interim Report and unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2002 together with the comparative figures for the corresponding period in 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2002

	Note	Unaudited 2002 HK\$'000	Unaudited 2001 HK\$'000
Turnover	2	174,009	245,300
Cost of sales		(150,347)	(182,659)
Gross profit		23,662	62,641
Other revenues		203	1,384
Selling expenses		(6,777)	(11,207)
Administrative expenses		(18,173)	(23,856)
Other operating income/(expenses), net		4,548	(2,497)
Operating profit	3	3,463	26,465
Finance costs		(6)	(6)
Profit before taxation		3,457	26,459
Taxation	4	(373)	(600)
Profit after taxation		3,084	25,859
Minority interests		(1,026)	(1,624)
Profit attributable to shareholders		2,058	24,235
Dividends	5	–	8,043
Earnings per share – basic	6	0.77 cents	9.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30th June 2002*

	Note	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Fixed assets	7	129,270	132,733
Investments		6,902	6,807
Current assets			
Inventories		55,074	61,740
Trade and bills receivables	8	66,632	92,088
Deposits, prepayments and other receivables		9,020	6,296
Other investments		687	660
Taxation recoverable		30	19
Pledged bank deposits		31,232	18,000
Bank balances and cash		40,157	34,999
		202,832	213,802
Current liabilities			
Trade payables	9	35,809	30,444
Accruals and other payables		14,874	31,082
Taxation payable		22,556	22,183
Bank overdrafts, secured		2,142	2,932
		75,381	86,641
Net current assets		127,451	127,161
Total assets less current liabilities		263,623	266,701
Financed by:			
Share capital	10	26,810	26,810
Reserves	11	230,735	228,227
Proposed final dividend		–	5,362
Shareholders' funds		257,545	260,399
Minority interests		5,903	6,127
Non-current liabilities			
Deferred taxation		175	175
		263,623	266,701

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	Unaudited 2002 HK\$'000	As restated (Note 1(b)) Unaudited 2001 HK\$'000
Net cash inflow/(outflow) from operating activities	31,679	(7,810)
Net cash outflow from investing activities	(19,264)	(23,321)
Net cash (outflow)/inflow from financing activities	(6,467)	1,116
Increase/(decrease) in cash and cash equivalents	5,948	(30,015)
Cash and cash equivalents at 1st January	32,067	61,674
Cash and cash equivalents at 30th June	38,015	31,659
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	40,157	34,049
Bank overdrafts	(2,142)	(2,390)
	38,015	31,659

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th June 2002*

	Unaudited							
	Share capital HK\$'000 (Note 10)	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 (Note 11(i))	Working capital reserve HK\$'000 (Note 11(ii))	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	26,810	47,986	(2,134)	(1,000)	1,275	315	187,147	260,399
Profit for the period	-	-	-	-	-	-	2,058	2,058
Exchange difference arising from translation of the accounts of an overseas subsidiary	-	-	450	-	-	-	-	450
2001 final dividend	-	-	-	-	-	-	(5,362)	(5,362)
At 30th June 2002	<u>26,810</u>	<u>47,986</u>	<u>(1,684)</u>	<u>(1,000)</u>	<u>1,275</u>	<u>315</u>	<u>183,843</u>	<u>257,545</u>

	Unaudited							
	Share capital HK\$'000 (Note 10)	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 (Note 11(i))	Working capital reserve HK\$'000 (Note 11(ii))	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001	26,810	47,986	(1,870)	(1,000)	1,275	-	178,571	251,772
Profit for the period	-	-	-	-	-	-	24,235	24,235
Exchange difference arising from translation of the accounts of an overseas subsidiary	-	-	(316)	-	-	-	-	(316)
At 30th June 2001	<u>26,810</u>	<u>47,986</u>	<u>(2,186)</u>	<u>(1,000)</u>	<u>1,275</u>	<u>-</u>	<u>202,806</u>	<u>275,691</u>

NOTES TO CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

The unaudited consolidated condensed interim accounts for the six months ended 30th June 2002 comprise the consolidated balance sheet, consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes thereto, all of which are in condensed format.

These consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim financial reporting”, issued by the Hong Kong Society of Accountants (“HKSA”). These condensed interim accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 with the exception of certain presentation changes made and a change in accounting policy standard related to translation of foreign currencies adopted to comply with new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA, which are effective for accounting periods commencing on or after 1st January 2002, as set out below.

- (a) On adoption of SSAP 11 (revised) “Foreign currency translation”, the profit and loss account of overseas subsidiary and associated company denominated in foreign currencies are translated at the weighted average exchange rates during the year. In previous years these were translated at exchange rates ruling at the balance sheet date. The effect of such change is not material to the accounts.
- (b) Certain presentation changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements”, SSAP 15 (revised) “Cash flow statements” and SSAP 25.

1 Basis of preparation and accounting policies (cont'd)

In addition, the following SSAPs issued by the HKSA became effective for accounting periods commencing on or after 1st January 2002:

SSAP 33 : Discontinuing operations

SSAP 34 : Employee benefits

The adoption of the above new SSAPs has no material impact on the Group's current period results or prior year's accounts.

2 Turnover, revenue and segment information

The Group is principally engaged in the manufacture and export of athletic and athletic-style footwear which is regarded as a single business segment.

An analysis of the Group's turnover, revenue and results for the period by geographical market is as follows:

	Six months ended 30th June 2002		Six months ended 30th June 2001	
	Turnover HK\$'000	Segment results HK\$'000	Turnover HK\$'000	Segment results HK\$'000
North America	91,339	12,778	116,976	25,478
Europe	59,873	5,222	88,895	20,373
Others	22,797	3,455	39,429	5,583
	<u>174,009</u>	<u>21,455</u>	<u>245,300</u>	<u>51,434</u>
Other revenues		203		1,384
Unallocated costs		(18,195)		(26,353)
Operating profit		<u>3,463</u>		<u>26,465</u>

Sales are based on the country in which the customer is located. There are no sales between segments.

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Crediting		
Write-back of commission payable included in other operating income/(expenses), net	4,570	–
Gain on disposal of fixed assets	<u>19</u>	<u>67</u>
Charging		
Amortisation and depreciation of fixed assets	9,514	10,087
Net exchange losses	26	2,486
Operating lease rentals in respect of land and buildings	<u>633</u>	<u>696</u>

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. No provision for People's Republic of China ("PRC") income tax and overseas profits tax has been made in the accounts as the Group does not have any assessable profit in the PRC and other places in which the Group operates. The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	<u>373</u>	<u>600</u>

5 Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2002 (2001: HK\$0.03 per ordinary share totalling HK\$8,043,000).

6 Earnings per share – basic

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$2,058,000 (2001: HK\$24,235,000) and on 268,104,508 (2001: 268,104,508) ordinary shares in issue during the period.

There is no diluted earnings per share for the period since the company has no dilutive potential ordinary shares.

7 Fixed assets

	HK\$'000
Audited	
Net book value At 31st December 2001	132,733
Unaudited	
Additions	6,051
Amortisation and depreciation charge	(9,514)
At 30th June 2002	<u>129,270</u>

8 Trade and bills receivables

The ageing analysis of trade and bills receivables is as follows:

	At 30th June 2002 HK\$'000	At 31st December 2001 HK\$'000
0 - 30 days	41,593	30,735
31 - 60 days	18,463	25,755
61 - 90 days	5,668	18,413
Over 90 days	908	17,185
	<u>66,632</u>	<u>92,088</u>

The majority of the Group's sales is on letter of credit or documents against payment. The remaining balances of sales are on open account terms with a credit period of 30 days.

9 Trade payables

The ageing analysis of trade payables is as follows:

	At 30th June 2002 HK\$'000	At 31st December 2001 HK\$'000
0 - 30 days	26,960	22,021
31 - 60 days	2,872	2,200
61 - 90 days	2,802	2,445
Over 90 days	3,175	3,778
	<u>35,809</u>	<u>30,444</u>

10 Share capital

	At 30th June 2002 HK\$'000	At 31st December 2001 HK\$'000
Authorised		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid		
268,104,508 ordinary shares of HK\$0.10 each	<u>26,810</u>	<u>26,810</u>

11 Reserves

- (i) The capital reserve of the Group represents the excess of the nominal value of the shares issued by the Company over the nominal value of the issued share capital of subsidiaries acquired pursuant to a group reorganisation which took place in 1993.
- (ii) The working capital reserve represents the portion of the retained earnings of the Taiwan branch of a subsidiary reserved for working capital of the branch. The working capital reserve is not distributable to shareholders.

12 Commitments

(a) Capital commitments for acquisition of a land use right in the PRC

	At 30th June 2002 HK\$'000	At 31st December 2001 HK\$'000
Contracted but not provided for	<u>–</u>	<u>3,403</u>

(b) Commitments under operating leases

At 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	At 30th June 2002 HK\$'000	At 31st December 2001 HK\$'000
Not later than one year	1,306	1,317
Later than one year and not later than five years	2,752	2,355
	<u>4,058</u>	<u>3,672</u>

13 Pledge of assets and guarantees

At 30th June 2002, the Group's banking facilities were secured by the following:

- (a) legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of HK\$47 million (2001: HK\$47 million);
- (b) legal charges over certain bank deposits of the Group of HK\$31 million (2001: HK\$18 million);
- (c) a corporate guarantee from the Company; and
- (d) joint and several guarantees from certain directors of the Company.

INTERIM DIVIDEND

The Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: HK\$0.03).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business review and prospects

Turnover of the Group for the six months ended 30 June 2002 amounted HK\$174,009,000 (six months ended 30 June 2001: HK\$245,300,000), representing a decrease of 29% over the corresponding period last year. Profit attributable to shareholders was HK\$2,058,000 as compared to HK\$24,235,000 for the same period last year.

The Group's core business is the manufacture and sale of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes.

The first half of 2002 heralded a challenge to the Group. During the period, the global economic environment remained dismal, while the Hong Kong economy, exacerbated by external factors, tattered in the doldrums. High unemployment rates and dissipated personal wealth have not only decimated overall investment but also barricaded Hong Kong's pace of economic recovery. Decline in global demands and fierce competition within the industry have significant adverse impact to the core business of the Group resulting in significant drop in sales in various geographical markets. Nevertheless, the Group will continue to solidify cost and expense controls and to streamline manpower and structure in order to further enhance and consolidate its financial condition and base. In view of exploring of PRC's market after PRC's accession to the World Trade Organization, the Group has established a new subsidiary in PRC and purchased land for building a production plant in Kunshan City, Jiangsu Province in the PRC. In addition, the Group has also participated actively in such construction work.

Looking ahead, the Group will sustain in its efforts to enhance competitiveness, consolidate existing business and search for new opportunities proactively in order to broaden into new business, uplift profitability and bring forth stable development to the Group.

Liquidity and financial resources

As at 30th June 2002, the Group had available bank and cash balances of HK\$71 million (31st December 2001: HK\$53 million), including deposits of HK\$31 million (31st December 2001: HK\$18 million) pledged for banking facilities available to the Group of approximately HK\$54 million (31st December 2001: HK\$54 million). The banking facilities are also secured by legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of approximately HK\$47 million (31st December 2001: HK\$47 million) at as 30th June 2002.

The gearing ratio of the Group (total borrowings to total shareholders' equity) was 0.8% only (31st December 2001: 1.1%). The bank borrowings are being interest bearing at prevailing market rates.

Employees and remuneration policy

As of 30th June 2002, the Group employed approximately 90 staff in Hong Kong and Taiwan offices and had approximately 4,000 workers working in the Group's processing bases in Mainland China. Besides offering competitive remuneration packages to the employees, discretionary bonuses may also be granted to the eligible employees based on the Group's and the individual's performance.

Exposure to fluctuations in exchange rates

Whilst the sales of the Group is mainly denominated in U.S. dollars, the purchases of raw materials and the expenditure were mainly in Hong Kong dollars, Renminbi and New Taiwan dollars. Bank borrowings are denominated in Hong Kong dollars. As the exchange rates of above currencies against Hong Kong dollars are relatively stable and the further devaluation of New Taiwan dollars in future seems not likely, the Directors consider that the Group's exposure to exchange fluctuations is relatively low.

Contingent liabilities

As at 30 June 2002, the Group has no significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's share option scheme, which became effective on 16th January 1993, the Directors of the Company may grant share options to employees of the Company or its subsidiaries, including Directors of any of such companies, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. However, no share options were granted during the period or outstanding as at 30th June 2002.

Apart from the share option scheme mentioned above,

- (a) none of the Directors and chief executives or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right; and
- (b) at no time during the period was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2002, the interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of Director	Number of ordinary shares of the Company held Personal interest
FENG Shen Chuan	72,610,209
HUNG Kun Fu	2,600,000
KUO Shu Chen	3,067,248
FENG Yung Chuan	7,501,500

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr FENG Shen Chuan in trust for the Group as at 30th June 2002, none of the Directors and chief executives had any other beneficial interests in the shares of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30th June 2002, as far as the Directors were aware, the interest of the only substantial shareholder in the shares of the Company was as follows:

Name	Number of ordinary shares
Micon Limited	114,118,540

Notes: Micon Limited is a wholly-owned subsidiary of South China Industries Limited which is itself a subsidiary of South China Holdings Limited.

SUBSTANTIAL SHAREHOLDERS *(cont'd)*

Apart from the aforesaid, as at 30th June 2002 the Company had not been notified of any interest (other than those stated above under the heading "Directors' interests in equity or debt securities" in respect of the Directors) amounting to 10% or more of the issued share capital of the Company required to be disclosed pursuant to the SDI Ordinance.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group and discussed judgemental issues, accounting estimates, adequacy of disclosures, internal consistency of the interim report including a review of the Group's unaudited condensed interim accounts for the six months ended 30th June 2002.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except the term of office for the Independent Non-Executive Directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

OTHER DISCLOSURE

Apart from above, other areas which are required to be discussed under the requirements of paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and paragraph 16 of Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) No. 25 “Interim financial reporting”, either have no material changes from the information disclosed in the annual report of the Group for the year ended 31st December 2001 or are considered not significant to the Group’s operations, and hence no additional disclosure has been made in this report.

By Order of the Board
Feng Shen Chuan
Chairman

Hong Kong, 11th September 2002