Notes to the Financial Statements

(For the year ended 31st December, 2002)

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 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 sale 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 format of presentation of the cash flow statement, an inclusion of a statement of changes in equity, and the adoption of certain new and revised accounting policies, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flows statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing/financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates in state-managed retirement benefit schemes and defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

On disposal of an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

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 share of the net assets of the associates plus goodwill on acquisition in so far as it has not already been amortised to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Notes to the Financial Statements

(For the year ended 31st December, 2002)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest 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 share of the net assets of the jointly controlled entities, less any identified impairment loss.

Turnover

Turnover represents the amounts received and receivable for goods sold by the Group to 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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%-33⅓%
Motor vehicles	20%

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.

Notes to the Financial Statements

(For the year ended 31st December, 2002)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. An 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.

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 schemes

The retirement benefit costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes and state-managed retirement benefit 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:

2002

	North America	Asia	Europe	Others	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
REVENUE					
Turnover	75,755	21,808	11,507	6,335	115,405
RESULTS					
Segment results	7,388	2,127	1,122	619	11,256
Other operating income					1,715
Unallocated corporate expenses					(6,158)
Profit from operations					6,813
Interest on bank borrowings wholly repayable within five years					(967)
Share of results of associates	–	10	–	–	10
Amortisation of goodwill of an associate	–	(135)	–	–	(135)
Share of results of a jointly controlled entity	–	(6)	–	–	(6)
Profit before taxation					5,715
Taxation					(223)
Net profit attributable to shareholders					5,492

Notes to the Financial Statements

(For the year ended 31st December, 2002)

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Segment assets	92,531	26,643	14,054	7,739	140,967
Investments in associates	–	5,307	–	–	5,307
Investment in a jointly controlled entity	–	1,999	–	–	1,999
Unallocated corporate assets					14,591
Consolidated total assets					162,864
LIABILITIES					
Segment liabilities	14,743	4,245	2,239	1,234	22,461
Unallocated corporate liabilities					33,407
Consolidated total liabilities					55,868

OTHER INFORMATION

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
Capital additions	2,672	769	406	223	4,070
Depreciation and amortisation of property, plant and equipment	7,015	2,020	1,065	587	10,687

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

2001

	North America	Asia	Europe	Others	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
REVENUE					
Turnover	72,934	25,772	18,534	10,598	127,838
RESULTS					
Segment results	7,799	2,756	1,982	1,133	13,670
Other operating income					2,217
Unallocated corporate expenses					(6,681)
Profit from operations					9,206
Interest on bank borrowings wholly repayable within five years					(1,414)
Share of results of an associate	–	(23)	–	–	(23)
Share of results of a jointly controlled entity	–	(95)	–	–	(95)
Profit before taxation					7,674
Taxation					(163)
Net profit attributable to shareholders					7,511

Notes to the Financial Statements

(For the year ended 31st December, 2002)

4. GEOGRAPHICAL AND BUSINESS SEGMENTS *(Continued)*

	North America	Asia	Europe	Others	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
BALANCE SHEET					
ASSETS					
Segment assets	78,958	26,065	20,068	11,473	136,564
Investment in an associate	–	432	–	–	432
Investment in a jointly controlled entity	–	1,405	–	–	1,405
Unallocated corporate assets					13,408
Consolidated total assets					151,809
LIABILITIES					
Segment liabilities	10,942	3,867	2,781	1,590	19,180
Unallocated corporate liabilities					29,490
Consolidated total liabilities					48,670

OTHER INFORMATION

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

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	
	2002	2001	**2002**	2001
	US$'000	*US$'000*	***US$'000***	*US$'000*
PRC	**123,801**	121,756	**3,987**	2,993
Hong Kong	**16,831**	14,527	**23**	91
Taiwan	**335**	281	**60**	62
	140,967	136,564	**4,070**	3,146

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. PROFIT FROM OPERATIONS

	2002	2001
	US$'000	*US$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 6)*	**1,191**	1,405
Other staff costs	**22,298**	21,854
Retirement benefits contributions	**1,235**	951
Total staff costs	**24,724**	24,210
Auditors' remuneration	**89**	100
Depreciation and amortisation of property, plant and equipment	**10,687**	10,440
Loss on disposal of property, plant and equipment	**1**	48
and after crediting:		
Interest income	**168**	164

Notes to the Financial Statements

(For the year ended 31st December, 2002)

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2002	2001
	US$'000	*US$'000*
Directors' fees:		
Executive	**73**	73
Non-executive	**8**	8
Independent non-executive	**15**	19
Other emoluments (executive directors):		
Basic salaries and allowances	**566**	583
Bonus	**529**	722
Total emoluments	**1,191**	1,405

Emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1

None of the directors waived any emoluments during the year.

The five highest paid individuals of the Group included 4 executive directors (2001: 5 executive directors) of the Company, details of whose emoluments are included in the amounts disclosed above. The emoluments of the remaining highest paid individual (2001: 0 employee), other than directors of the Company, were as follows:

	2002	2001
	US$'000	*US$'000*
Basic salaries and other benefits	127	–
Retirement benefits contributions	3	–
	130	N/A

The emoluments of this highest paid employee were within the band of HK$1,000,001 to HK$1,500,000.

7. TAXATION

	2002	2001
	US$'000	*US$'000*
The charge comprises:		
Hong Kong Profits Tax	**2**	3
Taxation in other jurisdictions		
– PRC	**213**	143
– Taiwan	**8**	17
	223	163

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

8. DIVIDENDS

	2002	2001
	US$'000	*US$'000*
Interim dividend, paid: 2002 - HK1 cent (2001 – HK1 cent) per ordinary share	**931**	931
Dividend paid for convertible non-voting preference shares	**–**	302
Total dividends declared during the year	**931**	1,233
Final dividend proposed after the balance sheet date: 2002 – HK1 cent (2001 – HK1 cent) per ordinary share	**931**	931
	1,862	2,164

Notes to the Financial Statements

(For the year ended 31st December, 2002)

8. DIVIDENDS *(Continued)*

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.

9. EARNINGS PER SHARE

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

	Earnings	
	2002	2001
	US$'000	*US$'000*
Net profit attributable to shareholders	**5,492**	7,511
Dividend for convertible non-voting preference shares	**–**	(302)
Earnings for the purpose of basic earnings per share	**5,492**	7,209
Effect of dilutive potential ordinary shares:		
– Dividend for convertible non-voting preference shares	**–**	302
Earnings for the purpose of diluted earnings per share	**5,492**	7,511

	Number of shares	
	2002	2001
Weighted average number of ordinary shares for the purpose of basic earnings per share	**721,300,000**	721,299,452
Effect of dilutive potential ordinary shares:		
– Share options	**4,171,429**	2,920,000
– Convertible non-voting preference shares	**–**	31,588,848
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**725,471,429**	755,808,300

10. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights and buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
THE GROUP							
COST OR VALUATION							
At 1st January, 2002	49,318	368	1,468	77,919	12,972	816	142,861
Additions	–	110	–	3,409	549	2	4,070
Transfers	–	(432)	–	–	432	–	–
Disposals	(4)	–	–	–	(13)	–	(17)
Revaluation deficit	(891)	–	–	–	–	–	(891)
At 31st December, 2002	**48,423**	**46**	**1,468**	**81,328**	**13,940**	**818**	**146,023**
Comprising:							
At cost	–	46	1,468	81,328	13,940	818	97,600
At valuation							
– December 2002	48,423	–	–	–	–	–	48,423
	48,423	46	1,468	81,328	13,940	818	146,023
DEPRECIATION AND AMORTISATION							
At 1st January, 2002	–	–	1,459	35,978	8,175	618	46,230
Provided for the year	1,118	–	2	8,119	1,386	62	10,687
Eliminated on disposals	–	–	–	–	(13)	–	(13)
Eliminated on revaluation	(1,118)	–	–	–	–	–	(1,118)
At 31st December, 2002	**–**	**–**	**1,461**	**44,097**	**9,548**	**680**	**55,786**
NET BOOK VALUE							
At 31st December, 2002	**48,423**	**46**	**7**	**37,231**	**4,392**	**138**	**90,237**
At 31st December, 2001	49,318	368	9	41,941	4,797	198	96,631

Notes to the Financial Statements

(For the year ended 31st December, 2002)

10. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The medium-term land use rights and buildings and the assets 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, 2002 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$37,842,000 (2001: US$38,723,000).

11. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	US$'000	*US$'000*
Unlisted shares, at cost	**26,465**	26,465
Amounts due from subsidiaries	**24,911**	29,061
	51,376	55,526

Particulars of the Company's principal subsidiaries at 31st December, 2002 are set out in note 27.

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.

12. INVESTMENTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002	2001	**2002**	2001
	US$'000	*US$'000*	***US$'000***	*US$'000*
Listed shares, at cost	**–**	–	**5,000**	–
Share of net assets of associates	**2,735**	432	**–**	–
	2,735	432	**5,000**	–
Goodwill				
Arising during the year	**2,707**	–	**–**	–
Amortisation for the year	**(135)**	–	**–**	–
	2,572	–	**–**	–
Carrying amount at 31st December	**5,307**	432	**5,000**	–
Market value	**N/A**	N/A	**3,902**	–
Amount due from an associate	**32**	–	**–**	–
Amount due to an associate	**64**	88	**–**	–

Particulars of the Group's principal associates at 31st December, 2002 are as follows:

Name of associate	Place of incorporation/operation	Proportion of nominal value of issued share capital held by the Group Directly	Indirectly	Principal activities
Hi-Tech Pacific Limited	British Virgin Islands/ PRC	–	40%	Manufacture of footwear materials
Secaicho Corporation	Japan	23.83%	–	Marketing and trading of footwear products

Notes to the Financial Statements

(For the year ended 31st December, 2002)

12. INVESTMENTS IN ASSOCIATES *(Continued)*

The amount due from/to an associate is unsecured, non-interest bearing and repayable on demand.

The goodwill is amortised on a straight-line basis over 20 years.

The results of Secaicho Corporation incorporated into the group financial statements are derived from financial statements made up to 30th September, 2002.

13. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Share of net assets of a jointly controlled entity	**1,999**	1,405
Amount due from a jointly controlled entity	–	5

Particulars of the jointly controlled entity at 31st December, 2002 are as follows:

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

The amount due from a jointly controlled entity is unsecured, non-interest bearing and was fully repaid during the year.

14. INVENTORIES

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Raw materials	**24,281**	18,948
Work in progress	**9,523**	5,799
Finished goods	**3,653**	3,403
	37,457	28,150

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

15. 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	
	2002	2001
	US$'000	*US$'000*
0-30 days	**8,009**	8,844
31-60 days	**8**	420
>60 days	**2,071**	1,437
Total trade receivables	**10,088**	10,701
Other receivables	**3,185**	2,919
	13,273	13,620

Notes to the Financial Statements

(For the year ended 31st December, 2002)

16. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
0-30 days	**5,736**	3,683
31-60 days	**1,456**	1,396
>60 days	**6,623**	6,549
Total trade payables	**13,815**	11,628
Other payables	**8,646**	7,552
	22,461	19,180

17. BANK BORROWINGS, UNSECURED

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Bank loans	**30,833**	28,856
Trust receipt loans	**2,344**	423
	33,177	29,279
Less: Amounts due within one year shown under current liabilities	**(21,238)**	(15,792)
Amounts due after one year	**11,939**	13,487
The bank borrowings carry interest at prevailing market rates and are repayable as follows:		
Within one year or on demand	**21,238**	15,792
Between one to two years	**9,028**	9,255
Between two to five years	**2,911**	4,232
	33,177	29,279

18. SHARE CAPITAL

	Number of shares	**Amount**
		US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2001, 31st December, 2001 and 31st December, 2002	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each*		
At 1st January, 2001, 31st December, 2001 and 31st December, 2002	150	15,000
		34,355

Notes to the Financial Statements

(For the year ended 31st December, 2002)

18. SHARE CAPITAL *(Continued)*

	Number of shares	Amount
		US$'000
Issued and fully paid		
Ordinary shares of HK$0.10 each		
At 1st January, 2001	721,200,000	9,306
Exercise of share options	100,000	1
At 31st December, 2001 and 2002	721,300,000	9,307
Convertible non-voting preference shares of US$100,000 each*		
At 1st January, 2001	150	15,000
Repurchase of shares	(150)	(15,000)
At 31st December, 2001 and 2002	–	–
		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 ended 31st December, 2001, 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.

There was no movement in the Company's share capital during the year ended 31st December, 2002.

* *Convertible non-voting preference shares, when issued and outstanding, carry fixed cumulative dividend. Under certain circumstances, they are entitled to additional dividend and are convertible into shares of the Company.*

19. RESERVES

	Share premium US$'000	Contributed surplus US$'000	Dividend reserve US$'000	Accumulated profits US$'000	Total US$'000
THE COMPANY					
At 1st January, 2001	21,029	19,486	1,396	241	42,152
Issue of share on exercise of options	9	-	–	–	9
Net profit for the year	–	–	–	9,677	9,677
Dividends paid for 2000	–	–	(1,396)	–	(1,396)
Dividends declared for 2001	–	–	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
Net profit for the year	–	–	–	2,710	2,710
Dividends paid for 2001	–	–	(931)	–	(931)
Dividends declared for 2002	–	–	1,862	(1,862)	–
Dividends paid for 2002	–	–	(931)	–	(931)
At 31st December, 2002	21,038	19,486	931	8,602	50,057

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$42,000 (2001: a profit of US$32,000) and a loss of US$101,000 (2001: a loss of US$95,000) attributable to the Group's associates 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, 2002 are represented by its accumulated profits, dividend reserve and contributed surplus, totalling US$29,019,000 (2001: US$28,171,000).

Notes to the Financial Statements

(For the year ended 31st December, 2002)

20. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25th September, 1996 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 24th September, 2006. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31 December 2002, the number of shares in respect of which options had been granted under the Scheme was 14.6 million (2001: 14.6 million), representing 2.02% (2001: 2.02%) of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

No consideration is payable on the grant of an option. Options may be exercised at any time for a period of three years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant an option.

Details of the Group's share options held by employees (including directors) under the Scheme are as follows:

	Date of grant	Exercisable period	Exercise price per share	Number of share options outstanding at 1.1.2002 and 31.12.2002
			HK$	
Directors	23.4.1999	23.4.2000 to 22.4.2003	0.60	14,300,000
Employees	23.4.1999	23.4.2000 to 22.4.2003	0.60	300,000
				14,600,000

No share options were granted during either year.

21. DEFERRED TAXATION

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

No provision for deferred taxation has been recognised for other timing differences in the financial statements as the amounts involved are insignificant.

22. CONTINGENT LIABILITIES

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Bills discounted with recourse	**1,511**	–

THE COMPANY

The Company has given corporate guarantees to certain banks in respect of general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2002 amounted to approximately US$33,632,000 (2001: US$29,332,000).

23. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	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	**117**	178

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

Notes to the Financial Statements

(For the year ended 31st December, 2002)

24. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Minimum lease payments paid under operating leases during the year	**462**	519

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	
	2002	2001
	US$'000	*US$'000*
Within one year	**306**	435
In the second to fifth year inclusive	**386**	347
Over five years	**1,032**	1,073
	1,724	1,855

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.

25. 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 by the local tax authority. Contributions are charged to the income statement as they become payable in accordance with the rules of the Schemes. When an employee leaves the Schemes, contributions are fully vested with the employee.

26. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had the following transactions with its related parties:

	THE GROUP	
Nature of transactions	**2002**	2001
	US$'000	*US$'000*
Sales by the Group to an associate	**3,309**	–
Purchases by the Group from associates	**605**	886
Purchase by the Group from a jointly controlled entity	**95**	–

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

Details of the balance with the associates and the jointly controlled entity as at 31st December, 2002 are set out in the consolidated balance sheet and notes 12 and 13, respectively.

Save as disclosed above, there were no significant transactions with related parties during the year or significant balances with them at 31st December, 2002 and 2001.

Notes to the Financial Statements

(For the year ended 31st December, 2002)

27. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2002 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/Hong Kong	Ordinary US$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands/Hong Kong	Ordinary US$8	–	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands/Hong Kong	Ordinary US$11	–	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK$10,000	–	100%	Provision of administrative services to group companies
Pan Yu Fang Chun Footwear Co., Ltd. * 番禺豐群鞋業有限公司 *	PRC	US$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

* *Wholly-owned foreign enterprises*

27. PRINCIPAL SUBSIDIARIES *(Continued)*

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, 2002 or at any time during the year.