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 as modified by the revaluation of certain land and buildings, plant and machinery and investment securities.

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 changes to the Group's accounting policies and the effect of adopting these revised standards are set out in the accounting policies below.

(b) Basis of consolidation

The consolidated accounts include the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half 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. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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 negative goodwill or goodwill/negative goodwill and accumulative exchange difference taken to reserves and which were not previously charged or recognised in the consolidated profit and loss account.

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)*

(c) Associated company

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

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.

(d) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the consolidated profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets that are amortisable. Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Fixed assets

Fixed assets are stated at cost or valuation in 1995 less subsequent accumulated depreciation and accumulated impairment losses.

Effective from 1st September 1995, no further revaluations of the Group's leasehold land and buildings and plant and machinery have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations of such assets.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 3 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets 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 except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(f) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Investment securities

Investments which are held for non-trading purposes are stated at fair value at the consolidated balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities/investments which are unlisted and not actively traded, fair value is determined by the Group using a variety of methods and techniques, such as estimated discounted value of future cash flows, with assumptions that are based on market conditions existing at each balance sheet date. Changes in the fair value of individual investment are credited or debited to the investment revaluation reserve until the investment is sold, or is determined to be impaired by the directors.

Where there is evidence that individual investment is impaired the cumulative loss recorded in the revaluation reserve is taken to the consolidated profit and loss account. Any subsequent increase in the fair value is credited to the consolidated profit and loss account up to the amount previously debited.

Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the consolidated profit and loss account.

(h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

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

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investments and bank overdrafts.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Contingent liabilities

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 outflow becomes probable, it will then be recognised as a provision.

(l) 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.

(m) 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 sheets of subsidiaries and the associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate during the year. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of a foreign entity, the related accumulative exchange differences are included in the consolidated profit and loss account as part of the gain or loss on disposal.

(n) 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.

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

Subcontracting income is recognised when the services are rendered.

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

Dividend income is recognised when the right to receive payment is established.

Export incentives from government are recognised on a systematic basis to match the related costs which they are intended to compensate.

(o) Employee benefits

(i) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within the next twelve months and are measured at the amounts expected to be paid when they are settled.

(ii) Pension obligations

The Group participated in a defined contribution retirement scheme which is available for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the scheme by the Group are expensed as incurred and/or are reduced by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also participated in the defined contribution retirement schemes operated by the municipal governments of various cities in the People's Republic of China (the "PRC"). The relevant municipal governments are responsible for the entire pension obligations payable to retired employees of the respective cities. The only obligation of the Group is to pay the ongoing required contributions under these schemes. The contributions are charged to the profit and loss account as incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting format is by business segment and the secondary segment reporting is by geographical segment.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on the region in which the assets are located.

Unallocated costs represent corporate expenses. Segment assets comprise primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude intangible assets, interest in an associated company and investment securities. Capital expenditure comprises additions to fixed assets.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of footwear products. Revenues recognised during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**1,180,669**	1,088,527
Other revenues		
Income derived from an unlisted investment *(note 15(a))*	**3,000**	6,317
Subcontracting income	**2,714**	4,108
Export incentives from government	**1,074**	1,346
Interest income	**596**	967
Gross rental income	**–**	153
Others	**108**	116
	7,492	13,007
Total revenues	**1,188,161**	1,101,534

Business segments

The Group has only one single business segment which is the manufacturing and distribution of footwear products. Accordingly, the consolidated figures represent the segment information for this sole business segment for the year.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segments

In presenting information on the basis of geographical segments, segment turnover and segment results are based on the geographical location of customers. Segment assets and capital expenditure are based on geographical location of the assets.

	2002		2001	
	Turnover	**Segment results**	Turnover	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
United States of America	**650,164**	**21,400**	634,124	(54,224)
People's Republic of China	**494,700**	**9,287**	411,761	(7,645)
Others	**35,805**	**5,559**	42,642	8,083
	1,180,669	**36,246**	1,088,527	(53,786)
Gain on disposal of investment securities		**–**		1,111
Income derived from an unlisted investment		**3,000**		6,317
Interest income		**596**		967
Surplus on valuation of an unlisted investment		**13,000**		–
Impairment losses on investment securities		**–**		(13,898)
Unallocated costs		**(1,509)**		(9,594)
Operating profit/(loss)		**51,333**		(68,883)

	2002		2001	
	Total assets	**Capital expenditure**	Total assets	Capital expenditure
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
People's Republic of China	**555,877**	**28,938**	449,150	8,901
Hong Kong	**115,371**	**100**	155,220	80
Others	**50,426**	**1,185**	83,941	50
	721,674	**30,223**	688,311	9,031
Interest in an associated company	**2,326**		2,258	
Investment securities	**37,437**		24,437	
Negative goodwill	**–**		(1,850)	
Total assets	**761,437**		713,156	

3. OPERATING PROFIT/(LOSS)

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

	2002	2001
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**–**	51
Gain on disposal of investment securities	**–**	1,111
Negative goodwill recognised	**1,850**	150
Net exchange gains	**56**	–
Reversal of provision for bad and doubtful debts	**3,050**	–
Reversal of write-down of inventories	**7,636**	–
Charging		
Auditors' remuneration	**1,289**	1,226
Loss on disposal of fixed assets	**189**	–
Net exchange losses	**–**	11,203
Operating lease rentals		
– Land and buildings	**75,887**	47,871
– Plant and machinery	**88**	336
Provision for bad and doubtful debts	**–**	8,784
Provision for slow-moving inventories	**–**	4,820

4. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**9,009**	16,528

5. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions including tax holiday and reduced enterprise income tax rate. Accordingly, PRC enterprise income tax for such subsidiaries has been provided after taking account of these tax exemptions and concessions.

5. TAXATION *(Continued)*

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK$'000	2001 HK$'000
Current taxation		
– Taxation outside Hong Kong	**10,643**	6,948
– Under provision in prior years	**600**	5,380
	11,243	12,328
Share of taxation attributable to an associated company	**66**	37
	11,309	12,365

No deferred taxation on the revaluation surplus of the Group's properties in the PRC arising from the revaluation performed in 1995 has been recognised in the accounts as these properties are held for the long-term and the directors have no intention to dispose of these properties in the foreseeable future.

There was no material unprovided deferred taxation for the year.

6. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK$35,085,000 (2001: HK$4,532,000).

7. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim dividend, paid, of HK0.8 cents (2001: Nil) per ordinary share	**11,987**	–
Final dividend, proposed, of HK1.2 cents (2001: Nil) per ordinary share *(Note)*	**17,981**	–
	29,968	–

Note: At a meeting held on 16th April 2003, the board of directors declared a final dividend of HK1.2 cents per ordinary 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. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK$25,584,000 (2001: loss of HK$99,779,000) and the weighted average number of 1,498,392,384 (2001: 1,498,392,384) ordinary shares in issue during the year.

As the respective prices of the share options were greater than the average market prices of the Company's share for the year ended 31st December 2001 and for the period from 1st January 2002 to 28th March 2002, there was no dilution effect on the basic earnings per share. All share options granted by the Company to employees lapsed on 28th March 2002.

9. STAFF COSTS

Staff costs including directors' emoluments represent:

	2002	2001
	HK$'000	*HK$'000*
Wages, salaries and bonuses	**225,787**	231,576
Termination benefits	**442**	7,773
Retirement benefit costs *(Note)*	**4,843**	3,522
	231,072	242,871

Note: All Hong Kong employees of the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, both the employer and employees are required to contribute 5% of the employee's relevant income or HK$1,000, whichever is lower, as mandatory contributions.

The Group is also required to make contributions to pension schemes operated by the municipal governments of various cities in the PRC at certain percentages of the salaries of its employees in the PRC. The municipal governments are responsible for the entire pension obligations payable to retired employees. The Group does not have other obligations under these pension schemes in the PRC other than the contribution payments.

As at 31st December 2002, no forfeited contributions are available to reduce the contribution payable in the future.

Contributions totalling approximately HK$415,000 (2001: approximately HK$413,000) payable to the funds as at 31st December 2002 are included in other payables and accrued charges.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002	2001
	HK$'000	*HK$'000*
Fees	**–**	–
Basic salaries and bonuses	**13,814**	15,389
Performance related incentive payments	**884**	68
	14,698	15,457

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Emolument bands		
HK$nil to HK$1,000,000	**2**	7
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**2**	2

(b) Five highest paid individuals

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

	2002	2001
	HK$'000	*HK$'000*
Basic salaries and bonuses	**3,276**	3,872
Performance related incentive payments	**546**	–
	3,822	3,872

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

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

(c) No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors or the five highest paid individuals waived or agreed to waive any emoluments during the year.

11. FIXED ASSETS

	Group					
	Leasehold land and buildings	**Leasehold improvements**	**Plant and machinery**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation						
At 1st January 2002	124,320	–	89,346	27,935	11,614	253,215
Exchange adjustment	(1,301)	–	(1,024)	(138)	(126)	(2,589)
Additions	3,332	18,246	4,578	1,841	2,226	30,223
Disposals	–	–	(811)	(201)	(332)	(1,344)
At 31st December 2002	**126,351**	**18,246**	**92,089**	**29,437**	**13,382**	**279,505**
Accumulated depreciation						
At 1st January 2002	28,921	–	77,169	17,205	8,944	132,239
Exchange adjustment	(232)	–	(909)	(106)	(93)	(1,340)
Charge for the year	472	9,741	6,989	2,322	1,324	20,848
Disposals	–	–	(659)	(183)	(298)	(1,140)
At 31st December 2002	**29,161**	**9,741**	**82,590**	**19,238**	**9,877**	**150,607**
Net book value						
At 31st December 2002	**97,190**	**8,505**	**9,499**	**10,199**	**3,505**	**128,898**
At 31st December 2001	95,399	–	12,177	10,730	2,670	120,976

11. FIXED ASSETS *(Continued)*

The analysis of the cost or valuation of the above assets is as follows:

	Group					
	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	106,851	18,246	49,504	29,437	13,382	217,420
At 1995 valuation *(Note b)*	19,500	–	42,585	–	–	62,085
At 31st December 2002	**126,351**	**18,246**	**92,089**	**29,437**	**13,382**	**279,505**
At cost	104,820	–	46,761	27,935	11,614	191,130
At 1995 valuation *(Note b)*	19,500	–	42,585	–	–	62,085
At 31st December 2001	124,320	–	89,346	27,935	11,614	253,215

Notes:

(a) At 31st December 2002 and 31st December 2001, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases between 10 to 50 years.

(b) Such leasehold land and buildings and plant and machinery were revalued as at 31st August 1995 by Chesterton Petty Limited, an independent firm of chartered surveyors, on the basis of their open market value. The carrying amount of the leasehold land and buildings and plant and machinery would have been approximately HK$11,878,000 (2001: HK$12,274,000) and HK$nil (2001: HK$nil) respectively had they been stated at cost less accumulated depreciation.

(c) At 31st December 2002, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans amounted to approximately HK$40,763,000 (2001: HK$91,390,000).

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investments, at cost	**165,635**	165,635

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at 31st December 2002:

Name	Place of incorporation and kind of legal entity	Particulars of issued share held/ registered capital	Interest held %	Principal activities and place of operation
Dachang Paper Industry Co., Ltd. Fujian	PRC; equity joint venture	Registered capital of US$900,000	93.33	Manufacture of shoe components in the PRC
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	Registered capital of US$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	Registered capital of US$4,285,700	100	Manufacture of shoe components in the PRC
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	PRC; wholly-owned foreign enterprise	Registered capital of US$1,199,925	100	Manufacture of footwear products in the PRC
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	51	Retail sales right holder of footwear and apparel products in the PRC
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 13,055,667 non-voting deferred shares of HK$1 each *(note (b) below)*	100	Export trading of footwear products, investment and trademarks holding in Hong Kong
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US$1 each	100	Export trading of footwear products in Hong Kong

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share held/ registered capital	Interest held %	Principal activities and place of operation
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	PRC; equity joint venture	Registered capital of US$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	Registered capital of US$3,600,000	84.45	Manufacture of footwear products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	Registered capital of US$12,000,000	100	Distribution and retail of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	Registered capital of US$5,000,000	100	Manufacture of footwear products in the PRC
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	100	Investment holding in Hong Kong

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) Other than investment in Prime Success (BVI) Limited which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.

(b) The non-voting deferred shares carry no rights to dividends, nor rights to receive notice, nor rights to attend and vote at any general meeting of the respective companies, nor rights to participate in any distributions on winding up.

(c) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

13. AMOUNTS DUE FROM/TO SUBSIDIARIES – COMPANY

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

14. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2002	2001
	HK$'000	*HK$'000*
Share of net assets	**2,326**	2,258
Unlisted investment, at cost	**2,340**	2,340

Particulars of the associated company at 31st December 2002 are as follows:

Name	Place of establishment	Particulars of registered capital	Interest held indirectly %	Principal activity
Dayong Shoe Material Co., Ltd. Hanjiang Putian City	PRC	Registered capital of RMB5,457,000	30	Manufacture of shoe materials in the PRC

15. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investments *(Note a)*, at fair value	**37,437**	24,437
Listed securities *(Note b)*, at fair value	**–**	–
	37,437	24,437

Notes:

(a) Unlisted investments mainly comprise an investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") in which the Group holds 30% interest in its registered capital. Jingxing is a sino-foreign equity joint venture established in the PRC for a term of 70 years commencing November 1991. Jingxing is engaged in the manufacturing and distribution of footwear products.

The directors do not regard Jingxing as an associated company of the Group as they are of the opinion that the Group cannot exercise significant influence in the financial and operational decisions of Jingxing.

As at 31st December 2002, the carrying value of the investment in Jingxing was HK$37,000,000 (2001: HK$24,000,000). The fair value of the investment in Jingxing as at 31st December 2002 was valued by Chesterton Petty Limited, an independent professional valuer. The valuation surplus of HK$13,000,000 was credited to the consolidated profit and loss account to offset the amount previously debited.

In 1999, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for annual payments by the Guarantor for each of the four years ended 31st December 2002, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31st December 2002 was approximately HK$3,000,000 (2001: HK$6,317,000) and has been recognised in the consolidated profit and loss account.

Subsequent to the year end date, the Group extended the period of the above agreement with the Guarantor whereby in return for a minimum annual payment of HK$3,000,000 by the Guarantor for each of the three years ending 31st December 2005, the Group has agreed to surrender its right to the share of any profit in Jingxing for the same period.

(b) At 31st December 2002, the Group held approximately 14.4% interest in Sun Home Leather Corporation ("Sun Home"), a company engaged in the manufacturing and trading of leather materials.

On 30th November 2001, Sun Home was delisted from the Taiwan Stock Exchange Corporation and authorised to be traded on Over-the-Counter market on the same date. Since the volume of transactions of the shares in Sun Home is infrequent and the volume of trade is low, the directors considered that the fair value of the investment in Sun Home was negligible as at 31st December 2001. As a result, the carrying amount of the securities was written down to zero during the year ended 31st December 2001 and the loss recorded in the investment revaluation reserve of approximately HK$10,581,000 was taken to the consolidated profit and loss account in that year as an impairment loss. The directors do not consider that there has been any material change in the fair value of the investment in Sun Home as at 31st December 2002.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (note 22).

16. NEGATIVE GOODWILL

	Group	
	2002	2001
At the beginning of the year	**(1,850)**	–
Arising on acquisition of additional interest in a subsidiary	**–**	(2,000)
Amount recognised in the consolidated profit and loss account	**1,850**	150
At the end of the year	**–**	(1,850)

The negative goodwill arose on the Group's acquisition of an additional 28% equity interests in Dasheng Footwear Co., Ltd. Putian City on 7th April 2001. In the previous year, the negative goodwill was taken to the consolidated profit and loss account on a straight-line basis over a period of 10 years. During the year, the directors decided that the full carrying amount of the negative goodwill of HK$1,850,000 should be recognised as income in the consolidated profit and loss account to reflect their new estimation of the subsequent changes in the expectation of future losses and expenses in association with such acquisition.

17. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**50,051**	33,296
Work-in-progress	**22,202**	20,842
Finished goods	**205,837**	129,401
	278,090	183,539

At 31st December 2002, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK$11,750,000 (2001: HK$24,514,000).

18. TRADE RECEIVABLES

The ageing analysis of trade receivables by invoice date is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**55,193**	57,760
31 – 60 days	**31,147**	34,720
61 – 90 days	**18,892**	13,487
91 – 120 days	**8,802**	23,631
121 – 180 days	**5,186**	20,449
181 – 360 days	**12,040**	10,286
Over 360 days	**880**	6,359
	132,140	166,692

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long established customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

19. TRADE PAYABLES

The ageing analysis of trade payables by invoice date is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**115,907**	59,406
31 – 60 days	**41,846**	42,281
61 – 90 days	**15,444**	7,382
91 – 120 days	**7,896**	3,567
121 – 180 days	**1,915**	9,248
181 – 360 days	**4,569**	2,021
Over 360 days	**580**	4,301
	188,157	128,206

20. AMOUNT DUE TO AN ASSOCIATED COMPANY

The amount due to an associated company is unsecured, interest-free and repayable on demand.

21. AMOUNT DUE TO AN INVESTEE COMPANY

The amount due to an investee company, Sun Home, is unsecured, interest-free and repayable according to trade terms agreed between both parties.

22. BANK LOANS AND OVERDRAFTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loans and overdrafts		
– Secured *(note (b))*	**73,683**	91,159
– Unsecured	**76,897**	82,282
	150,580	173,441

Notes:

(a) As at 31st December 2002 and 2001, the Group's bank loans are repayable within one year.

(b) As at 31st December 2002, the Group's short-term bank loans of approximately HK$70,593,000 (2001: HK$86,434,000) were secured by the following assets of the Group:

(i) certain leasehold land and buildings of net book value of approximately HK$40,763,000 (2001: HK$91,390,000); and

(ii) a listed investment securities of Sun Home with nil (2001: nil) carrying value.

(c) As at 31st December 2002, an export value-added tax recoverable of approximately HK$4,418,000 (2001: nil) was pledged against the Group's short-term bank loan of approximately HK$3,090,000. As at 31st December 2001, a bank deposit of HK$7,800,000 was pledged against the Group's short-term bank loan of approximately HK$4,725,000.

23. SHARE CAPITAL

	Company	
	2002	2001
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
1,498,392,384 ordinary shares of HK$0.10 each	**149,839**	149,839

In accordance with the Company's share option scheme (the "Scheme") adopted on 9th October 1995 for a period of ten years, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

23. SHARE CAPITAL *(Continued)*

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of the year	**80,000,000**	80,000,000
Lapsed	**(80,000,000)**	–
At the end of the year	**–**	80,000,000

As at 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 was outstanding. These share options entitle the holders thereof to subscribe for shares of HK$0.10 each in the Company at a subscription price of HK$0.20 per share (subject to adjustment) during the exercisable period from 29th March 2000 to 28th March 2002. No share options were exercised during the period and all the outstanding share options lapsed on 28th March 2002. No new share options were granted during the year ended 31st December 2002.

24. RESERVES

Group

	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note (a))*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange difference *HK$'000*	Goodwill *HK$'000*	Merger reserve *HK$'000* *(Note (b))*	Other reserves *HK$'000* *(Note (c))*	Retained profits *HK$'000*	Total *HK$'000*
At 1st January 2001	2,315	2,882	1,184	–	(20,945)	(36,782)	322	7,318	306,281	262,575
Exchange differences	–	–	–	–	13,443	–	–	–	–	13,443
Transfer	–	–	–	–	–	–	–	1,004	(1,004)	–
Share of an associated company's reserves	–	–	–	–	(74)	–	–	6	(6)	(74)
Profit for the year	–	–	–	–	–	–	–	–	(99,779)	(99,779)
Deficits on revaluation	–	–	–	(13,898)	–	–	–	–	–	(13,898)
Impairment losses transfer to the consolidated profit and loss account	–	–	–	13,898	–	–	–	–	–	13,898
At 31st December 2001	2,315	2,882	1,184	–	(7,576)	(36,782)	322	8,328	205,492	176,165
Company and subsidiaries	2,315	2,882	1,184	–	(6,729)	(36,782)	322	7,917	205,138	176,247
An associated company	–	–	–	–	(847)	–	–	411	354	(82)
	2,315	2,882	1,184	–	(7,576)	(36,782)	322	8,328	205,492	176,165

24. RESERVES *(Continued)*

Group

	Share premium HK$'000	Capital redemption reserve HK$'000 (Note (a))	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange difference HK$'000	Goodwill HK$'000	Merger reserve HK$'000 (Note (b))	Other reserves HK$'000 (Note (c))	Retained profits HK$'000	Total HK$'000
At 1st January 2002	2,315	2,882	1,184	–	(7,576)	(36,782)	322	8,328	205,492	176,165
Exchange differences	–	–	–	–	(1,993)	–	–	–	–	(1,993)
Transfer	–	–	–	–	–	–	–	730	(730)	–
Share of an associated company's reserves	–	–	–	–	(25)	–	–	2	(2)	(25)
Profit for the year	–	–	–	–	–	–	–	–	25,584	25,584
2002 interim dividend paid	–	–	–	–	–	–	–	–	(11,987)	(11,987)
At 31st December 2002	**2,315**	**2,882**	**1,184**	**–**	**(9,594)**	**(36,782)**	**332**	**9,060**	**218,357**	**187,744**
Representing:										
Reserves	2,315	2,882	1,184	–	(9,594)	(36,782)	322	9,060	200,376	169,763
2002 final dividend proposed	–	–	–	–	–	–	–	–	17,981	17,981
At 31st December 2002	2,315	2,882	1,184	–	(9,594)	(36,782)	322	9,060	218,357	187,744
Company and subsidiaries	2,315	2,882	1,184	–	(8,722)	(36,782)	322	8,647	218,005	187,851
An associated company	–	–	–	–	(872)	–	–	413	352	(107)
	2,315	2,882	1,184	–	(9,594)	(36,782)	322	9,060	218,357	187,744

Company

	Share premium HK$'000	Capital redemption reserve HK$'000 (Note (a))	Contributed surplus HK$'000 (Note (d))	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1st January 2001	2,315	2,882	152,891	(2,931)	155,157
Profit for the year	–	–	–	4,532	4,532
At 31st December 2001 and 1st January 2002	2,315	2,882	152,891	1,601	159,689
Profit for the year	–	–	–	35,085	35,085
2002 interim dividend paid	–	–	–	(11,987)	(11,987)
At 31st December 2002	**2,315**	**2,882**	**152,891**	**24,699**	**182,787**
Representing:					
Reserves	2,315	2,882	152,891	6,718	164,806
2002 final dividend proposed	–	–	–	17,981	17,981
At 31st December 2002	2,315	2,882	152,891	24,699	182,787

24. RESERVES *(Continued)*

Notes:

(a) Capital redemption reserve

The capital redemption reserve represents the nominal amount of shares repurchased by the Company in 1999.

(b) Merger reserve

The merger reserve represents the difference between the aggregate nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the share capital issued by the Company as consideration for the acquisition pursuant to the corporate reorganisation in 1995.

(c) Other reserves

Other reserves comprising general reserve fund of approximately HK$4,477,000 (2001: HK$3,888,000) and enterprise expansion fund of approximately HK$4,583,000 (2001: HK$4,440,000) required to be set up pursuant to relevant PRC laws for the Group's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

(d) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the corporate reorganisation in 1995 and the nominal amount of the Company's shares issued for the acquisition.

(e) Distributable reserves

The Company's reserves available for its distribution to its shareholders comprise share premium, contributed surplus and retained profits. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

25. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) to net cash inflow generated from operations

	2002	2001
	HK$'000	*HK$'000*
Operating profit/(loss)	**51,333**	(68,883)
Interest income	**(596)**	(967)
Depreciation	**20,848**	13,036
Gain on disposal of investment securities	**–**	(1,111)
Loss/(gain) on disposal of fixed assets	**189**	(51)
Surplus on valuation of an unlisted investment	**(13,000)**	–
Impairment losses on investment securities	**–**	13,898
Negative goodwill recognised	**(1,850)**	(150)
Operating profit/(loss) before working capital changes	**56,924**	(44,228)
(Increase)/decrease in inventories	**(94,551)**	2,887
Decrease in trade receivables, other receivables and prepayments	**49,748**	41,825
Increase in trade payables, other payables and accrued charges	**48,333**	15,099
Decrease in amount due to an associated company	**(151)**	(533)
Increase/(decrease) in amount due to an investee company	**431**	(1,775)
Net cash inflow generated from operations	**60,734**	13,275

25. CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Bank loans		Dividend payable		Minority interests	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1st January	**173,432**	210,611	**–**	–	**17,033**	24,628
Exchange differences	**77**	(2,268)	**–**	–	**–**	–
Acquisition of additional interest in a subsidiary	**–**	–	**–**	–	**–**	(7,225)
Dividend declared	**–**	–	**11,987**	–	**–**	–
Dividend paid	**–**	–	**(11,987)**	–	**–**	–
Dividends paid to minority shareholders	**–**	–	**–**	–	**(1,744)**	(2,881)
Minority interests in share of profits and exchange reserves	**–**	–	**–**	–	**5,254**	2,511
Increase in amounts due to minority shareholders	**–**	–	**–**	–	**4,099**	–
New bank loans raised	**164,699**	229,845	**–**	–	**–**	–
Repayment of bank loans	**(187,655)**	(264,756)	**–**	–	**–**	–
At 31st December	**150,553**	173,432	**–**	–	**24,642**	17,033

(c) Cash and cash equivalents

	2002	2001
	HK$'000	*HK$'000*
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**129,944**	141,506
Bank overdrafts	**(27)**	(9)
	129,917	141,497

26. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31st December 2002 and 31st December 2001.

At 31st December 2002, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting in total to approximately HK$30,800,000 (2001: HK$75,875,000). At 31st December 2002, the utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company was approximately HK$11,556,000 (2001: HK$21,591,000).

27. COMMITMENTS

(a) Capital commitments for fixed assets

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted but not provided for	**–**	1,817

(b) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002		2001	
	Land and buildings	**Plant and machinery**	Land and buildings	Plant and machinery
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Not later than one year	**64,556**	**–**	53,047	32
Later than one year and not later than five years	**77,847**	**–**	62,029	–
Later than five years	**8,841**	**–**	12,682	–
	151,244	**–**	127,758	32

The Company did not have any commitments as at 31st December 2002 (2001: nil).

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the accounts, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Note	2002 HK$'000	2001 HK$'000
Purchases from an associated company	*(a)*	**2,968**	4,103
Purchases from an investee company	*(b)*	**7,508**	7,375

Notes:

(a) Purchases of goods from an associated company, Dayong Shoe Material Co., Ltd.. Hanjiang Putian City, were carried out in accordance with terms as determined and agreed between both parties.

(b) Purchases of shoe materials from an investee company, Sun Home, were carried out in accordance with terms as determined and agreed between both parties. The Company's directors, Mr Chang Wen I and Mr Chen Hsien Min are directors of Sun Home.

29. COMPARATIVE FIGURES

Certain comparative figures of the consolidated cash flow statement for the year ended 31st December 2001 have been reclassified to conform with current year's presentation due to the adoption of SSAP 15 (revised).

Certain comparative figures of the consolidated profit and loss account for the year ended 31st December 2001 have been reclassified to conform with current year's presentation.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16th April 2003.