



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

INTERIM RESULTS

The Board of Directors presents the Group's Interim Report and condensed accounts for the six-months ended 30th June 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2004, and the consolidated balance sheet as at 30th June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 10 of this report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2004

	<i>Note</i>	Unaudited	
		Six months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	148,200	239,475
Cost of sales		(140,493)	(226,419)
Gross profit		7,707	13,056
Other revenues		780	915
Selling expenses		(7,136)	(8,638)
General and administrative expenses		(17,112)	(17,908)
Other operating expenses, net		-	(336)
Operating loss	3	(15,761)	(12,911)
Finance costs		(1)	(9)
Loss before taxation		(15,762)	(12,920)
Taxation credit/(charge)	5	922	(800)
Loss after taxation		(14,840)	(13,720)
Minority interests		(517)	(1,590)
Loss attributable to shareholders		(15,357)	(15,310)
Loss per share – Basic	6	HK5.73 cents	HK5.71 cents

CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	<i>Note</i>	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Non-current assets			
Fixed assets	7	135,007	136,091
Investment securities		5,341	5,701
Deferred tax assets	8	4,438	4,575
		<u>144,786</u>	<u>146,367</u>
Current assets			
Inventories		36,800	54,871
Trade and bill receivables	9	64,257	53,728
Deposits, prepayments and other receivables		1,878	1,804
Other investments		635	677
Taxation recoverable		132	134
Bank balances and cash		41,735	57,585
		<u>145,437</u>	<u>168,799</u>
Current liabilities			
Trade and bill payables	10	28,602	25,075
Accruals and other payables		25,954	31,784
Taxation payable		3,455	4,485
Retirement benefit obligations – current portion		170	337
Short-term bank loan, secured		–	6,023
		<u>58,181</u>	<u>67,704</u>
Net current assets		<u>87,256</u>	<u>101,095</u>
Total assets less current liabilities		<u>232,042</u>	<u>247,462</u>
Financed by:			
Share capital	11	26,810	26,810
Reserves		189,168	204,712
Shareholders' funds		215,978	231,522
Minority interests		7,733	7,216
Non-current liabilities			
Deferred tax liabilities	8	64	95
Retirement benefit obligations		8,267	8,629
		<u>232,042</u>	<u>247,462</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	Unaudited	
	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(3,106)	(3,502)
Net cash (used in)/inflow from investing activities	(6,938)	3,020
Net cash used in financing activities	(6,023)	(1,146)
Decrease in cash and cash equivalents	(16,067)	(1,628)
Effect of foreign currency translation adjustments	217	-
Cash and cash equivalents at 1st January	57,585	54,232
Cash and cash equivalents at 30th June	41,735	52,604
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	41,735	55,777
Bank overdrafts	-	(3,173)
	41,735	52,604

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Unaudited							
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve (note (i)) HK\$'000	Working capital reserve (note (ii)) HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000
At 1st January 2003	26,810	47,986	(2,137)	(1,000)	1,275	120	185,943	258,997
Loss for the period	-	-	-	-	-	-	(15,310)	(15,310)
Exchange difference arising from translation of the accounts of an overseas subsidiary	-	-	120	-	-	-	-	120
At 30th June 2003	<u>26,810</u>	<u>47,986</u>	<u>(2,017)</u>	<u>(1,000)</u>	<u>1,275</u>	<u>120</u>	<u>170,633</u>	<u>243,807</u>

	Unaudited							
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve (note (i)) HK\$'000	Working capital reserve (note (ii)) HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000
At 1st January 2004	26,810	47,986	(1,662)	(1,000)	1,275	120	157,993	231,522
Loss for the period	-	-	-	-	-	-	(15,357)	(15,357)
Exchange difference arising from translation of the accounts of an overseas subsidiary	-	-	(187)	-	-	-	-	(187)
At 30th June 2004	<u>26,810</u>	<u>47,986</u>	<u>(1,849)</u>	<u>(1,000)</u>	<u>1,275</u>	<u>120</u>	<u>142,636</u>	<u>215,978</u>

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 capital of subsidiaries acquired pursuant to a Group reorganization 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.

NOTES TO CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2 Segment information

The Group has only one single business segment which is the manufacture and export of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes. Accordingly, the commented figures represent the segment information for this sole business segment for the period.

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

	Six months ended 30th June			
	2004		2003	
	Turnover HK\$'000	Segment results HK\$'000	Turnover HK\$'000	Segment results HK\$'000
North America	76,437	(5,433)	113,952	(311)
Europe	51,327	4,830	91,862	2,692
Others	20,436	1,174	33,661	2,037
	<u>148,200</u>	<u>571</u>	<u>239,475</u>	4,418
Other revenues		780		915
Unallocated costs		(17,112)		(18,244)
Operating loss		<u>(15,761)</u>		<u>(12,911)</u>

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

3 Operating loss

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Operating loss is stated after crediting and charging the following:		
Crediting		
Net exchange gain	110	–
Write-back of overprovision for inventories	1,772	1,360
Gain on disposal of fixed assets	268	60
	2,150	1,420
Charging		
Amortisation and depreciation of fixed assets	7,653	7,225
Net exchange loss	–	336
Operating leases in respect of land and buildings	615	683
Staff costs	31,298	42,592
	39,566	51,256

4 Staff costs

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Wages and salaries	28,084	39,414
Retirement benefit costs	1,270	1,579
Severance payments	393	1,282
Other staff costs	1,551	317
	31,298	42,592

5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th June 2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Current taxation:		
Hong Kong profits tax	225	549
Overseas profits tax	21	1
Over provision in prior years	(1,274)	–
Deferred taxation relating to the origination and reversal of temporary differences	106	403
Deferred taxation resulting from an increase in tax rate	–	(153)
Taxation (credit)/charge	(922)	800

6 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$15,357,000 (six months ended 30th June 2003: HK\$15,310,000) and on 268,104,508 (six months ended 30th June 2003: 268,104,508) ordinary shares in issue during the period.

Diluted loss per share has not been presented as there are no dilutive potential ordinary shares.

7 Fixed assets

	HK\$'000
Audited	
Net book value At 31st December 2003	136,091
Unaudited	
Additions	7,055
Disposals	(486)
Amortisation and depreciation charge	(7,653)
At 30th June 2004	135,007

8 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (31st December 2003: 17.5%).

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

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
At the beginning of the period/year	4,480	5,543
Deferred taxation charged to profit and loss account	(106)	(1,063)
At the end of the period/year	4,374	4,480

8 Deferred taxation (continued)

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

Deferred tax assets

	Amortisation and depreciation HK\$'000	General provisions HK\$'000	Pensions HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total 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 and 1st January 2004 (Charged)/credited to profit and loss account	(225)	302	(121)	(46)	(47)	(137)
At 30th June 2004	683	1,474	2,109	-	172	4,438

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 and 1st January 2004	55	40	95
Credited to profit and loss account	(31)	-	(31)
At 30th June 2004	24	40	64

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 balance sheet:

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
Deferred tax assets to be recovered after more than 12 months	4,438	4,575
Deferred tax liabilities to be settled after more than 12 months	(64)	(95)
	4,374	4,480

9 Trade and bills receivables

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

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
0 – 30 days	29,884	29,649
31 – 60 days	17,748	17,912
61 – 90 days	11,535	4,315
Over 91 days	5,090	1,852
	<u>64,257</u>	<u>53,728</u>

The majority of the Group's turnover is on letter of credit or documents against payment. The remaining balances of turnover are on open account terms with a credit period of 30 to 90 days.

10 Trade and bills payables

The ageing analysis of trade payables is as follows:

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
0 – 30 days	15,785	15,378
31 – 60 days	6,392	4,462
61 – 90 days	3,993	2,300
Over 91 days	2,432	2,935
	<u>28,602</u>	<u>25,057</u>

11 Share capital

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
Authorised 1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid 268,104,508 ordinary shares of HK\$0.10 each	<u>26,810</u>	<u>26,810</u>

12 Commitments

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

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
Contracted but not provided	3,269	4,182
Authorised but not contracted for	—	56
	<u>3,269</u>	<u>4,238</u>

(b) Commitments under operating leases

At 30th June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	At 30th June 2004 HK\$'000	At 31st December 2003 HK\$'000
Within one year	705	1,235
In the second to fifth year inclusive	90	180
	<u>795</u>	<u>1,415</u>

13 Pledge of assets and guarantees

At 30th June 2004, the Group's banking facilities were secured by the following:

- (a) legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of HK\$46 million (31st December 2003: HK\$46 million);
- (b) a corporate guarantee from the Company; and
- (c) joint and several guarantees from certain Directors of the Company.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: HK\$nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

Turnover of the Group for the six months ended 30th June 2004 amounted to HK\$148,200,000 (six months ended 30th June 2003: HK\$239,475,000), representing a decrease of approximately 38% over the corresponding period last year. Loss attributable to shareholders was HK\$15,357,000, as compared to loss HK\$15,310,000 for the same period last year.

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

During the period, the business environment in which the Group was operating was still very difficult. Due to the ferocious competition within the industry, coupled with the surging price of raw materials and falling unit price of shoe products, the Group's results for the period was adversely affected.

Looking ahead, the management is still fully confident. In addition to focusing on cost control, the Group's concerted efforts also put on seeking business opportunities through various means for the purpose of market exploration and business environment improvement.

Despite a less favourable economic environment, the Board still believes that the Group's results will improve in the second half of the year under the above vigorous measures.

Liquidity, financial resources and charge on Group assets

As at 30th June 2004, the Group had available bank and cash balances of HK\$42 million (31st December 2003: HK\$58 million). At 30th June 2004, the Group's banking facilities amounted to HK\$35 million (31st December 2003: HK\$35 million) and 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 million (31st December 2003: HK\$46 million);
- (b) a corporate guarantee from the Company; and
- (c) joint and several guarantees from certain Directors of the Company.

Employees and remuneration policy

As of 30th June 2004, the Group employed approximately 20 staff in Hong Kong and Taiwan offices and had approximately 5,000 workers working in the Group's processing bases in Mainland China. Besides offering competitive remuneration packages to the employees, discretionary bonuses may also be granted to the eligible employees based on the Group's and the individual's performance.

Exposure to fluctuations in exchange rates

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

Contingent liabilities and capital commitments

As at 30th June 2004, the Group has no significant contingent liabilities.

As at 30th June 2004, the Group had capital commitment for construction of a factory in Mainland China totalling approximately HK\$3,269,000 (31st December 2003: HK\$4,238,000).

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

The Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30th June 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company adopted the Share Option Scheme (the "Scheme") on 10th June 2003 for the purpose of providing incentives or rewarded to selected eligible participants for their contribution to the Group, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the terms of the Scheme, the Directors of the Company may grant share options to employees of the Company or its subsidiaries, including Directors of any of such companies, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. However, no share options were granted during the period or outstanding as at 30th June 2004.

Apart from the share option scheme mentioned above,

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

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2004, the interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Long position in the shares of the Company

Name of Director	Number of ordinary shares of the Company held Personal interest
FENG Shen Chuan	72,610,209
HUNG Kun Fu	2,600,000
KUO Shu Chen	3,067,248
FENG Yung Chuan	7,501,500
WU Xiaoqin	80,000

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr FENG Shen Chuan in trust for the Group as at 30th June 2004, none of the Directors and chief executives had any other beneficial interests (including family interest and corporate interest) or short position in the shares, underlying shares and debt securities of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2004, so far as is known to the Company, the following shareholder, other than Directors or chief executives of the Company, had interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO were as follows:

Long position in the shares of the Company

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

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

SUBSTANTIAL SHAREHOLDER *(continued)*

Save as disclosed above, as at 30th June 2004, the Company is not aware of any other shareholders who had interest or short position in the shares, underlying shares and debt securities of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group and discussed judgemental issues, accounting estimates, adequacy of disclosures, internal consistency of the interim report including a review of the Group's unaudited condensed interim accounts for the six months ended 30th June 2004.

CODE OF BEST PRACTICE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions effective on 31st March 2004. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the period ended 30th June 2004.

OTHER DISCLOSURE

Apart from above, other areas which are required to be discussed under the requirements of paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and paragraph 16 of SSAP 25 "Interim financial reporting", either have no material changes from the information disclosed in the annual report of the Group for the year ended 31st December 2003 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this report.

By Order of the Board

Feng Shen Chuan

Chairman

Hong Kong, 16th September 2004

As at the date of this report, the Executive Directors of the Company are Mr. Feng Shen Chuan (Chairman), Mr. Hung Kun Fu (Managing Director), Ms. Kuo Shu Chen, Mr. Feng Yung Chuan and Ms. Wu Xiaoqin; and the Independent Non-Executive Directors are Mr. Lo Kwok Kwei, David and Mr. Au Wing Kit.