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 except that, as disclosed in the accounting policies below, investment properties and other investments are stated at fair value.

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

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

The effect of adopting SSAP 34 is set out in note 1(j). The adoption of the other revised standards has no material effect on the prior year's accounts.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or capital reserve and any exchange difference which was not previously charged or recognised in the consolidated profit and loss account.

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

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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(ii) Associated companies

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 companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

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.

(iii) 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 sheet of overseas subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange difference are dealt with as a movement in reserves.

Upon the disposal of an overseas subsidiary and an associated company, the related cumulative exchange difference is included in the profit and loss account as part of the gain or loss on disposal.

In prior years, the profit and loss accounts of overseas subsidiaries and associated companies were translated at rates of exchange ruling at the balance sheet date. This is a change in accounting policy, however, prior year's accounts have not been restated as the effect of this change is not material to Group.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Land and buildings

Freehold land is stated at cost less accumulated impairment losses. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Buildings and leasehold land are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Construction in progress

Construction in progress represents building under construction and is stated at cost less accumulated impairment losses. Cost comprises direct costs of construction as well as finance costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset. Borrowing costs are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

(iv) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture and fixtures, plant and machinery and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(v) Amortisation

Land use rights are amortised over the period of the leases.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Fixed assets *(continued)*

(vi) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the relevant leases.

No depreciation is provided on freehold land. Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2.5% to 4%
Leasehold improvements, furniture and fixtures	12.5%-33.33%
Plant and machinery	10%-50%
Motor vehicles	20%-25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(vii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, other than investment properties which are dealt with note 1(c)(i) above, 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.

The gain or loss on disposal of a fixed asset other than investment properties 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.

(d) 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.

(e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Other investments

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

(g) Inventories

Inventories comprise stocks and work in progress which are stated at the lower of cost and net realisable value. Costs are assigned to items on a first-in, first-out basis and are arrived at as follows:

(i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.

(ii) Work in progress and finished manufactured goods – cost of direct materials and an appropriate proportion of direct labour and production overheads including depreciation.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

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

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Employee benefits *(continued)*

(ii) Retirement benefit obligations

The Group's contributions to the defined contribution retirement plan are expensed as incurred.

For defined benefit retirement plan, retirement benefit costs are assessed using the projected unit credit method. Under this method, the costs of providing benefit are charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan regularly. The retirement benefit obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximately the terms of the related liability. Actuarial gains and losses of the amount in excess of 10% of the present value of the retirement benefit plan obligations are recognised in the profit and loss account over the average remaining service lives of employees. Past service costs recognised as an expense on a straight-line basis over the average period until the benefit becomes vested. Such treatment is a change in accounting policy as in previous years retirement benefit costs for defined benefit retirement plan were provided at 4% of total salaries and wages of the corresponding period. Retrospective method has been adopted and the comparative figures for 2001 have been restated to reflect the change in policy. The effect of the change has been to decrease profit after taxation of the Group for the year ended 31st December 2001 by HK$1,013,000 and the Group's retained profits and shareholders' funds at 31st December 2001 both by HK$9,246,000.

(k) Deferred taxation

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

(l) Contingent liabilities and contingent assets

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.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) 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.

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

Subcontracting fee income is recognised upon the delivery of goods to the customers.

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

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Segment reporting

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and export of athletic and athletic-style footwear, an analysis of the consolidated trading results of the Group by business segment is not presented.

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format.

In respect of geographical segment reporting, sales are based on the countries in which the customers are located. Total assets, liabilities, capital expenditure, amortisation and depreciation are based on where the assets and liabilities are located.

Unallocated revenues represent interest income, subcontracting fee income and rental income. Unallocated costs represent corporate expenses.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and export of athletic and athletic-style footwear. Revenues recognised during the year are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Turnover – sale of goods	325,764	421,178
Other revenues		
Interest income	949	1,536
Subcontracting fee income	3,897	–
Rental income	109	316
	4,955	1,852
Total revenues	330,719	423,030

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

	2002			
	North America HK$'000	Europe HK$'000	Other countries HK$'000	Group HK$'000
Turnover	155,603	119,818	50,343	325,764
Segment results	7,244	17,253	8,241	32,738
Unallocated revenues				4,955
Other operating income, net				3,530
Unallocated costs				(42,463)
Operating loss				(1,240)
Finance costs				(12)
Loss before taxation				(1,252)
Taxation credit				10,845
Profit after taxation				9,593
Minority interests				(1,870)
Profit attributable to shareholders				7,723

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

	2001			
	North America HK$'000	Europe HK$'000	Other countries HK$'000	As restated Group HK$'000
Turnover	213,789	154,584	52,805	421,178
Segment results	33,189	25,610	10,967	69,766
Unallocated revenues				1,852
Other operating income, net				442
Unallocated costs				(52,980)
Operating profit				19,080
Finance costs				(203)
Profit before taxation				18,877
Taxation charge				(833)
Profit after taxation				18,044
Minority interests				(2,438)
Profit attributable to shareholders				15,606

The Group operates in Taiwan, Mainland China and Hong Kong. There are no sales between the geographical segments.

	2002		
	Mainland China and Hong Kong HK$'000	**Taiwan HK$'000**	**Total HK$'000**
Total assets	**259,941**	**86,761**	**346,702**
Total liabilities	**62,002**	**31,344**	**93,346**
Capital expenditure	**13,587**	**478**	**14,065**
Depreciation and amortisation charged to the profit and loss account	**14,558**	**1,553**	**16,111**
Provision for impairment losses on investment securities	**–**	**1,092**	**1,092**

	As restated 2001		
	Mainland China and Hong Kong HK$'000	Taiwan HK$'000	Total HK$'000
Total assets	281,376	71,966	353,342
Total liabilities	80,209	21,980	102,189
Capital expenditure	16,730	4,998	21,728
Depreciation and amortisation charged to the profit and loss account	18,189	1,676	19,865

3 OPERATING (LOSS)/PROFIT

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

	Group 2002 HK$'000	Group 2001 HK$'000
Crediting		
Net exchange gains	–	420
Net gains on disposal of fixed assets	91	101
Unrealised gains on other investments	–	30
Write-back of overprovision for commission payable in the previous year*	4,190	–
Charging		
Auditors' remuneration	609	623
Amortisation and depreciation of fixed assets	16,111	19,865
Net exchange losses	721	–
Operating lease rentals in respect of land and buildings	1,230	1,391
Provision for doubtful debts	1,892	318
Provision for slow-moving inventories	82	706
Staff costs, including directors' emoluments and retirement benefit costs (note 9)	71,373	85,692
Unrealised losses on other investments*	42	–
Provision for impairment losses on investment securities*	1,092	–

* *Included in other operating income, net*

4 FINANCE COSTS

	Group 2002 HK$'000	Group 2001 HK$'000
Interest on bank loan and overdrafts	12	203

5 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the country in which the Group operates. No provision for income tax of Mainland China has been made in the accounts as the Group does not have any assessable profits in Mainland China.

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

	Group	
	2002	2001
	HK$'000	HK$'000
Hong Kong profits tax		
– Current taxation	**(726)**	(934)
– Overprovision in prior years	**11,600**	–
– Deferred taxation (note 22)	**77**	101
Overseas taxation		
– Current taxation	**(106)**	–
	10,845	(833)

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK$8,166,000 (2001: HK$14,087,000) which is dealt with in the accounts of the Company.

7 DIVIDENDS

	2002	2001
	HK$'000	HK$'000
Interim, paid, of nil (2001: HK$0.03) per share	**–**	8,043
Final, proposed, of HK$0.02 (2001: HK$0.02) per share (note)	**5,362**	5,362
	5,362	13,405

Note:

At a board meeting held on 10th April 2003, the directors recommended a final dividend of HK$0.02 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

8 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$7,723,000 (2001: HK$15,606,000 as restated after adjustment of retirement benefit obligations mentioned in note 1(j)(ii)) and on 268,104,508 (2001: 268,104,508) shares in issue during the year.

No diluted earnings per share has been presented as there are no dilutive potential shares.

9 STAFF COSTS

	2002 HK$'000	As restated 2001 HK$'000
Wages and salaries	**64,993**	76,090
Unutilised annual leave	**165**	–
Termination benefits	**53**	731
Retirement benefit costs		
– Defined contribution retirement plans (note 19(a))	**2,129**	3,022
– Defined benefit retirement plan (note 19(b))	**856**	1,484
Other employee benefits	**3,177**	4,365
	71,373	85,692

Included in staff costs were the costs related to the employees of the relevant factories which provide sub-contracting services to the Group as the Group has undertaken to bear all the costs related to their employment.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	Group	
	2002 HK$'000	As restated 2001 HK$'000
Fees	**900**	830
Other emoluments:		
Basic salaries and allowances	**3,061**	3,044
Retirement benefit costs		
– Defined contribution retirement plans	**74**	81
– Defined benefit retirement plan	**236**	259
Discretionary bonuses	**–**	1,675
	3,371	5,059
Total emoluments	**4,271**	5,889

Directors' fees disclosed above include HK$250,000 (2001: HK$180,000) paid to the independent non-executive directors.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows: *(continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Emolument bands		
Nil to HK$1,000,000	**6**	6
HK$1,000,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**–**	2

(b) Five highest paid individuals

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

	Group	
		As restated
	2002	2001
	HK$'000	HK$'000
Basic salaries and allowances	**1,856**	1,646
Retirement benefit		
– Defined contribution retirement plans	**24**	24
– Defined benefit retirement plan	**40**	72
Discretionary bonuses	**–**	340
	1,920	2,082

The emoluments of the aforementioned three (2001: three) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years.

11 FIXED ASSETS

	Group								
	Construction in progress HK$'000	Freehold investment properties in Taiwan HK$'000	Freehold land and buildings in Taiwan HK$'000	Leasehold land and buildings in Hong Kong with leases between 10 to 50 years HK$'000	Land use rights and buildings in Mainland China with leases between 10 to 50 years HK$'000	Leasehold improve-ments, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation									
As at 1st January 2002	–	3,436	44,417	7,955	50,182	39,394	229,885	7,540	382,809
Additions	1,813	–	–	–	1,336	1,358	9,045	513	14,065
Revaluation	–	(155)	–	–	–	–	–	–	(155)
Disposals	–	–	–	–	–	(1,091)	–	(1,162)	(2,253)
As at 31st December 2002	**1,813**	**3,281**	**44,417**	**7,955**	**51,518**	**39,661**	**238,930**	**6,891**	**394,466**
Accumulated amortisation and depreciation									
As at 1st January 2002	–	–	3,055	1,574	8,793	33,523	197,895	5,236	250,076
Charge for the year	–	–	381	197	1,227	2,323	11,677	582	16,387
Disposals	–	–	–	–	–	(752)	–	(1,046)	(1,798)
As at 31st December 2002	**–**	**–**	**3,436**	**1,771**	**10,020**	**35,094**	**209,572**	**4,772**	**264,665**
Net book value									
As at 31st December 2002	**1,813**	**3,281**	**40,981**	**6,184**	**41,498**	**4,567**	**29,358**	**2,119**	**129,801**
As at 31st December 2001	–	3,436	41,362	6,381	41,389	5,871	31,990	2,304	132,733

The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:

At cost	1,813	–	44,417	7,955	51,518	39,661	238,930	6,891	391,185
At 2002 valuation	–	3,281	–	–	–	–	–	–	3,281
	1,813	3,281	44,417	7,955	51,518	39,661	238,930	6,891	394,466

Investment properties were revaluated at 31st December 2002 on the basis of their open market value by China Union Real Estate Appraisal Company Limited, an independent firm of professional valuers. The revaluation of investment properties does not constitute timing differences for tax purposes.

As at 31st December 2002, the carrying amount of investment properties would have been HK$3,121,000 (2001: HK$3,121,000) had they been stated at cost.

As at 31st December 2002, land and buildings in Taiwan and Hong Kong with a total net book value of HK$46,403,000 (2001: HK$46,991,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company (note 25(a)).

12 INVESTMENTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Investments at cost, unlisted shares	**79,083**	79,083
Amounts due from subsidiaries (note)	**66,391**	63,596
	145,474	142,679

Note:

The balances are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of all subsidiaries as at 31st December 2002:

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation)	Particulars of issued share capital/ registered capital	Interest held direct	Interest held indirect
Nority (BVI) Limited*	British Virgin Islands ("BVI")	Investment holding	Ordinary HK$12,000,000	100%	–
Chung Been Footwear Limited *	Hong Kong	Manufacture and export of footwear in Mainland China	Ordinary HK$10,000,000	–	75%
Nority Capital Limited	Hong Kong	Investment holding	Ordinary HK$2	–	100%
Nority Development Limited*	BVI	Property holding in Mainland China	Ordinary US$2	–	100%
Nority Investment Limited	Hong Kong	Investment holding in Mainland China	Ordinary HK$2	–	100%
Nority Limited	Hong Kong	Manufacture and export of footwear in Mainland China	Voting class "A" HK$ 10 Non-voting class "B" HK$12,000,000 (note)	–	100%
Nority Property Limited	Hong Kong	Property holding	Ordinary HK$2	–	100%
Wilken Footwear Limited	Hong Kong	Sourcing materials for fellow subsidiaries in Taiwan	Voting class "A" HK$10 Non-voting class "B" HK$5,000,000 (note)	–	100%
Wilken Investment Limited *	Taiwan	Securities holding in Taiwan	Ordinary NTD60,000,000	–	100%
Kunshan Wilken Footwear Company Limited * #	Mainland China	Manufacture and sales of footwear in Mainland China	Registered US$2,100,000	–	100%

* *The statutory accounts of these subsidiaries were not audited by PricewaterhouseCoopers.*

\# *Kunshan Wilken Footwear Company Limited is a wholly foreign-owned enterprise established in Mainland China. As at 31st December 2002, cash of US$460,000, which is equivalent to HK$3,588,000, was paid up as registered capital.*

12 INVESTMENTS IN SUBSIDIARIES *(continued)*

Note:

The rights and restrictions of the non-voting class"B" shares of Nority Limited and Wilken Footwear Limited are as follows:

(i) The profits which Nority Limited and Wilken Footwear Limited may determine to distribute in respect of any financial year shall be distributed among the holders of voting class"A" shares according to the amounts paid up on the voting class"A" shares held by them respectively and no part of the profits shall be distributed among the holders of the non-voting class"B" shares;

(ii) On a return of assets on a winding-up or otherwise the assets of Nority Limited and Wilken Footwear Limited to be returned shall be distributed as regards the first HK$100,000,000,000,000 thereof among the holders of voting class"A" shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting class"B" shares and the other half thereof to and among the holders of voting class"A" shares in proportion in each case to the nominal amounts of the shares held by them, respectively; and

(iii) The holders of the non-voting class"B" shares shall have no right to receive notice of or to attend or vote at any general meeting of Nority Limited and Wilken Footwear Limited.

13 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**–**	–

The associated company, held by a subsidiary of the Company, as at 31st December 2002 is as follows:

Name	Country of incorporation	Principal activity	Particulars of issued shares held	Interest held
Shoe Rx Company	United States of America	In voluntary liquidation	Ordinary shares of no par value	26.7%

14 INVESTMENT SECURITIES

	Group	
	2002	2001
	HK$'000	HK$'000
Unlisted equity securities, at cost	**2,371**	2,371
Shares in golf clubs, at cost	**1,417**	1,417
Golf clubs debentures	**1,335**	1,335
Refundable deposits placed with golf clubs	**1,684**	1,684
	6,807	6,807
Less: provision for impairment losses on shares in golf clubs	**(1,092)**	–
	5,715	6,807

15 INVENTORIES

	Group 2002 HK$'000	2001 HK$'000
Raw materials	**36,721**	25,458
Work in progress	**13,120**	12,076
Finished goods	**30,155**	24,206
	79,996	61,740

As at 31st December 2002, the carrying amount of inventories that were carried at net realisable value amounted to HK$2,299,000 (2001: HK$3,745,000).

16 TRADE RECEIVABLES

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

As at 31st December 2002, the ageing analysis of the trade receivables was as follows:

	Group 2002 HK$'000	2001 HK$'000
0-30 days	**28,080**	30,735
31-60 days	**20,460**	25,755
61-90 days	**2,380**	18,413
Over 91 days	**6,948**	17,185
	57,868	92,088

17 OTHER INVESTMENTS

	Group 2002 HK$'000	2001 HK$'000
Equity securities, listed outside Hong Kong, at open market value	**618**	660

18 TRADE PAYABLES

As at 31st December 2002, the ageing analysis of the trade payables was as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0-30 days	**17,510**	22,021
31-60 days	**4,562**	2,200
61-90 days	**2,096**	2,445
Over 91 days	**3,005**	3,778
	27,173	30,444

19 RETIREMENT BENEFIT OBLIGATIONS

The Group has defined contribution retirement plans for employees in Mainland China and Hong Kong, and a defined benefit retirement plan for employees in Taiwan in which the Group operates.

(a) Defined contribution retirement plans

The subsidiaries in Hong Kong make contributions to defined contribution retirement plans based on 5% of the employee's monthly gross earnings with a ceiling of HK$1,000 per month. Pursuant to the Mandatory Provident Fund Schemes Ordinance, the assets of the scheme are held separately from those of the Group in an independently administered fund.

Subsidiaries operating in Mainland China are required to participate in defined contribution retirement plans organised by relevant government authorities. The subsidiaries are required to make contributions to the retirement plans at a fixed amount for each Mainland China employee of the Group.

19 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(b) Defined benefit retirement plan

A subsidiary in Taiwan has an unfunded defined benefit retirement plan providing benefits to all eligible employees based on final pay. The obligation for the unfunded defined benefit retirement plan is provided with reference to the latest actuarial valuation.

The latest actuarial valuation was prepared as at 31st December 2002 by KPMG Consulting Co. Ltd., a qualified actuary, using the projected unit credit method.

The amounts recognised in the profit and loss account were as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current service cost	**501**	1,128
Interest cost	**355**	356
Total, included in staff costs (note 9)	**856**	1,484

The total charge has been included in administrative expenses for the year ended 31st December 2002 and 2001.

The amounts recognised in the balance sheet are determined as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Present value of unfunded obligations	**10,222**	10,921
Unrecognised actuarial losses	**(944)**	(945)
Liability as at 31st December	**9,278**	9,976
Current portion	**(3,886)**	(3,997)
Non-current portion	**5,392**	5,979

Movement in the liability recognised in the balance sheet:

	Group	
	2002	2001
	HK$'000	HK$'000
As at 1st January	**9,976**	9,377
Exchange differences	**(8)**	(188)
Total expense – as shown above	**856**	1,484
Amounts paid to employees	**(1,546)**	(697)
As at 31st December	**9,278**	9,976

19 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(b) Defined benefit retirement plan *(continued)*

Note:

Included in the Group's retirement benefit obligations as at 31st December 2001 is an amount of HK$730,000 provided for retirement benefit obligations previously classified as accruals and other payables. The amount has been restated to reflect the effect of adopting SSAP 34.

The principal actuarial assumptions used were as follows:

	2002	2001
	%	%
Discount rate	**3.75**	4.50
Expected rate of future salary increases	**4.00**	4.00

20 SHARE CAPITAL

	2002	2001
	HK$'000	HK$'000
Authorised		
1,000,000,000 shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid		
268,104,508 shares of HK$0.10 each	**26,810**	26,810

21 RESERVES

(a) Group

	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve (note (i)) HK$'000	Working capital reserve (note (ii)) HK$'000	Investment properties revaluation reserve HK$'000	Retained profits HK$'000	Total reserves HK$'000
As at 1st January 2002, as previously reported	47,986	(2,134)	(1,000)	1,275	315	187,147	233,589
Effect of adopting SSAP 34 (note 1(j)(ii))	–	–	–	–	–	(9,246)	(9,246)
As at 1st January 2002, as restated	47,986	(2,134)	(1,000)	1,275	315	177,901	224,343
Profit attributable to shareholders for the year	–	–	–	–	–	7,723	7,723
Deficit on revaluation of investment properties	–	–	–	–	(155)	–	(155)
Exchange difference arising from translation of the accounts of an overseas subsidiary	–	(3)	–	–	–	–	(3)
2001 final dividend paid	–	–	–	–	–	(5,362)	(5,362)
As at 31st December 2002	**47,986**	**(2,137)**	**(1,000)**	**1,275**	**160**	**180,262**	**226,546**
Representing:							
As at 31st December 2002	47,986	(2,137)	(1,000)	1,275	160	174,900	221,184
2002 final dividend proposed (note 7)	–	–	–	–	–	5,362	5,362
Dealt with by Company and subsidiaries	47,986	(2,137)	(1,000)	1,275	160	180,262	226,546
As at 1st January 2001, as previously reported	47,986	(1,870)	(1,000)	1,275	–	178,571	224,962
Effect of adopting SSAP 34	–	–	–	–	–	(8,233)	(8,233)
As at 1st January 2001, as restated	47,986	(1,870)	(1,000)	1,275	–	170,338	216,729
Profit attributable to shareholders for the year	–	–	–	–	–	15,606	15,606
Surplus on revaluation of investment properties	–	–	–	–	315	–	315
Exchange difference arising from translation of the accounts of an overseas subsidiary	–	(264)	–	–	–	–	(264)
2001 interim dividend paid	–	–	–	–	–	(8,043)	(8,043)
As at 31st December 2001	47,986	(2,134)	(1,000)	1,275	315	177,901	224,343
Representing:							
As at 31st December 2001	47,986	(2,134)	(1,000)	1,275	315	172,539	218,981
2001 final dividend proposed (note 7)	–	–	–	–	–	5,362	5,362
Dealt with by Company and subsidiaries	47,986	(2,134)	(1,000)	1,275	315	177,901	224,343

21 RESERVES *(continued)*

(a) Group *(continued)*

Notes:

(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 is a special reserve which represents the portion of the retained profits of the Taiwan branch of a subsidiary reserved for working capital of the branch in accordance with local statutory requirements. The working capital reserve is not distributable to shareholders.

(b) Company

	Share premium HK$'000	Capital reserve (note(i)) HK$'000	Retained profits HK$'000	Total reserves HK$'000
As at 1st January 2002	47,986	61,083	6,452	115,521
Profit for the year	–	–	8,166	8,166
2001 final dividend paid	–	–	(5,362)	(5,362)
As at 31st December 2002	**47,986**	**61,083**	**9,256**	**118,325**
Representing:				
As at 31st December 2002	47,986	61,083	3,894	112,963
2002 final dividend proposed (note 7)	–	–	5,362	5,362
	47,986	61,083	9,256	118,325
As at 1st January 2001	47,986	61,083	408	109,477
Profit for the year	–	–	14,087	14,087
2001 interim dividend paid	–	–	(8,043)	(8,043)
As at 31st December 2001	47,986	61,083	6,452	115,521
Representing:				
As at 31st December 2001	47,986	61,083	1,090	110,159
2001 final dividend proposed (note 7)	–	–	5,362	5,362
	47,986	61,083	6,452	115,521

Note:

(i) The capital reserve of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued shares of Nority (BVI) Limited and the value of net assets of the underlying subsidiaries acquired pursuant to the group reorganisation as mentioned above. At group level, the capital reserve is reclassified into its components of reserves of the underlying subsidiaries.

22 DEFERRED TAXATION

The movements in deferred taxation are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
As at 1st January	175	276
Transfer to profit and loss account (note 5)	(77)	(101)
As at 31st December	98	175
Provided for in respect of:		
Accelerated depreciation allowances	98	175

	Group 2002 HK$'000	Group 2001 HK$'000
The potential deferred taxation assets not provided for in the accounts amounts to:		
Tax losses and other timing differences	5,250	5,176

No deferred tax asset is provided in the accounts as the tax losses and other timing differences are not expected to crystallise in the foreseeable future.

23 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

	Group 2002 HK$'000	Group As restated 2001 HK$'000
(Loss)/profit before taxation	(1,252)	18,877
Amortisation and depreciation of fixed assets	16,387	19,865
Interest income	(949)	(1,536)
Interest expenses	12	203
Net gains on disposal of fixed assets	(91)	(101)
Provision for impairment losses on investment securities	1,092	–
Unrealised losses/(gains) on other investments	42	(30)
Increase in inventories	(18,256)	(3,006)
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	38,538	(22,342)
Decrease in trade payables, accruals and other payables	(5,152)	(8,237)
(Decrease)/increase in retirement benefit obligations	(698)	1,013
Effect on foreign exchange rate changes	–	(199)
Net cash inflow from operating activities	29,673	4,507

23 CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Bank loan		Minority interests	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
As at 1st January	**–**	–	**6,127**	3,689
New bank loan	**11,161**	–	**–**	–
Minority interests' share of profit	**–**	–	**1,870**	2,438
Dividends paid to minority shareholders	**–**	–	**(1,250)**	–
As at 31st December	**11,161**	–	**6,747**	6,127

24 COMMITMENTS

(a) Capital commitment for construction of a factory in Mainland China

	Group	
	2002	2001
	HK$'000	HK$'000
Contracted but not provided for	**2,019**	3,403

(b) Commitments under operating leases

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating lease rentals in respect of land and buildings as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Not later than one year	**1,230**	1,317
Later than one year and not later than five years	**1,050**	2,355
	2,280	3,672

As at 31st December 2002, the Company has no capital and operating lease commitments (2001: Nil).

25 PLEDGE OF ASSETS AND GUARANTEES

As at 31st December 2002, the Group's banking facilities, including short-term bank loan and bank overdrafts, 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$46,403,000 (2001: HK$46,991,000);

(b) legal charges over certain bank deposits of the Group of HK$15,652,000 (2001: HK$18,000,000);

(c) a corporate guarantee from the Company; and

(d) joint and several guarantees from three directors of the Company.

26 CONTINGENT LIABILITIES

As at 31st December 2002, the Company provided a corporate guarantee to a bank in respect of banking facilities totally HK$35 million (2001: HK$35 million) granted to a subsidiary. As at 31st December 2002, the banking facilities utilised amounted to HK$634,000 (2001: HK$1 million). Save for the information disclosed, neither the Company nor the Group has any other material contingent liabilities as at 31st December 2002 and 2001.

27 COMPARATIVE FIGURES

Comparative figures have been restated and reclassified based on the requirement of SSAP 15 (revised) and SSAP 34 (revised).

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 10th April 2003.