1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Group is principally engaged in manufacture and export of athletic, athletic-style leisure footwear and golf shoes.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and other investments.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by HKICPA. The principal accounting policies adopted are set out below:–

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

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

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(b) 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 valuations are not made on 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 income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation, amortisation and impairment losses.

Freehold land is stated at cost less accumulated impairment losses. Leasehold land and buildings are stated at cost less accumulated depreciation, amortisation and impairment losses. Land use rights are stated at cost less accumulated amortisation and impairment losses.

No amortisation is provided on freehold land. Leasehold land and land use rights are amortised over the terms of relevant leases. Amortisation and depreciation are provided to write off the cost or valuation of items of other property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:–

Buildings	2.5% – 4%
Leasehold improvements, furniture and fixtures	12.5% – 33.33%
Machinery and equipment	10% – 50%
Motor vehicles	20% – 25%

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment when they are ready for their intended use.

No amortisation or depreciation is provided on construction-in-progress until the asset is completed and put into use.

(e) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(f) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

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

(j) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately.

(k) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(ii) *Retirement benefit obligations*

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

For defined benefit retirement plan, retirement benefit costs are assessed using the projected unit credit method. Under this method, the costs of providing benefit are charged to the income statement 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 income statement over the average remaining service lives of employees. Past service cost is recognised as 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 income statement in the period to which the obligation of the contribution is established.

(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 income statement 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.

(l) Provisions

Provision is 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Operating leases

Rental payables under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant lease.

(n) Revenue recognition

(i) *Sales of goods*

Sales of goods are recognised when goods are delivered and title has passed to the customers.

(ii) *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(iii) *Subcontracting fee income*

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

(iv) *Rental income*

Rental income under operating leases is recognised in the income statement on a straight-line basis over the terms of the relevant lease.

(v) *Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(o) Borrowing costs

Borrowing costs 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 income statement in the year in which they are incurred.

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(q) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or expense in the year in which the operation is disposed of.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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 financial statements. 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 be the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

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

(s) 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 revenue represents interest income, subcontracting fee income, rental income and dividend income. Unallocated expenses represent corporate expenses.

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Turnover and revenue

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

	The Group	
	2004	2003
	HK$'000	HK$'000
Turnover – sales of goods	**259,472**	420,939
Other revenue		
Interest income	**78**	51
Subcontracting fee income	**944**	–
Rental income	**574**	488
Dividend income	**3**	3
	1,599	542
Total revenue	**261,071**	421,481

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

(b) Segment information

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

	North America		Europe		Other countries		Total	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
Turnover	**118,852**	207,361	**101,457**	153,961	**39,163**	59,617	**259,472**	420,939
Results								
Segment results	**(8,603)**	(13,783)	**(3,934)**	4,974	**6,850**	14,056	**(5,687)**	5,247
Unallocated revenue							**1,599**	542
Other operating income, net							**4,623**	175
Unallocated expenses							**(30,723)**	(30,299)
Loss from operations							**(30,188)**	(24,335)
Finance costs							**(9)**	(16)
Loss before taxation							**(30,197)**	(24,351)
Taxation							**1,297**	3,481
Loss before minority interests							**(28,900)**	(20,870)
Minority interests							**(609)**	(1,719)
Net loss for the year							**(29,509)**	(22,589)

There are no sales between the geographical segments during the years ended 31st December 2004 and 2003.

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

(b) Segment information *(Continued)*

	Mainland China and Hong Kong		Taiwan		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Total assets	**202,863**	236,406	**78,469**	78,760	**281,332**	315,166
Total liabilities	**55,255**	54,950	**16,436**	21,478	**71,691**	76,428
Minority interests	**7,825**	7,216	**–**	–	**7,825**	7,216
Capital expenditure	**9,109**	20,994	**–**	116	**9,109**	21,110
Amortisation and depreciation	**13,661**	13,596	**783**	1,111	**14,444**	14,707

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):–

	The Group	
	2004	2003
	HK$'000	HK$'000
Auditors' remuneration	**516**	606
Staff costs, including directors' emoluments and retirement benefit costs *(note 7)*	**62,005**	87,208
Net exchange loss/(gain)	**1,461**	(230)
Operating lease rentals in respect of land and buildings	**1,243**	1,237
Loss on written off of property, plant and equipment	**33**	–
Deficit on revaluation of investment properties	**520**	–
Amortisation and depreciation on property, plant and equipment	**14,444**	14,707
Net gain on disposal of property, plant and equipment	**(1,115)**	(194)
Loss on disposal of investment securities	**–**	14
Impairment losses recognised on investment securities	**25**	–
Unrealised loss/(gain) on other investments	**132**	(10)
Provision for inventories	**2,364**	878
(Decrease)/increase in provision for bad and doubtful debts	**(514)**	99
Written back of over-provision for commission payable in the previous year	**(628)**	–

6. FINANCE COSTS

	The Group	
	2004	2003
	HK$'000	HK$'000
Interest on bank loan and overdraft	**9**	16

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

7. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS *(NOTE 8a)*)

	The Group	
	2004	2003
	HK$'000	HK$'000
Wages and salaries	**57,359**	81,016
Unutilised annual leave	**109**	119
Termination benefits	**802**	1,968
Retirement benefit costs		
– defined contribution retirement plans *(note 19a)*	**2,107**	2,574
– defined benefit retirement plan *(note 19b)*	**(1,252)**	(1,047)
Other employee benefits	**2,880**	2,578
	62,005	87,208

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.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	The Group	
	2004	2003
	HK$'000	HK$'000
Fees	**605**	630
Other emoluments:–		
Basic salaries, other allowances and benefits in kind	**2,894**	2,843
Retirement benefit costs		
– defined contribution retirement plans	**61**	68
– defined benefit retirement plan	**152**	57
	3,107	2,968
Total emoluments	**3,712**	3,598

Directors' fees disclosed above include HK$280,000 (2003: HK$111,000) paid to the independent non-executive directors.

The emoluments of the directors fell within the following bands:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Emolument bands		
Nil – HK$1,000,000	**6**	5
HK$1,000,001 – HK$2,000,000	**2**	2

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year were as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**1,599**	1,604
Retirement benefit costs		
– defined contribution retirement plans	**24**	24
– defined benefit retirement plan	**37**	8
	1,660	1,636

The emoluments of the aforementioned three (2003: three) highest paid individuals fell within the band of HK$Nil to HK$1,000,000 for both years.

9. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for both years.

No provision for Mainland China income tax has been made in the financial statements as the Group does not have any assessable profits in Mainland China.

Taxation on other overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the country in which the Group operates.

9. TAXATION *(Continued)*

The amount of taxation charged/(credited) to the consolidated income statement represents:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**303**	711
– overseas tax	**2**	7
– over-provision in previous years	**(1,355)**	(5,262)
	(1,050)	(4,544)
Deferred tax *(note 20)*		
– relating to origination and reversal of temporary differences	**(247)**	980
– resulting from an increase in tax rate	**–**	83
	(247)	1,063
Tax credit for the year	**(1,297)**	(3,481)

The credit for the year can be reconciled to the loss per the consolidated income statement as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(30,197)**	(24,351)
Calculation at a taxation rate of 17.5%	**(5,285)**	(4,261)
Effect of different tax rates in other countries	**55**	8
Expenses not deductible for tax purposes	**38,132**	88,019
Income not subject to taxation	**(32,844)**	(82,068)
Increase in operating net deferred tax assets resulting from an increase in tax rate	**–**	83
Over-provision in previous years	**(1,355)**	(5,262)
Tax credit for the year	**(1,297)**	(3,481)

10. DIVIDEND

The directors do not recommend the payment of a dividend for the years ended 31st December 2004 and 2003.

11. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss for the year of approximately HK$29,509,000 (2003: loss of HK$22,589,000) and the weighted average number of ordinary shares of 268,105,241 (2003: 268,104,508) in issue during the year.

No diluted loss per share has been presented as there were no dilutive potential ordinary shares for both years ended 31st December 2004 and 2003.

12. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

The Group

	Freehold investment properties in Taiwan HK$'000	Freehold land and buildings in Taiwan HK$'000	Land use rights and buildings in Mainland China with leases between 10 to 50 years HK$'000	Leasehold land and buildings in Hong Kong with leases between 10 to 50 years HK$'000	Leasehold improve–ments, furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction -in-progress HK$'000	Total HK$'000
COST OR VALUATION									
At 1st January 2004	3,281	44,417	51,518	7,955	40,362	252,220	6,146	8,151	414,050
Additions	–	–	–	–	795	6,365	143	1,806	9,109
Disposals/written off	–	–	–	–	(1,580)	(2,416)	(630)	–	(4,626)
Deficit on revaluation	(680)	–	–	–	–	–	–	–	(680)
At 31st December 2004	2,601	44,417	51,518	7,955	39,577	256,169	5,659	9,957	417,853
ACCUMULATED AMORTISATION AND DEPRECIATION									
At 1st January 2004	–	3,825	11,325	1,968	36,527	220,214	4,100	–	277,959
Charge for the year	–	368	1,423	199	1,379	10,524	551	–	14,444
Written back on disposals/ written off	–	–	–	–	(1,564)	(1,349)	(547)	–	(3,460)
At 31st December 2004	–	4,193	12,748	2,167	36,342	229,389	4,104	–	288,943
NET BOOK VALUE									
At 31st December 2004	2,601	40,224	38,770	5,788	3,235	26,780	1,555	9,957	128,910
At 31st December 2003	3,281	40,592	40,193	5,987	3,835	32,006	2,046	8,151	136,091

The analysis of the cost or valuation at 31st December 2004 of the above assets is as follows:–

At cost	–	44,417	51,518	7,955	39,577	256,169	5,659	9,957	415,252
At valuation	2,601	–	–	–	–	–	–	–	2,601
	2,601	44,417	51,518	7,955	39,577	256,169	5,659	9,957	417,853

12. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS *(Continued)*

Investment properties were revaluated at 31st December 2004 on the basis of their open market value by China Union Real Estate Appraisal Company Limited, an independent firm of professional valuers. This valuation gave rise to a deficit on revaluation of HK$680,000 (2003: Nil) of which HK$520,000 has been dealt with in the income statement and HK$160,000 has been dealt with in the investment properties revaluation reserve.

At 31st December 2004, the carrying amount of investment properties would have been HK$3,121,000 (2003: HK$3,121,000) had they been stated at cost.

At 31st December 2004, land and buildings in Taiwan and Hong Kong with an aggregrate net book values of HK$46,012,000 (2003: HK$46,579,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company *(note 23a)*.

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

13. INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK$'000	HK$'000
Unlisted investments, at cost	**79,083**	79,083
Amounts due from subsidiaries	**57,886**	59,259
	136,969	138,342

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

13. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the company's principal subsidiaries as at 31st December 2004 are as follows:–

Name of company	Place of incorporation/ establishment	Particulars of issued share capital/ registered capital	Percentage of ownership interest held Directly %	Percentage of ownership interest held Indirectly %	Principal activities and place of operation (if different from place of incorporation)
Nority (BVI) Limited *(a)*	British Virgin Islands ("BVI")	Ordinary HK$12,000,000	100	–	Investment holding
Chung Been Footwear Limited *(a)*	Hong Kong	Ordinary HK$10,000,000	–	75	Manufacture and export of footwear in Mainland China
Nority Capital Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding
Nority Development Limited *(a)*	BVI	Ordinary US$2	–	100	Property holding in Mainland China
Nority Investment Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding in Mainland China
Nority Limited	Hong Kong	Voting class "A" HK$10 Non-voting class "B" HK$12,000,000 *(b)*	–	100	Manufacture and export of footwear in Mainland China
Nority Property Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Wilken Footwear Limited	Hong Kong	Voting class "A" HK$10 Non-voting class "B" HK$5,000,000 *(b)*	–	100	Sourcing materials for fellow subsidiaries in Taiwan
Wilken Investment Limited *(a)*	Taiwan	Ordinary NTD40,000,000 *(c)*	–	100	Securities holding in Taiwan
Kunshan Wilken Footwear Co., Ltd *(a)*	Mainland China	Registered US$2,100,000	–	100	Manufacture and sales of footwear in Mainland China

13. INTERESTS IN SUBSIDIARIES *(Continued)*

(a) Companies are not audited by Ho and Ho & Company.

(b) 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.

(c) Pursuant to a resolution passed on 12th May 2004 by all shareholders of Wilken Footwear Limited, the paid-up capital had been reduced from NTD60,000,000 to NTD40,000,000 on 2nd July 2004.

14. INVESTMENT SECURITIES

	The Group	
	2004	2003
	HK$'000	HK$'000
Unlisted equity securities, at cost	**2,314**	2,314
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
	6,750	6,750
Less: Impairment losses recognised on unlisted equity securities	**(1,074)**	(1,049)
	5,676	5,701

15. INVENTORIES

	The Group	
	2004	2003
	HK$'000	HK$'000
At cost		
Raw materials	**25,930**	22,933
Work-in-progress	**11,401**	9,263
Finished goods	**15,813**	22,675
	53,144	54,871

16. TRADE AND BILL 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 2004, the ageing analysis of the trade and bill receivables was as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
0-30 days	**31,364**	29,649
31-60 days	**20,949**	17,912
61-90 days	**4,560**	4,315
Over 90 days	**955**	1,852
	57,828	53,728

17. OTHER INVESTMENTS

	The Group	
	2004	2003
	HK$'000	HK$'000
Equity securities, listed outside Hong Kong, at open market value	**545**	677

18. TRADE AND BILL PAYABLES

At 31st December 2004, the ageing analysis of the trade and bill payables was as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
0-30 days	**22,673**	15,378
31-60 days	**12,520**	4,462
61-90 days	**6,194**	2,300
Over 90 days	**3,918**	2,935
	45,305	25,075

19. 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 2004 by KPMG Consulting Co. Ltd., a qualified actuary, using the projected unit credit method.

The (credit)/charge recognised in the income statement was as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Current service cost	**341**	558
Interest cost	**268**	414
Curtailment gain (i)	**(1,861)**	(2,019)
Total credit, included in staff costs *(note 7)*	**(1,252)**	(1,047)

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

The total credit has been included in administrative expenses for the years ended 31st December 2004 and 2003.

19. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

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

The amounts recognised in the balance sheet were as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Present value of unfunded obligations	**7,308**	8,635
Unrecognised actuarial (gains)/losses	**(63)**	331
Liability as at 31st December	**7,245**	8,966
Current portion	**(1,115)**	(337)
Non-current portion	**6,130**	8,629

The movement on the liability recognised in the balance sheet was as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
At 1st January	**8,966**	9,278
Exchange differences	**(20)**	735
Total income – as shown above	**(1,252)**	(1,047)
Amounts paid to employees	**(449)**	–
At 31st December	**7,245**	8,966

The principal actuarial assumptions used were as follows:–

	2004	2003
	%	%
Discount rate	**3.50**	3.50
Expected rate of future salary increases	**4.00**	4.00

20. DEFERRED TAXATION

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

The movement on the deferred tax assets was as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
At 1st January	**4,480**	5,543
Deferred taxation credited/(charged) to the income statement *(note 9)*	**247**	(1,063)
Taxation credited to equity – investment properties revaluation reserve	**40**	–
At 31st December	**4,767**	4,480

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31st December 2004, the Group has no unrecognised tax losses (2003: Nil) to carry forward against future taxable income. At 31st December 2004, the Group has unrecognised deferred tax assets amounted to approximately HK$1,510,000 (2003: HK$1,961,000) in respect of unrealised exchange losses arising from long-term loan receivable from the Taiwan branch office as it is not expected that the loan will be repaid in the foreseeable future.

20. DEFERRED TAXATION *(Continued)*

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

Deferred tax assets

	Amortisation and depreciation HK$'000	General provisions HK$'000	Pensions HK$'000	Estimated tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January 2003	1,018	1,487	2,319	627	230	5,681
Charged to the income statement	(110)	(315)	(89)	(581)	(11)	(1,106)
At 31st December 2003 and at 1st January 2004	908	1,172	2,230	46	219	4,575
Credited/(charged) to the income statement	141	278	(419)	(46)	238	192
At 31st December 2004	1,049	1,450	1,811	–	457	4,767

Deferred tax liabilities

	Amortisation and depreciation HK$'000	Others HK$'000	Total HK$'000
At 1st January 2003	98	40	138
Credited to the income statement	(43)	–	(43)
At 31st December 2003 and 1st January 2004	55	40	95
Credited to the income statement	(55)	–	(55)
Credited to revaluation reserve *(note 22)*	–	(40)	(40)
At 31st December 2004	–	–	–

20. DEFERRED TAXATION *(Continued)*

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:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Deferred tax assets	**4,767**	4,575
Deferred tax liabilities	**–**	(95)
	4,767	4,480

At 31st December 2004 and 2003, deferred tax assets and liabilities of HK$4,767,000 (2003: HK$4,575,000) and HK$Nil (2003: HK$95,000) respectively, shown in the consolidated balance sheet are to be recovered after more than 12 months.

21. SHARE CAPITAL

	Number of shares	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:–		
At 1st January 2003, 31st December 2003 and 2004	1,000,000,000	100,000
Issued and fully paid:–		
At 1st January 2003, 31st December 2003 and 1st January 2004	268,104,508	26,810
Issued and allotted during the year	268,104	27
At 31st December 2004	268,372,612	26,837

21. SHARE CAPITAL *(Continued)*

Under the Company's share option scheme adopted by the shareholders of the Company on 10th June 2003, 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 Scheme. No option has been granted in 2003. Particulars of the share options granted and exercised during the year and outstanding as at 31st December 2004 were as follows:–

	Number of shares issuable
Balance at 1st January 2004	–
Granted during the year	268,104
Exercised during the year	(268,104)
Balance at 31st December 2004	–

22. RESERVES

The Group

	Share premium HK$'000	Capital reserve (i) HK$'000	Working capital Reserve (ii) HK$'000	Investment properties revaluation reserve HK$'000	Dividend reserve HK$'000	Exchange translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st January 2003								
– as originally stated	47,986	(1,000)	1,275	160	–	(2,137)	180,262	226,546
– proposed final dividend declared after the balance sheet date	–	–	–	–	5,362	–	(5,362)	–
– Change in accounting policy adoption of SSAP12 (revised)	–	–	–	(40)	–	–	5,682	5,642
– as restated	47,986	(1,000)	1,275	120	5,362	(2,137)	180,582	232,188
Net loss for the year	–	–	–	–	–	–	(22,589)	(22,589)
Dividend paid for 2002 final dividend	–	–	–	–	(5,362)	–	–	(5,362)
Translation of overseas subsidiaries' financial statements	–	–	–	–	–	475	–	475
At 31st December 2003 and 1st January 2004	47,986	(1,000)	1,275	120	–	(1,662)	157,993	204,712
Issue of shares during the year	93	–	–	–	–	–	–	93
Net loss for the year	–	–	–	–	–	–	(29,509)	(29,509)
Deficit on revaluation of investment properties, net of taxation	–	–	–	(120)	–	–	–	(120)
Translation of overseas subsidiaries' financial statements	–	–	–	–	–	(197)	–	(197)
At 31st December 2004	48,079	(1,000)	1,275	–	–	(1,859)	128,484	174,979

22. RESERVES *(Continued)*

(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 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 accumulated profits of the Taiwan branch of a subsidiary reserve for working capital of the branch in accordance with local statutory requirements. The working capital reserve is not distributable to shareholders.

The Company

	Share premium HK$'000	Capital reserve (i) HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st January 2003					
– as originally stated	47,986	61,083	–	9,256	118,325
– proposed final dividend declared after the balance sheet date	–	–	5,362	(5,362)	–
– as restated	47,986	61,083	5,362	3,894	118,325
Net loss for the year	–	–	–	(1,744)	(1,744)
Dividend paid for 2002 final dividend	–	–	(5,362)	–	(5,362)
At 31st December 2003 and 1st January 2004	47,986	61,083	–	2,150	111,219
Issue of shares during the year	93	–	–	–	93
Net loss for the year	–	–	–	(1,485)	(1,485)
At 31st December 2004	48,079	61,083	–	665	109,827

(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 share of Nority (BVI) Limited and the value of net assets of 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.

23. PLEDGE OF ASSETS AND GUARANTEES

At 31st December 2004, the Group's banking facilities, including short-term bank loan and bank overdraft, were secured by the followings:–

(a) Legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with an aggregate net book value of HK$46,012,000 (2003: HK$46,579,000);

(b) a corporate guarantee from the Company; and

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

24. COMMITMENTS

At 31st December 2004, the Group had the following commitments so far as not provided for in the financial statements, in respect of:–

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

	The Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for	**2,653**	4,182
Authorised but not contracted for	**–**	56
	2,653	4,238

(b) Capital commitment in respect of the injection of capital into a subsidiary in Mainland China

	The Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for	**–**	4,600

24. COMMITMENTS *(Continued)*

(c) Operating lease commitment for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**1,251**	1,235
In the second to fifth year inclusive	**5,471**	180
	6,722	1,415

(d) Operating lease commitment for future minimum lease receipts contracted with tenants under non-cancellable operating lease in respect of land and buildings which fall due as follows:–

	The Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**437**	232
In the second to fifth year inclusive	**85**	–
	522	232

25. CONTINGENT LIABILITIES

At 31st December 2004, the Company provided a corporate guarantee to a bank of in respect of banking facilities of HK$35,000,000 (2003: HK$35,000,000) granted to a subsidiary. At 31st December 2004, an amount of HK$893,000 (2003: Nil) of the banking facilities was utilised. Save for the information disclosed, neither the Company nor the Group has any other material contingent liabilities as at 31st December 2004 and 2003.