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 all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of all Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the HKICPA. The accounts have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings, plant and machinery, investment securities and trading investments.

The HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 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.

(b) Basis of consolidation

The consolidated accounts include the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill and accumulated exchange difference taken to reserves and which were not previously charged in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Fixed assets

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

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

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

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

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

Construction-in-progress represents buildings and plant under construction and equipment pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(e) 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.

(f) Investment securities

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

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

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

(g) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Gains or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) **Inventories**

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

(i) **Accounts receivable**

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

(j) **Cash and cash equivalents**

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

(k) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

(l) **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 recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and an associated company 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

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

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

Subcontracting income is recognised when the services are rendered.

Agency fee income is recognised on an accrual basis.

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

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

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

(o) Employee benefits

(i) Bonus plans

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

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Pension obligations

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

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

(iii) Equity compensation benefits

Share options are granted to directors and employees at the discretion of directors. 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 in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(p) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, investment securities, trading investments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate liabilities. Capital expenditure comprises additions to fixed assets.

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

(q) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Comparative figures

Where necessary, certain comparative figures have been reclassified to conform with changes in presentation in the current year.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004 *HK$'000*	2003 *HK$'000*
Turnover		
Sales of goods, net of discounts	**1,788,539**	1,407,007
Other revenues		
Income derived from an unlisted investment *(Note 15(a))*	**3,000**	3,000
Export incentives from government	**2,746**	918
Interest income	**1,323**	636
Gross rental income	**288**	230
Dividend income from investment securities	**62**	118
Others	**788**	1,310
	8,207	6,212
Total revenues	**1,796,746**	1,413,219

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

Primary reporting format – business segments

The Group is organised into two main business segments:

Brand business – Manufacturing and distribution of footwear products and accessories under "Daphne" and other brands owned by or licensed to the Group.

OEM business – Manufacturing and distribution of footwear products under original-equipment manufacturing arrangements ("OEM").

There were no material transactions between the business segments.

	2004			2003		
	Brand business	**OEM business**	**Group**	Brand business	OEM business	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,066,815**	**721,724**	**1,788,539**	649,151	757,856	1,407,007
Segment results	**164,973**	**66,083**	**231,056**	53,620	46,811	100,431
Income derived from an unlisted investment			**3,000**			3,000
Unrealised gains on forward exchange contracts			**5,823**			4,465
Unallocated revenues			**259**			1,116
Unallocated costs			**(3,243)**			(1,203)
Operating profit			**236,895**			107,809
Segment assets	**741,053**	**257,217**	**998,270**	420,699	304,054	724,753
Interest in an associated company			**2,205**			2,163
Investment securities			**33,437**			37,437
Other unallocated assets			**44,491**			52,274
Total assets			**1,078,403**			816,627
Segment liabilities	**322,684**	**163,125**	**485,809**	155,499	213,765	369,264
Other unallocated liabilities			**9,241**			8,887
Total liabilities			**495,050**			378,151
Capital expenditure	**80,094**	**22,349**	**102,443**	20,144	13,976	34,120
Depreciation	**15,724**	**7,559**	**23,283**	11,583	6,928	18,511

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

Secondary reporting format – geographical segments

The Group's operations are divided into two main geographical areas, United States of America (the "US") and the People's Republic of China (the "PRC"). In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

	2004 *HK$'000*	2003 *HK$'000*
The PRC	**1,066,815**	649,151
The US	**698,891**	731,058
Others	**22,833**	26,798
	1,788,539	1,407,007

As the Group's assets are mainly located in the PRC, no segment assets and segment capital expenditures are presented.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 *HK$'000*	2003 *HK$'000*
Crediting		
Gain on disposal of trading investments	**455**	–
Reversal of provision for bad and doubtful debts	**–**	988
Unrealised gains on forward exchange contracts	**5,823**	4,465
Charging		
Auditors' remuneration	**1,461**	1,224
Cost of inventories sold	**870,438**	771,040
Depreciation	**23,283**	18,511
Loss on disposal of fixed assets	**4,532**	579
Net exchange losses	**3,342**	871
Operating lease rentals in respect of land and buildings	**181,431**	105,396
Provision for bad and doubtful debts	**1,380**	–
Provision for slow-moving inventories	**5,288**	8,488
Staff cost *(Note 9)*	**295,832**	241,559

4. FINANCE COSTS

	2004 *HK$'000*	2003 *HK$'000*
Interest on bank loans and overdrafts	**3,085**	5,780

5. TAXATION

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

	2004 HK$'000	2003 HK$'000
Current taxation		
– Taxation outside Hong Kong	58,323	14,594
– (Over)/under provision in prior years	(303)	3,125
Deferred taxation *(Note 22)*	(5,020)	(2,337)
	53,000	15,382
Share of taxation attributable to an associated company	69	62
	53,069	15,444

Reconciliation between taxation charge and profit before taxation at applicable tax rates is as follows:

	2004 HK$'000	2003 HK$'000
Profit before taxation	234,066	102,259
Calculated at applicable tax rates of 12% to 33% to profits in the countries concerned	59,192	21,221
Income not subject to taxation	(50,078)	(23,574)
Expenses not deductible for taxation purposes	44,030	13,947
Tax losses not recognised	968	531
(Over)/under provision in prior years	(303)	3,125
Temporary differences not recognised	(740)	194
Taxation charge	53,069	15,444

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

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

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of approximately HK$47,902,000 (2003: HK$33,354,000).

7. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim dividend, paid, of HK1.5 cents (2003: HK1.0 cent) per ordinary share	**23,368**	15,289
Final dividend, proposed, of HK2.0 cents (2003: HK1.5 cents) per ordinary share *(Note)*	**32,198**	23,368
	55,566	38,657

Note: At a meeting held on 22 April 2005, the board of directors recommended a final dividend of HK$2.0 cents per ordinary share for the year ended 31 December 2004. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

The amount of final dividend for the year ended 31 December 2003 was based on 1,557,892,384 ordinary shares issued and recorded on the register of members of the Company on 8 June 2004.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK$176,220,000 (2003: HK$82,935,000). The basic earnings per share is based on the weighted average number of 1,555,791,014 (2003: 1,504,118,411) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31 December 2004 is based on 1,591,898,622 (2003: 1,507,682,404) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 36,107,608 (2003: 3,563,993) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9. STAFF COSTS

Staff costs including directors' emoluments represent:

	2004	2003
	HK$'000	*HK$'000*
Wages, salaries and bonuses	**288,972**	234,364
Retirement benefit costs *(Note)*	**6,860**	7,195
	295,832	241,559

Benefits in kind arising from the exercise of share options by directors and employees of the Group is not included in the staff costs.

9. STAFF COSTS *(Continued)*

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

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

As at 31 December 2004, no forfeited contribution is available to reduce the contribution payable in the future.

Contributions totalling approximately HK$458,000 (2003: HK$606,000) payable to the funds as at 31 December 2004 are included in other payables and accrued charges.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004	2003
	HK$'000	*HK$'000*
Fees	**139**	240
Other emoluments:		
Basic salaries and bonuses	**8,241**	8,954
Benefits in kind	**11,310**	1,595
	19,690	10,789

Directors' fees disclosed above were paid to three (2003: two) independent non-executive directors.

During the year, no (2003: 43,500,000) share options were granted to the directors of the Company. Benefits in kind included the difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration paid by the directors under the option scheme during the year. Details of share options exercised during the year are set out in note 20 to the accounts.

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

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands		
Nil to HK$1,000,000	**4**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$6,500,001 to HK$7,000,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	–

(b) Five highest paid individuals

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

	2004	2003
	HK$'000	*HK$'000*
Basic salaries and bonuses	**6,430**	8,302
Performance related incentive payments	**1,072**	1,384
	7,502	9,686

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
HK$2,000,001 to HK$2,500,000	**2**	3
HK$3,000,001 to HK$3,500,000	**1**	1

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

11. FIXED ASSETS

	Group						
	Leasehold land and buildings	Leasehold improvements	Construction-in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2004	128,595	21,127	8,122	97,122	28,137	15,941	299,044
Exchange adjustment	(545)	(90)	(34)	(447)	103	(32)	(1,045)
Additions	5,919	39,808	28,115	8,494	14,144	5,963	102,443
Transfer	21,439	–	(21,683)	244	–	–	–
Disposals	(1,096)	(15,346)	–	(1,630)	(1,825)	(951)	(20,848)
At 31 December 2004	**154,312**	**45,499**	**14,520**	**103,783**	**40,559**	**20,921**	**379,594**
Accumulated depreciation							
At 1 January 2004	35,636	8,419	–	83,516	17,511	10,394	155,476
Exchange adjustment	(122)	(37)	–	(395)	42	(20)	(532)
Charge for the year	4,521	9,879	–	4,565	2,152	2,166	23,283
Disposals	(1,096)	(10,375)	–	(1,630)	(1,727)	(951)	(15,779)
At 31 December 2004	**38,939**	**7,886**	**–**	**86,056**	**17,978**	**11,589**	**162,448**
Net book value							
At 31 December 2004	**115,373**	**37,613**	**14,520**	**17,727**	**22,581**	**9,332**	**217,146**
At 31 December 2003	92,959	12,708	8,122	13,606	10,626	5,547	143,568

11. FIXED ASSETS *(Continued)*

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

	Group						
	Leasehold land and buildings	Leasehold improvements	Construction-in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	134,812	45,499	14,520	61,198	40,559	20,921	317,509
At 1995 valuation *(Note (b))*	19,500	–	–	42,585	–	–	62,085
At 31 December 2004	**154,312**	**45,499**	**14,520**	**103,783**	**40,559**	**20,921**	**379,594**
At cost	109,095	21,127	8,122	54,537	28,137	15,941	236,959
At 1995 valuation *(Note (b))*	19,500	–	–	42,585	–	–	62,085
At 31 December 2003	128,595	21,127	8,122	97,122	28,137	15,941	299,044

Notes:

(a) As at 31 December 2004 and 31 December 2003, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases of between 10 to 50 years.

(b) Such leasehold land and buildings and plant and machinery were revalued at 31 August 1995 by Chesterton Petty Limited, an independent firm of chartered surveyors, on the basis of their open market value. The carrying amount of the leasehold land and buildings and plant and machinery would have been approximately HK$8,727,000 (2003: HK$10,106,000) and HK$Nil (2003: HK$Nil), respectively, had they been stated at cost less accumulated depreciation.

(c) As at 31 December 2004, no leasehold land and buildings was pledged as security for the Group's short-term bank loans. As at 31 December 2003, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans was HK$10,038,000.

(d) During the year ended 31 December 2004, certain leasehold land and buildings were leased out under operating leases. The carrying amount of the leasehold land and buildings held for use in operating leases was approximately HK$1,906,000 (2003: HK$1,979,000).

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted investments, at cost	**165,635**	165,635

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2004:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	US$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	US$4,285,700	100	Manufacture of shoe components in the PRC
Daxin Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	US$3,000,000	100	Manufacture of footwear products in the PRC
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	PRC; wholly-owned foreign enterprise	US$1,199,925	100	Manufacture of footwear products in the PRC
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	51	Retail sales right holder of footwear and apparel products in the PRC
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 13,055,667 non-voting deferred shares of HK$1 each *(Note (b))*	100	Export trading of footwear products, investment and trademarks holding in Hong Kong
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US$1 each	100	Export trading of footwear products in Hong Kong
Ji Wei Shoe Industrial Co., Ltd.	PRC; wholly-owned foreign enterprise	US$2,509,529	100	Manufacture of footwear products in the PRC

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Modern City Development Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 10,000 non-voting deferred shares of HK$1 each *(Note (b))*	100	Investment holding in Hong Kong
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	PRC; equity joint venture	US$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	US$4,600,000	87.8	Manufacture of footwear products in the PRC
Shoebox Holdings Limited	Hong Kong; limited liability company	HK$10,000 ordinary shares of HK$1 each	50	Retail sales right holder of footwear and apparel products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	US$30,000,000	100	Distribution of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	US$5,000,000	100	Manufacture of footwear products in the PRC
Victoria Success Shoes (Suqian) Co. Ltd.	PRC; wholly-owned foreign enterprise	RMB3,000,000	100	Manufacture of footwear products in the PRC

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held	Principal activities and place of operation
			%	
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	100	Investment holding in Hong Kong

Notes:

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

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

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

13. AMOUNTS DUE FROM/TO SUBSIDIARIES – COMPANY

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

14. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**2,205**	2,163
Unlisted investment, at cost	**2,340**	2,340

14. INTEREST IN AN ASSOCIATED COMPANY *(Continued)*

Particulars of the associated company as at 31 December 2004 are as follows:

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

15. INVESTMENT SECURITIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Unlisted investments *(Note a)*, at fair value	**33,437**	37,437
Listed securities *(Note b)*, at fair value	**–**	–
	33,437	37,437

Notes:

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

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

As at 31 December 2004, the carrying value of the investment in Jingxing was approximately HK$33,000,000 (2003: HK$37,000,000). The fair value of the investment in Jingxing as at 31 December 2004 was valued by the directors of the Company based on discounted cash flow from the investment.

In 2003, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for a minimum annual payment of HK$3,000,000 by the Guarantor for each of the three years ending 31 December 2005, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31 December 2004 was approximately HK$3,000,000 (2003: HK$3,000,000) which has been recognised in the profit and loss account.

(b) As at 31 December 2004, the Group held approximately 14.4% (2003: 14.4%) interest in Sun Home Leather Corporation Limited ("Sun Home"), a company engaged in the manufacturing and trading of leather materials.

On 30 November 2001, Sun Home was delisted from the Taiwan Stock Exchange Corporation and authorised to be traded on Over-The-Counter market on the same date. The directors considered that the fair value of the investment in Sun Home was negligible and the carrying amount of the securities was written down to zero during the year ended 31 December 2001 and the loss recorded in the investment revaluation reserve of approximately HK$10,581,000 was taken to the profit and loss account in that year as an impairment loss. Since the transaction of the shares in Sun Home was infrequent and the volume of transactions of the shares was low in 2004, the directors do not consider that there has been any material change in fair value of the investment in Sun Home as at 31 December 2004.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (Note 19).

16. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**50,981**	49,842
Work-in-progress	**22,616**	24,514
Finished goods	**395,514**	230,700
	469,111	305,056

As at 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK$45,903,000 (2003: HK$38,439,000).

17. TRADE RECEIVABLES

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

	Group 2004 HK$'000	2003 HK$'000
0 – 30 days	**54,171**	55,213
31 – 60 days	**6,326**	14,715
61 – 90 days	**1,175**	9,689
91 – 120 days	**2,277**	3,511
121 – 180 days	**2,024**	152
181 – 360 days	**333**	343
Over 360 days	**842**	28
	67,148	83,651

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

18. TRADE PAYABLES

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**144,554**	108,697
31 – 60 days	**62,664**	54,375
61 – 90 days	**26,766**	23,849
91 – 120 days	**9,273**	8,483
121 – 180 days	**6,705**	4,467
181 – 360 days	**6,375**	2,517
Over 360 days	**4,200**	2,261
	260,537	204,649

Included in the Group's trade payables as at 31 December 2004 were amounts due to an associated company and investee companies of approximately HK$89,000 (2003: HK$457,000) and HK$8,166,000 (2003: HK$3,089,000) respectively which were repayable according to trade terms agreed between both parties.

19. BANK LOANS AND OVERDRAFTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loans and overdrafts		
– Secured *(Note (b))*	**46,827**	49,602
– Unsecured	**51,700**	60,711
	98,527	110,313

Notes:

(a) As at 31 December 2004 and 2003, the Group's bank loans were repayable within one year.

(b) As at 31 December 2004, the Group's short-term bank loans of approximately HK$46,827,000 were secured by the listed investment securities of Sun Home with nil carrying value. As at 31 December 2003, the Group's short-term bank loans of approximately HK$49,602,000 were secured by certain of its leasehold land and buildings of net book value of approximately HK$10,038,000 and the listed investment securities in Sun Home with nil carrying value.

20. SHARE CAPITAL

	2004 HK$'000	2003 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2004 No. of ordinary shares of HK$0.10 each	2004 *HK$'000*	2003 No. of ordinary shares of HK$0.10 each	2003 *HK$'000*
Issued and fully paid:				
At 1 January	**1,528,892,384**	**152,889**	1,498,392,384	149,839
Shares issued under share option scheme	**39,000,000**	**3,900**	30,500,000	3,050
At 31 December	**1,567,892,384**	**156,789**	1,528,892,384	152,889

In accordance with the Company's share option scheme (the "Scheme") adopted on 29 May 2003 for a period of ten years, the board of directors may grant options to eligible employees, officers, agents or consultants, including executive or non-executive directors, of the Group to subscribe for ordinary shares in the Company in accordance with the terms of the Scheme.

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

	Number of options 2004	Number of options 2003
At 1 January	**29,000,000**	–
Granted *(Note (i))*	**80,000,000**	59,500,000
Exercised *(Note (ii))*	**(39,000,000)**	(30,500,000)
At 31 December	**70,000,000**	29,000,000

20. SHARE CAPITAL *(Continued)*

Notes:

(i) Share options were granted on 5 January 2004 at an exercise price of HK$0.311 per share and expire on 4 January 2006. Consideration of HK$6 was received in respect of the share options granted during the year.

(ii) Options exercised on 23 February 2004 and 15 October 2004 resulted in 29,000,000 and 10,000,000 ordinary shares respectively being issued at HK$0.20 and HK$0.311 each respectively, yielding the following proceeds:

	2004	2003
	HK$'000	*HK$'000*
Ordinary share capital – at par	**3,900**	3,050
Share premium	**5,010**	2,410
Proceeds	**8,910**	5,460

The fair values of shares issued at the exercise dates of 23 February 2004 and 15 October 2004 were HK$0.59 and HK$0.92 respectively.

Share options outstanding at the end of the year have the following terms:

Expiry date	**Exercise price**	**2004**	2003	**2004**	2003
		No. of options		**Vested percentages**	
Directors					
27 July 2009	HK$0.20	**–**	29,000,000	**–**	100
Employees					
4 January 2006	HK$0.311	**70,000,000**	–	**100**	–
		70,000,000	29,000,000		

No share options were cancelled during the year (2003: Nil).

21. RESERVES

	Group									
	Share premium HK$'000	Capital redemption reserve HK$'000 (Note a)	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Goodwill HK$'000	Merger reserve HK$'000 (Note b)	Other reserves HK$'000 (Note c)	Retained profits HK$'000	Total HK$'000
At 1 January 2004	4,725	2,882	794	–	(9,626)	(36,782)	322	10,649	277,057	250,021
Exchange differences	–	–	–	–	(2,798)	–	–	–	–	(2,798)
Deficit on revaluation of an unlisted investment	–	–	–	(4,000)	–	–	–	–	–	(4,000)
Transfer	–	–	–	–	–	–	–	1,331	(1,331)	–
Share of an associated company's reserve	–	–	–	–	9	–	–	4	(4)	9
Profit for the year	–	–	–	–	–	–	–	–	176,220	176,220
Dividends	–	–	–	–	–	–	–	–	(46,737)	(46,737)
Shares issued under share option scheme	5,010	–	–	–	–	–	–	–	–	5,010
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**
Representing:										
Reserves	9,735	2,882	794	(4,000)	(12,415)	(36,782)	322	11,984	373,007	345,527
2004 final dividend proposed	–	–	–	–	–	–	–	–	32,198	32,198
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**
Company and subsidiaries	9,735	2,882	794	(4,000)	(11,550)	(36,782)	322	11,560	404,932	377,893
An associated company	–	–	–	–	(865)	–	–	424	273	(168)
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**

21. RESERVES *(Continued)*

Group

	Share premium HK$'000	Capital redemption reserve HK$'000 (Note a)	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Goodwill HK$'000	Merger reserve HK$'000 (Note b)	Other reserves HK$'000 (Note c)	Retained profits HK$'000	Total HK$'000
At 1 January 2003	2,315	2,882	794	(9,594)	(36,782)	322	9,060	228,981	197,978
Exchange differences	–	–	–	(34)	–	–	–	–	(34)
Transfer	–	–	–	–	–	–	1,582	(1,582)	–
Share of an associated company's reserve	–	–	–	2	–	–	7	(7)	2
Profit for the year	–	–	–	–	–	–	–	82,935	82,935
Dividends	–	–	–	–	–	–	–	(33,270)	(33,270)
Shares issued under share option scheme	2,410	–	–	–	–	–	–	–	2,410
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Representing:									
Reserves	4,725	2,882	794	(9,626)	(36,782)	322	10,649	254,124	227,088
2003 final dividend proposed	–	–	–	–	–	–	–	22,933	22,933
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Company and subsidiaries	4,725	2,882	794	(8,752)	(36,782)	322	10,229	276,780	250,198
An associated company	–	–	–	(874)	–	–	420	277	(177)
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021

21. RESERVES *(Continued)*

Company

	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note (a))*	Contributed surplus *HK$'000* *(Note (d))*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2003	2,315	2,882	152,891	24,699	182,787
Profit for the year	–	–	–	33,354	33,354
Dividends	–	–	–	(33,270)	(33,270)
Shares issued under share option scheme	2,410	–	–	–	2,410
At 1 January 2004	4,725	2,882	152,891	24,783	185,281
Profit for the year	–	–	–	47,902	47,902
Dividends	–	–	–	(46,737)	(46,737)
Shares issued under share option scheme	5,010	–	–	–	5,010
At 31 December 2004	**9,735**	**2,882**	**152,891**	**25,948**	**191,456**

(a) **Capital redemption reserve**

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

(b) **Merger reserve**

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

(c) **Other reserves**

Other reserves comprising general reserve fund of approximately HK$6,438,000 (2003: HK$5,535,000) and enterprise expansion fund of approximately HK$5,546,000 (2003: approximately HK$5,114,000) required to be set up pursuant to the PRC laws for the Company's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

21. RESERVES *(Continued)*

(d) Contributed surplus

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

(e) Distributable reserves

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

22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates.

The movement on the net deferred tax assets is as follows:

	2004	2003
	HK$'000	*HK$'000*
At 1 January	**12,571**	10,234
Credited to profit and loss account *(Note 5)*	**5,020**	2,337
At 31 December	**17,591**	12,571

Deferred income tax assets are recognised for tax losses available to be carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK$724,000 (2003: HK$5,369,000) to be carried forward against future taxable income.

22. DEFERRED TAXATION *(Continued)*

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

Deferred tax liabilities	**Accelerated tax depreciation**		**Others**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**751**	535	**–**	–	**751**	535
(Credited)/charged to profit and loss account	**(33)**	216	**19**	–	**(14)**	216
At 31 December	**718**	751	**19**	–	**737**	751

Deferred tax assets	**Provisions**		**Decelerated tax depreciation**		**Deferred expenses**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**7,843**	7,085	**4,695**	3,552	**784**	132	**13,322**	10,769
Credited/(charged) to profit and loss account	**3,658**	758	**1,460**	1,143	**(112)**	652	**5,006**	2,553
At 31 December	**11,501**	7,843	**6,155**	4,695	**672**	784	**18,328**	13,322

23. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

	2004	2003
	HK$'000	*HK$'000*
Operating profit	**236,895**	107,809
Interest income	**(1,323)**	(636)
Depreciation	**23,283**	18,511
Loss on disposal of fixed assets	**4,532**	579
Operating profit before working capital changes	**263,387**	126,263
Increase in inventories	**(164,055)**	(26,966)
(Increase)/decrease in trade receivable, other receivables, deposits and prepayments	**(62,568)**	40,974
Increase in trade payables, other payables and accrued charges	**96,599**	15,907
Decrease/(increase) in trading investments	**15,890**	(15,890)
Net cash generated from operations	**149,253**	140,288

24. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2004 and 31 December 2003.

As at 31 December 2004, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to approximately HK$91,600,000 (2003: HK$63,000,000). As at 31 December 2004, the utilised amount of such facilities covered by the Company's guarantees was HK$22,023,000 (2003: HK$8,616,000).

25. COMMITMENTS

(a) Capital commitments for purchase of fixed assets

	Group	
	2004	2003
	HK$'000	*HK$'000*
Authorised but not contracted for	**97,709**	26,762
Contracted but not provided for	**33,085**	7,018
	130,794	33,780

(b) Commitments under operating leases

As at 31 December 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Not later than one year	**167,359**	84,936
Later than one year and not later than five years	**246,536**	106,040
Later than five years	**23,981**	2,710
	437,876	193,686

Payment obligations in respect of operating leases on properties with rentals vary with gross revenues are not included as future minimum lease payments.

25. COMMITMENTS *(Continued)*

(c) Forward exchange contracts

As at 31 December 2004, the Group had outstanding forward contracts as follows:

(i) To purchase Renminbi (RMB) and sell United States (U.S.) dollars amounting to HK$241,020,000 (2003: Nil);

(ii) To purchase New Taiwanese dollars and sell U.S. dollars amounting to HK$33,072,000 (2003: Nil); and

(iii) To purchase U.S. dollars and sell RMB amounting to HK$201,240,000 (2003: HK$230,100,000).

As at 31 December 2004, bank deposits of HK$3,446,000 (2003: HK$7,242,000) were pledged against the above forward contracts.

(d) The Company did not have any material commitments as at 31 December 2004 (2003: Nil).

26. RELATED PARTY TRANSACTIONS

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

	Note	**2004** **HK$'000**	2003 *HK$'000*
Purchases from an associated company	*(a)*	**281**	1,847
Purchases from investee companies	*(b)*	**31,490**	10,236

Notes:

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

(b) Purchases of shoe materials and footwear products from investee companies, Sun Home, Jingxing and Daen Shoe Material Company Limited, were carried out in accordance with the terms as determined and agreed between both parties. The Company's director and ex-director, Messrs, Chen Hsien Min and Chang Wen I respectively, are directors of Sun Home.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22 April 2005.