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 Statement of Standard Accounting Practice ("SSAP") 12 (revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy is set out below.

(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 negative goodwill and any exchange difference which was not previously charged or recognised in the consolidated profit and loss account and related accumulated foreign currency transaction reserve.

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) 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 other overseas subsidiaries 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 difference are dealt with as a movement in reserves.

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

(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 and land use rights

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 buildings under construction and are stated at cost less accumulated impairment losses. Cost comprises direct costs of construction and other director costs attributable to the construction.

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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Fixed assets *(continued)*

(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) Depreciation and amortisation

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 and land use rights are 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.

(vi) 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 the 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.

(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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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, maternity leave and other non-accumulating compensated absences are not recognised until the time of leave.

(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 annually. 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.

The Group's contributions to defined benefit retirement plan are charged to the profit and loss account in the period to which the contribution related.

(iii) Equity compensation benefits

Share options are granted to directors and to employees at the directors' discretion. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase to equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Deferred taxation *(continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and join ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

As detailed in note 20(a) to the accounts, opening reserves at 1st January 2002 and 2003 have been increased by HK$6,724,000 and HK$5,642,000, respectively, which represent the unrecognised net deferred tax assets. The change has resulted in an increase in deferred tax assets and liabilities at 31st December 2002 by HK$5,682,000 and HK$40,000, respectively. The profit and amount charged to equity for the year ended 31st December 2002 have been decreased by HK$1,120,000 and HK$40,000, respectively.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Contingent liabilities and contingent assets *(continued)*

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.

(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) 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 the lease.

(p) 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.

The Group operates in Taiwan, Mainland China and Hong Kong. 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	
	2003	2002
	HK$'000	HK$'000
Turnover – sale of goods	420,939	325,764
Other revenues		
Interest income	51	949
Subcontracting fee income	–	3,897
Rental income	488	109
Dividend income	3	–
	542	4,955
Total revenues	421,481	330,719

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

	2003			
	North America	Europe	Other countries	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	207,361	153,961	59,617	420,939
Segment results	(13,783)	4,974	14,056	5,247
Unallocated revenues				542
Other operating income, net				175
Unallocated costs				(30,299)
Operating loss				(24,335)
Finance costs				(16)
Loss before taxation				(24,351)
Taxation credit				3,481
Loss after taxation				(20,870)
Minority interests				(1,719)
Loss attributable to shareholders				(22,589)

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

	Restated (i) 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				9,725
Profit after taxation				8,473
Minority interests				(1,870)
Profit attributable to shareholders				6,603

There are no sales between the geographical segments during the year ended 31st December 2003 and 2002.

	2003		
	Mainland China and Hong Kong HK$'000	Taiwan HK$'000	Total HK$'000
Total assets	236,406	78,760	315,166
Total liabilities	54,950	21,478	76,428
Minority interests	7,216	–	7,216
Capital expenditure	20,994	116	21,110
Depreciation and amortisation charged to the profit and loss account	13,596	1,111	14,707

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

	Restated (i) 2002		
	Mainland China and Hong Kong HK$'000	Taiwan HK$'000	Total HK$'000
Total assets	261,946	90,437	352,383
Total liabilities	55,295	31,343	86,638
Minority interests	6,747	–	6,747
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

(i) Restated as a result of the adoption of the revised SSAP12 as set out in note 1(k).

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2003 HK$'000	2002 HK$'000
Crediting		
Net exchange gains	230	–
Net gains on disposal of fixed assets	194	91
Unrealised gains on other investments	10	–
Sundry income (i)	150	–
Write-back of over provision for commission payable in the previous year (i)	–	4,190
Charging		
Auditors' remuneration	606	609
Amortisation and depreciation of fixed assets	14,707	16,111
Net exchange losses	–	721
Operating lease rentals in respect of land and buildings	1,237	1,230
Provision for doubtful debts	99	1,892
Provision for slow-moving inventories	878	82
Staff costs, including directors' emoluments and retirement benefit costs *(note 9)*	87,208	71,373
Unrealised losses on other investments (i)	–	42
Loss on disposal of investment securities	14	–
Provision for impairment losses on investment securities (i)	–	1,092

(i) Included in net other operating income

4 FINANCE COSTS

	Group 2003 HK$'000	Group 2002 HK$'000
Interest on bank loan and overdrafts	16	12

No interest was capitalised in construction in progress during the year.

5 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$1,744,000 (2002: profit of HK$8,166,000).

6 DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 2003 (a final dividend of HK$0.02 per share was declared for the year ended 31st December 2002). The proposed dividend for the year ended 31st December 2002 was not reflected as a dividend payable in the accounts for that year, but was reflected as an appropriation of retained profits for the year ended 31st December 2003.

7 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for Mainland China income tax has been made in the accounts as the Group does not have any assessable profits in Mainland China. Taxation on other 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.

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

	2003 HK$'000	Restated 2002 HK$'000
Current taxation:		
– Hong Kong profits tax	711	725
– Overseas taxation	7	106
– Over provisions in prior years	(5,262)	(11,600)
Deferred taxation relating to the origination and reversal of temporary differences	980	1,044
Deferred taxation resulting from an increase in tax rate	83	–
Taxation credit	(3,481)	(9,725)

7 TAXATION *(continued)*

The taxation credit as shown on the consolidated profit and loss accounts differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK$'000	2002 HK$'000
Loss before taxation	(24,351)	(1,252)
Calculated at a taxation rate of 17.5% (2002: 16%)	(4,261)	(200)
Effect of different taxation rates in other countries	8	40
Expenses not deductible for taxation purposes	88,019	78,226
Income not subject to taxation	(82,068)	(76,191)
Increase in opening net deferred tax assets resulting from an increase in tax rate	83	–
Over provision in prior years	(5,262)	(11,600)
Taxation credit	(3,481)	(9,725)

8 BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK$22,589,000 (2002: profit HK$6,603,000 as restated after adjustment made for deferred taxation mentioned in note 1(k)) and on 268,104,508 shares in issue during 2003 and 2002.

No diluted loss per share has been presented as there are no dilutive potential shares issued as at 31st December 2003 and 2002.

9 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION (NOTE 10(a))

	2003 HK$'000	2002 HK$'000
Wages and salaries	81,016	64,993
Unutilised annual leave	119	165
Termination benefits	1,968	53
Retirement benefit costs		
– Defined contribution retirement plans *(note 18(a))*	2,574	2,129
– Defined benefit retirement plan *(note 18(b))*	(1,047)	856
Other employee benefits	2,578	3,177
	87,208	71,373

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	
	2003	2002
	HK$'000	HK$'000
Fees	630	900
Other emoluments:		
Basic salaries and other allowances and benefits in kind	2,843	3,061
Retirement benefit costs		
– Defined contribution retirement plans	68	74
– Defined benefit retirement plan	57	292
	2,968	3,427
Total emoluments	3,598	4,327

Directors' fees disclosed above include HK$111,000 (2002: HK$250,000) paid to the independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Emolument bands		
HK$ Nil to HK$1,000,000	5	6
HK$1,000,001 to HK$2,000,000	2	2

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Basic salaries and other allowances and benefits in kind	1,604	1,856
Retirement benefit		
– Defined contribution retirement plans	24	24
– Defined benefit retirement plan	8	40
	1,636	1,920

The emoluments of the aforementioned three (2002: three) highest paid individuals fell within the band of HK$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									
At 1st January 2003	1,813	3,281	44,417	7,955	51,518	39,661	238,930	6,891	394,466
Additions	6,338	–	–	–	–	894	13,306	572	21,110
Disposals	–	–	–	–	–	(193)	(16)	(1,317)	(1,526)
At 31st December 2003	8,151	3,281	44,417	7,955	51,518	40,362	252,220	6.146	414,050
Accumulated amortisation and depreciation									
At 1st January 2003	–	–	3,436	1,771	10,020	35,094	209,572	4,772	264,665
Charge for the year	–	–	389	197	1,305	1,603	10,647	566	14,707
Disposals	–	–	–	–	–	(170)	(5)	(1,238)	(1,413)
At 31st December 2003	–	–	3,825	1,968	11,325	36,527	220,214	4,100	277,959
Net book value									
At 31st December 2003	8,151	3,281	40,592	5,987	40,193	3,835	32,006	2,046	136,091
At 31st December 2002	1,813	3,281	40,981	6,184	41,498	4,567	29,358	2,119	129,801

The analysis of the cost or valuation at 31st December 2003 of the above assets is as follows:

	Construction in progress HK$'000	Freehold investment properties in Taiwan HK$'000	Freehold land and buildings in Taiwan HK$'000	Leasehold land and buildings in Hong Kong HK$'000	Land use rights and buildings in Mainland China HK$'000	Leasehold improve-ments, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	8,151	–	44,417	7,955	51,518	40,362	252,222	6,146	410,769
At valuation	–	3,281	–	–	–	–	–	–	3,281
	8,151	3,281	44,417	7,955	51,518	40,362	252,222	6,146	414,050

Investment properties were revaluated at 31st December 2003 on the basis of their open market value by China Union Real Estate Appraisal Company Limited, an independent firm of professional valuers. There is no material difference between the revalued amount and the carrying amount of the properties as at that date.

At 31st December 2003, the carrying amount of investment properties would have been HK$3,121,000 (2002: HK$3,121,000) had they been stated at cost.

At 31st December 2003, land and buildings in Taiwan and Hong Kong with a total net book value of HK$46,579,000 (2002: HK$46,403,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company (note 24(a)).

Construction in progress represents a manufacturing plant under construction located in Kunshan, Jiangsu Province, Mainland China.

12 INVESTMENTS IN SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Investments at cost, unlisted	79,083	79,083
Amounts due from subsidiaries	59,259	66,391
	138,342	145,474

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of all subsidiaries as at 31st December 2003:

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 (i)	British Virgin Islands	Investment holding	Ordinary HK$12,000,000	100%	–
Chung Been Footwear Limited (i)	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 (i)	British Virgin Islands	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%

12 INVESTMENTS IN SUBSIDIARIES *(continued)*

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
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 (i)	Taiwan	Securities holding in Taiwan	Ordinary NTD60,000,000	–	100%
Kunshan Wilken Footwear Company Limited (i & ii)	Mainland China	Manufacture and sales of footwear in Mainland China	Registered US$2,100,000	–	100%

(i) Statutory accounts of subsidiaries are not audited by PricewaterhouseCoopers

(ii) Kunshan Wilken Footwear Company Limited is a wholly foreign-owned enterprise established in Mainland China, with a total registered capital of US$2,100,000 out of which cash of US$1,510,000 (equivalent to HK$11,777,000) was paid up to 31st December 2003.

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 SECURITIES

	Group 2003 HK$'000	Group 2002 HK$'000
Unlisted equity securities, at cost	2,315	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
	6,751	6,807
Less: provision for impairment losses on unlisted equity securities	(1,050)	(1,092)
	5,701	5,715

14 INVENTORIES

	Group 2003 HK$'000	Group 2002 HK$'000
Raw materials	22,933	36,721
Work in progress	9,263	13,120
Finished goods	23,675	30,155
	56,871	79,996

At 31st December 2003, the carrying amount of inventories that were carried at net realisable value amounted to HK$3,135,000 (2002: HK$2,299,000).

15 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 – 60 days.

At 31st December 2003, the ageing analysis of the trade receivables was as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
0-30 days	29,649	28,080
31-60 days	17,912	20,460
61-90 days	4,315	2,380
Over 91 days	1,852	6,948
	53,728	57,868

16 OTHER INVESTMENTS

	Group 2003 HK$'000	Group 2002 HK$'000
Equity securities, listed outside Hong Kong, at open market value	677	618

17 TRADE PAYABLES

At 31st December 2003, the ageing analysis of the trade payables was as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
0-30 days	15,378	17,510
31-60 days	4,462	4,562
61-90 days	2,300	2,096
Over 91 days	2,935	3,005
	25,057	27,173

18 RETIREMENT BENEFIT OBLIGATIONS

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

(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 2003 by KPMG Consulting Co. Ltd., a qualified actuary, using the projected unit credit method.

18 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

The (credit)/charge recognised in the profit and loss account were as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Current service cost	558	501
Interest cost	414	355
Curtailment gain (i)	(2,019)	–
Total (credit)/charge, included in staff costs *(note 9)*	(1,047)	856

(i) Curtailment gain represents reversal of unvested provided defined benefits in respect of terminated employees of the Taiwan branch office.

The total (credit)/charge has been included in administrative expenses for the year ended 31st December 2003 and 2002.

The amounts recognised in the balance sheet were as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Present value of unfunded obligations	8,635	10,222
Unrecognised actuarial losses	331	(944)
Liability as at 31st December	8,966	9,278
Current portion	(337)	(3,886)
Non-current portion	8,629	5,392

Movement in the liability recognised in the balance sheet:

	Group 2003 HK$'000	Group 2002 HK$'000
At 1st January	9,278	9,976
Exchange differences	735	(8)
Total (income)/expense – as shown above	(1,047)	856
Amounts paid to employees	–	(1,546)
At 31st December	8,966	9,278

18 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

The principal actuarial assumptions used were as follows:

	2003	2002
	%	%
Discount rate	3.75	3.75
Expected rate of future salary increases	4.00	4.00

19 SHARE CAPITAL

	2003	2002
	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

The Company's share option scheme adopted on 16th January 1993 (the "Old Scheme") expired on 16th January 2003. No share option had been granted by the Company as at the expiry date. At the 2003 Annual General Meeting of the Company held on 10th June 2003, a new share option scheme (the "New Scheme") of the Company was adopted by the shareholders of the Company to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Under the New Scheme, the directors may, at their discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries who have contributed or will contribute to the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A nominal consideration will be paid by the employees for each lot of share options granted. An option may be exercised at any time during a period to be determined an identified by the directors to each grantee at the time of making the offer, but in any event, shall not exceed the period of ten years from the date of grant of the particular option, subject always to the early termination of the New Scheme. No option has been granted by the Company under the New Scheme.

20 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 earnings HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2003, as previously reported	47,986	(2,137)	(1,000)	1,275	160	180,262	226,546
Changes in accounting policy – adoption of SSAP 12 (revised) *(note 1(k))*	–	–	–	–	(40)	5,682	5,642
At 1st January 2003, as restated	47,986	(2,137)	(1,000)	1,275	120	185,944	232,188
Loss attributable to the shareholders for the year	–	–	–	–	–	(22,589)	(22,589)
Exchange difference arising from translation of the accounts of overseas subsidiaries	–	475	–	–	–	–	475
2002 final dividend paid	–	–	–	–	–	(5,362)	(5,362)
At 31st December 2003, dealt with by the Company and subsidiaries	47,986	(1,662)	(1,000)	1,275	120	157,993	204,712
At 1st January 2002, as previously reported	47,986	(2,134)	(1,000)	1,275	315	177,901	224,343
Changes in accounting policy – adoption of SSAP 12 (revised) *(note 1(k))*	–	–	–	–	(78)	6,802	6,724
At 1st January 2002, as restated	47,986	(2,134)	(1,000)	1,275	237	184,703	231,067
Profit attributable to the shareholders for the year	–	–	–	–	–	6,603	6,603
Deficit on revaluation of investment properties, net of taxation	–	–	–	–	(117)	–	(117)
Exchange difference arising from translation of the accounts of overseas subsidiaries	–	(3)	–	–	–	–	(3)
2001 final dividend paid	–	–	–	–	–	(5,362)	(5,362)
At 31st December 2002, dealt with by the Company and subsidiaries	47,986	(2,137)	(1,000)	1,275	120	185,944	232,188
Representing:							
2002 final dividend						5,362	
Others						180,582	
Retained earnings as at 31st December 2002						185,944	

20 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 earnings** HK$'000	**Total reserves** HK$'000
At 1st January 2003	47,986	61,083	9,256	118,325
Loss for the year	–	–	(1,744)	(1,744)
2002 final dividend paid	–	–	(5,362)	(5,362)
At 31st December 2003	**47,986**	**61,083**	**2,150**	**111,219**
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)
At 31st December 2002	47,986	61,083	9,256	118,325
Representing:				
2002 final dividend			5,362	
Others			3,894	
Retained earnings as at **31st December 2002**			**9,256**	

Notes:

(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.

21 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax assets/(liabilities) account is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
At 1st January	5,543	6,549
Deferred taxation charged to profit and loss account *(note 6)*	(1,063)	(1,044)
Taxation credited to equity – investment properties revaluation reserve	–	38
At 31st December	4,480	5,543

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2003, the Group has no unrecognised tax losses (2002: HK$848,000) to carry forward against future taxable income. As at 31 December 2003, the Group has unrecognised deferred tax assets amounted to approximately HK$1,961,000 in respect of unrealised exchange losses arising from a long-term loan receivable from the Taiwan branch office as it is not expected that the loan will be repaid in the foreseeable future.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	Amortisation and depreciation	General provisions	Pensions	Tax losses	Others	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*	*HK$000*
At 1st January 2003	1,018	1,487	2,319	627	230	5,681
Charged to profit and loss account	(110)	(315)	(89)	(581)	(11)	(1,106)
At 31st December 2003	908	1,172	2,230	46	219	4,575
At 1st January 2002	1,104	1,379	2,494	1,608	217	6,802
(Charged)/credited to profit and loss account	(86)	108	(175)	(981)	(25)	(1,159)
Credited to equity	–	–	–	–	38	38
At 31st December 2002	1,018	1,487	2,319	627	230	5,681

21 DEFERRED TAXATION *(continued)*

Deferred tax liabilities

	Amortisation and depreciation HK$000	Others HK$000	Total HK$000
At 1st January 2003	98	40	138
Credited to profit and loss account	(43)	–	(43)
At 31st December 2003	55	40	95
At 1st January 2002	175	78	253
Credited to profit and loss account	(77)	(38)	(115)
At 31st December 2002	98	40	138

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2003 HK$'000	2002 HK$'000
Deferred tax assets	4,575	5,681
Deferred tax liabilities	(95)	(138)
	4,480	5,543

As at 31st December 2003 and 2002, deferred tax assets and liabilities of HK$4,575,000 (2002: HK$5,681,000) and HK$95,000 (2002: HK$138,000) respectively, shown in the consolidated balance sheet are to be recovered after more than 12 months.

22 CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2003 HK$'000	2002 HK$'000
Loss before taxation	(24,351)	(1,252)
Amortisation and depreciation of fixed assets	14,707	16,387
Interest income	(51)	(949)
Interest expenses	16	12
Net gains on disposal of fixed assets	(194)	(91)
Provision for impairment losses on investment securities	–	1,092
Loss from sales of investment securities	14	–
Unrealised losses/(gains) on other investments	(10)	42
Operating loss before working capital changes	(9,869)	15,241
Decrease/(increase) in inventories	25,125	(18,256)
Decrease in trade and bill receivables, deposits, prepayments and other receivables	4,314	38,538
Increase/(decrease) in trade and bill payables, accruals and other payables	1,216	(5,152)
Decrease in retirement benefit obligations	(312)	(698)
Net cash inflow from operating activities	20,474	29,673

(b) Analysis of changes in financing during the year

	Bank loan		Minority interests	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
At 1st January	11,161	–	6,747	6,127
New bank loan	–	11,161	–	–
Repayment of bank loan	(5,138)	–	–	–
Minority interests' share of profit	–	–	1,719	1,870
Dividends paid to minority shareholders	–	–	(1,250)	(1,250)
At 31st December	6,023	11,161	7,216	6,747

23 COMMITMENTS

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

	Group	
	2003 HK$'000	2002 HK$'000
Contracted but not provided for	4,182	2,019
Authorised but not contracted for	56	–
	4,238	2,019

23 COMMITMENTS *(continued)*

(b) As at 31st December 2003, the Company had commitment in respect of the injection of capital into a subsidiary in Mainland China amounted to approximately HK$4,600,000 (2002: HK$12,800,000).

(c) **Commitments under operating leases**

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating lease rentals in respect of land and buildings as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Not later than one year	1,235	1,230
Later than one year and not later than five years	180	1,050
	1,415	2,280

At 31st December 2003 and 2002, the Company has no operating lease commitments.

24 PLEDGE OF ASSETS AND GUARANTEES

At 31st December 2003, 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$46,579,000 (2002: HK$46,403,000);

(b) legal charges over certain bank deposits of the Group of HK$Nil (2002: HK$15,652,000);

(c) a corporate guarantee from the Company; and

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

25 CONTINGENT LIABILITIES

At 31st December 2003, the Company provided a corporate guarantee to a bank of in respect of banking facilities of HK$35 million (2002: HK$35 million) granted to a subsidiary. As at 31st December 2003, none of the banking facilities was utilised (2002: HK$634,000). Save for the information disclosed, neither the Company nor the Group has any other material contingent liabilities as at 31st December 2003 and 2002.

26 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23rd April 2004.