1 GENERAL INFORMATION

Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the manufacturing and distribution of footwear products in China with major export market in the United States of America (the "US").

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P. O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated accounts have been approved for issue by the Board of Directors on 20 April 2006.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit and loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRSs and HKASs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs and HKASs

In 2005, the Group adopted the new/revised HKFRSs and HKASs below, which are relevant to its operations. The 2004 comparatives have been amended in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36, 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of an associated company and other disclosures.

- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36 and 37 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the classification of payments for the acquisitions of land use rights. In prior years, land use rights were accounted for at cost or valuation less accumulated depreciation and accumulated impairment. Under HKAS 17, the up-front prepayments made for land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account. HKAS 17 has been applied retrospectively.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice 24 ("SSAP 24") "Accounting for investments in securities" to investment securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised on 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the grant of share options to employees did not result in an expense in the profit and loss account unless the options were granted at a discount of the market price, where the discount was expensed in the profit and loss account. Effective 1 January 2005, the Group expenses the fair value of share options granted in the profit and loss account. The Group has taken advantage of the transitional provisions of HKFRS 2 under which the new recognition and measurement policies have not been applied to share options granted on or before 7 November 2002 and all options granted to employees after 7 November 2002 but vested before 1 January 2005. No adjustments were resulted from the adoption of HKFRS 2.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The effect of changes in the above accounting polices on the consolidated profit and loss account is as follows:

	Year ended 31 December						
	2005				2004		
	HKAS 1 *HK$'000*	HKAS 17 *HK$'000*	HKAS 39 *HK$'000*	Total *HK$'000*	HKAS 1 *HK$'000*	HKAS 17 *HK$'000*	Total *HK$'000*
Increase/(decrease) in profit for the year							
Decrease in share of profit of an associated company	(94)	–	–	(94)	(69)	–	(69)
Decrease in taxation charge	94	–	–	94	69	–	69
Increase in amortisation of land use rights	–	(1,039)	–	(1,039)	–	(604)	(604)
Decrease in depreciation of fixed assets	–	1,039	–	1,039	–	604	604
Increase in fair value of derivative financial instruments	–	–	268	268	–	–	–
Net increase in profit for the year	–	–	268	268	–	–	–

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The effect of changes in the above accounting polices on the consolidated balance sheet is as follows:

	As at 31 December			
	2005			2004
	HKAS 17	**HKAS 39**	**Total**	HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Increase/(decrease) in assets				
Land use rights	19,197	–	19,197	14,891
Fixed assets	(20,381)	–	(20,381)	(16,075)
Available-for-sale financial assets	–	33,437	33,437	–
Investment securities	–	(33,437)	(33,437)	–
Derivative financial instruments	–	268	268	–
Net (decrease)/increase in assets	(1,184)	268	(916)	(1,184)
Increase/(decrease) in liabilities and equity				
Deferred tax liabilities	(390)	–	(390)	(390)
Property revaluation reserve	(794)	–	(794)	(794)
Retained profits	–	268	268	–
Net (decrease)/increase in liabilities and equity	(1,184)	268	(916)	(1,184)

The basic earnings per share for the year ended 31 December 2005 was increased by HK0.017 cents while there was no impact on the basic and diluted earnings per share for the year ended 31 December 2004 from the adoption of the new/revised HKFRSs and HKASs.

There was no impact on the retained profits as at 1 January 2005 and 1 January 2004 upon the adoption of the new/revised HKFRSs and HKASs.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in these accounts:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosure	1 January 2007
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans And Disclosures	1 January 2006
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates, Net Investment in a Foreign Operation	1 January 2006
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
HKAS 39 (Amendment)	The Fair Value Option	1 January 2006
HKAS 39 and HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts	1 January 2006
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2006
HKFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006
HKFRS 7	Financial Instruments: Disclosures	1 January 2006
HKFRS – Int 4	Determining whether an Arrangement contains a Lease	1 January 2006
HKFRS – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
HKFRS – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electrical Equipment	1 December 2005
HKFRS – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006

The Group has not early adopted the above amendments, standards and interpretations in the accounts for the year ended 31 December 2005. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

(b) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's shareholders therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(ii) Associated company

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(ii) Associated company (Continued)

Unrealised gains on transactions between the Group and its associated company is eliminated to the extent of the Group's interest in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each Group's entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts adopted Hong Kong dollars as the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities classified as available-for-sale financial assets, are included in the fair value adjustment reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the leases periods.

(e) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses if any. Cost mainly represents the consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the rights.

(f) Fixed assets

Fixed assets, comprise leasehold buildings, leasehold improvements, construction-in-progress, plant and machinery, furniture, fixtures and equipment and motor vehicles, are stated at historical cost less accumulated depreciation and accumulated impairment losses if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 2 to 5 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Construction-in-progress represents fixed assets under construction and pending installation and is stated at cost less accumulated impairment losses if any. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy stated above.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Fixed assets *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(g)).

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.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(h) Financial assets

Prior to 1 January 2005:

The Group classified its investments in securities, other than subsidiaries and an associated company, as investment securities and trading investments.

(i) Investment securities

Investment securities which were held for non-trading purposes were stated at fair value at the balance sheet date. Changes in the fair value of individual investment were credited or debited to the investment revaluation reserve until the investment was sold, or was determined to be impaired by the directors. Where there is evidence that individual investment is impaired the cumulated loss incurred recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in fair value is credited to the profit and loss account up to the amount previously debited.

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

Where there was objective evidence that individual investment was impaired the cumulated loss recorded in the revaluation reserve was taken to the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial assets *(Continued)*

(ii) Trading investments

Trading investments were 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 were 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, were recognised in the profit and loss account as they arose.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates the designation at every balance sheet date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(k)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the balance sheet date.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial assets *(Continued)*

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in equity. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains or losses from financial assets. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit and loss account. Dividends on available-for-sale financial assets are recognised in the profit and loss account when the Group's right to receive payment is established.

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Derivative financial instruments and hedging activities

Prior to 1 January 2005, derivative financial instruments of the Group were not recorded in the accounts. Following the adoption of HKAS 32 and HKAS 39, all derivative financial instruments are stated at fair value. The gain or loss on changes in fair value is recognised generally in the profit and loss account unless the derivative financial instrument qualifies for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and in the profit and loss account respectively. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in hedging reserve will be recognised in the profit and loss account in the same period or periods during which the gain or loss arising from the hedged transaction is recognised in the profit and loss account.

(j) Inventories

Inventories comprise raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value. Cost, calculated on the standard costing basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Net realisable value is determined on the basis of estimated selling price in the ordinary course of business less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) 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 consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss, it is not accounted for. Tax rates (and laws) enacted or substantively enacted by the balance sheet date are used to determine deferred taxation and it is expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Employee benefits

(i) Bonus plans

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

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

(ii) Pension obligations

The Group participates in a number of defined contribution retirement schemes in Hong Kong and various cities in China where the Group operates.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to separately administered funds on a mandatory, contractual or voluntary basis. The Group has no legal or construction obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extend that a cash refund or a reduction in the future payments is available.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

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. Provisions are not recognised for future operating losses.

(q) Revenue recognition

Revenue from the sale of goods, net of value-added tax and discounts and after eliminating sales within the Group, 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, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 expenses represent corporate expenses. Segment assets consist primarily of land use rights, fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, available-for-sales financial assets, derivative financial instruments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as corporate taxation and liabilities. Capital expenditure comprises additions to land use rights (Note 13) and fixed assets (Note 14).

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.

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the board of directors. Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

(t) Comparatives

Due to the adoption of the new/revised HKFRSs and HKASs during the current year, the accounting treatment and presentation of certain items in the accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year's presentation.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risks.

(a) Foreign exchange risk

The Group operates in various countries and regions and is exposed to foreign exchange risk arising from different currency exposures primarily with respect to Renminbi, US dollars and New Taiwanese dollars. Foreign exchange risk arises from future commercial transactions, assets and liabilities and net investments denominated in foreign currencies. The Group has entered into foreign exchange forward contracts to manage the risk arising from certain recognised assets and liabilities. The directors are of the opinion that the Group's remaining exposure to foreign exchange risk would be minimal.

(b) Credit risk

The Group has no significant concentration of credit risk with respect to the retail business as sales are made in cash or via major credit cards. Regarding the wholesale business, the Group has policies in place to ensure that all sales of products are made to customers with appropriate credit history. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

Most of the bank financing of the Group is in the form of short-term bank loans. Given the Group has a net current assets of HK$426,802,000 and unutilised banking facilities of HK$114,343,000 as at 31 December 2005, the directors believe that sufficient funds are maintained or additional funds can be raised to meet future business operation and development.

(d) Cash flow and fair value interest rate risks

The Group is exposed to both cash flow and fair value interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets mainly comprise bank deposits which are mostly short term in nature whereas interest-bearing financing liabilities are primarily short term bank borrowings with primarily floating interest rates. The directors are of the opinion that future interest rates are at the point of an upward trend but believed that the adverse effect on the Group's future financial results will not be significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Tangible fixed assets and depreciation

Management determines the estimated useful lives and related depreciation charges for the Group's tangible fixed assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realised. The identification of obsolescence requires the use of judgement and estimates. Where the exception is different from the original estimate, such difference will impact carrying value of inventories and net realisable value for the periods in which such estimate is changed.

(d) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including bank balances and cash, pledged deposits, trade receivables, other receivables, deposits and prepayments, trade payables, other payables and accrued charges and bank loans and overdrafts are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	2005 *HK$'000*	2004 *HK$'000*
Turnover		
Sales of goods, net of discounts	**2,622,677**	1,788,539
Other revenues		
Income derived from an unlisted investment *(Note 18(a)(i))*	**–**	3,000
Income derived from an unlisted available-for-sale financial asset *(Note 18(a)(i))*	**3,000**	–
Export incentives from government	**–**	2,746
Interest income	**1,885**	1,323
Gross rental income	**286**	288
Dividend income	**88**	62
Others	**1,001**	788
	6,260	8,207
Total revenues	**2,628,937**	1,796,746

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", "Shoebox" and "Adidas-Original Collection" 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.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2005			2004		
	Brand business	**OEM business**	**Group**	Brand business	OEM business	Group
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	1,827,341	795,336	2,622,677	1,066,815	721,724	1,788,539
Segment results	209,471	112,849	322,320	164,973	66,083	231,056
Income derived from an unlisted investment			–			3,000
Income derived from an unlisted available-for-sale financial asset			3,000			–
Unrealised gain on foreign exchange forward contracts			–			5,823
Fair value adjustment on derivative financial instruments			268			–
Unallocated revenues			374			259
Unallocated expenses			(2,558)			(3,243)
Operating profit			323,404			236,895
Segment assets	1,058,723	312,264	1,370,987	741,053	257,217	998,270
Interest in an associated company			2,346			2,205
Investment securities			–			33,437
Available-for-sale financial assets			33,437			–
Derivative financial instruments			268			–
Other unallocated assets			27,586			43,307
Total assets			1,434,624			1,077,219
Segment liabilities	412,882	189,163	602,045	322,684	163,125	485,809
Other unallocated liabilities			8,963			8,851
Total liabilities			611,008			494,660
Amortisation	516	523	1,039	218	386	604
Depreciation	40,997	7,906	48,903	15,506	7,173	22,679
Provision for bad and doubtful debts	–	46	46	–	1,380	1,380
Provision for slow-moving inventories	7,682	(4,757)	2,925	4,791	497	5,288
Capital expenditure	127,898	29,047	156,945	80,094	22,349	102,443

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The Group's two business segments operate in two main geographical areas, China and the US. In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

	2005	2004
	HK$'000	*HK$'000*
China	1,827,341	1,066,815
The US	770,238	698,891
Others	25,098	22,833
	2,622,677	1,788,539

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

6 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005	2004
	HK$'000	*HK$'000*
Crediting		
Fair value adjustment on derivative financial instruments	268	–
Gain on disposal of trading investments	–	455
Net exchange gain	7,872	–
Unrealised gain on foreign exchange forward contracts	–	5,823
Charging		
Amortisation of land use rights	1,039	604
Auditors' remuneration	2,182	1,461
Cost of inventories sold	1,214,091	870,438
Depreciation of fixed assets	48,903	22,679
Employee benefits expense *(Note 12)*	374,140	295,832
Loss on disposal of fixed assets	5,020	4,532
Net exchange loss	–	3,342
Operating lease rentals in respect of land and buildings	255,250	181,431
Provision for bad and doubtful debts	46	1,380
Provision for slow-moving inventories	2,925	5,288

7 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	**4,441**	3,085

8 TAXATION

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

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

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

	2005 HK$'000	2004 HK$'000
Current taxation		
– Taxation outside Hong Kong	**62,479**	58,323
– Under/(over) provision in prior years	**159**	(303)
Deferred taxation *(Note 26)*	**522**	(5,020)
	63,160	53,000

8 TAXATION *(Continued)*

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

	2005 *HK$'000*	2004 *HK$'000*
Profit before taxation	319,216	233,997
Less: Share of profit of an associated company	(253)	(187)
	318,963	233,810
Calculated at domestic tax rates of 12% to 33% applicable to profits in the respective countries/places	76,827	59,123
Income not subject to taxation	(71,108)	(50,042)
Expenses not deductible for taxation purposes	56,019	43,994
Tax losses not recognised	2,230	968
Utilisation of previously unrecognised tax losses	(701)	–
Under/(over) provision in prior years	159	(303)
Temporary differences not recognised	(266)	(740)
Taxation charge	63,160	53,000

The weighted average applicable tax rate was 24% (2004: 25%).

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$97,185,000 (2004: HK$47,902,000).

10 DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Interim dividend, paid, of HK2.5 cents (2004: HK1.5 cents) per ordinary share	40,947	23,368
Final dividend, proposed, of HK2.5 cents (2004: HK2.0 cents) per ordinary share *(Note)*	40,947	32,758
	81,894	56,126

Note: At a meeting held on 20 April 2006, the board of directors recommended a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2005. 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 2006.

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$254,593,000 (2004: HK$176,220,000). The basic earnings per share is based on the weighted average number of 1,619,097,863 (2004: 1,555,791,014) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no dilutive potential 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 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 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12 EMPLOYEE BENEFITS EXPENSE

Employee benefits expense including directors' emoluments represents:

	2005 *HK$'000*	2004 *HK$'000*
Wages, salaries and bonuses	361,779	288,972
Defined contribution pension costs *(Note (a))*	12,361	6,860
	374,140	295,832

(a) Defined contribution pension costs

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 China at certain percentages of the salaries of its employees in China. 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 China other than the contribution payments.

As at both 31 December 2005 and 31 December 2004, no forfeited contributions were available to reduce the contribution payable in the future.

Contributions payable to the funds as at 31 December 2005 of approximately HK$1,135,000 (2004: HK$458,000) are included in other payables and accrued charges.

12 EMPLOYEE BENEFITS EXPENSE *(Continued)*

(b) Share option benefits to employees

Benefits in kind arising from exercise of share options by employees of the Group are not included in the employee benefits expense.

(c) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2005 is set out below:

	Fees	Salaries and bonuses	Defined contribution pension costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Name of director				
Chen Ying-Chieh	–	1,182	24	1,206
Chen Hsien Min	–	1,399	–	1,399
Chang Chih-Kai	–	657	–	657
Hsiao Hsi-Ming	60	–	–	60
Huang Shun-Tsai	60	–	–	60
Kuo Jung-Cheng	60	–	–	60
	180	3,238	24	3,442

The remuneration of each director of the Company for the year ended 31 December 2004 is set out below:

	Fees	Salaries and bonuses	Defined contribution pension costs	Benefits in kind	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director					
Chang Wen I (resigned on 22 November 2004)	–	5,510	–	5,655	11,165
Chen Ying-Chieh	–	1,189	4	5,655	6,848
Chen Hsien Min	–	1,494	–	–	1,494
Chang Chih-Kai (appointed on 22 November 2004)	-	44	–	–	44
Hsiao Hsi-Ming (appointed on 10 September 2004)	60	–	–	–	60
Huang Shun-Tsai	60	–	–	–	60
Kuo Jung-Cheng	19	–	–	–	19
	139	8,237	4	11,310	19,690

Benefits in kind in 2004 represented share option benefits derived from 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 Share Option Scheme of the Company.

12 EMPLOYEE BENEFITS EXPENSE *(Continued)*

(d) Five highest paid individuals

None of the directors (2004: two) directors whose emoluments are reflected in the analysis presented in Note (c) above were the five highest paid individuals in the Group for the year. The emoluments paid and payable to the five highest paid (2004: remaining three) individuals during the year are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Basic salaries and bonuses	9,877	6,430
Performance related incentive payments	1,217	1,072
	11,094	7,502

The emoluments fell within the following bands:

	Number of individuals 2005	 2004
Emolument bands		
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	4	2
HK$3,000,001 to HK$3,500,000	–	1

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.

13 LAND USE RIGHTS

	Group 2005 HK$'000	Group 2004 HK$'000
Cost		
At 1 January, as previously classified as fixed assets	27,213	21,714
Effect of adopting HKAS 17	(1,184)	(1,184)
At 1 January, as restated	26,029	20,530
Exchange adjustment	571	(92)
Additions	4,876	5,591
At 31 December	31,476	26,029
Accumulated amortisation		
At 1 January, as previously classified as accumulated depreciation of fixed assets	11,138	10,531
Exchange adjustment	102	3
Amortisation for the year	1,039	604
At 31 December	12,279	11,138
Net book value		
At 31 December	19,197	14,891
At 1 January	14,891	9,999

Notes:

(a) As at both 31 December 2005 and 31 December 2004, all land use rights were held outside Hong Kong on leases of between 10 to 50 years.

(b) As at 31 December 2005, land use rights of carrying value of HK$264,000 (2004: nil) were pledged as security for the Group's short-term bank loans (Note 23).

(c) During the year ended 31 December 2005, no land use right was leased out while during the year ended 31 December 2004, land use rights of carrying value of HK$350,000 were leased out under operating leases.

14. FIXED ASSETS

	Group						
	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Construction-in-progress HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2005, as previously reported	154,312	45,499	14,520	103,783	40,559	20,921	379,594
Effect of adopting HKAS 17	(27,213)	–	–	–	–	–	(27,213)
At 1 January 2005, as restated	127,099	45,499	14,520	103,783	40,559	20,921	352,381
Exchange adjustment	2,623	933	300	2,316	564	373	7,109
Additions	9,297	53,955	45,547	11,138	25,939	6,193	152,069
Transfer	8,088	–	(8,088)	–	–	–	–
Disposals	(4,987)	(2,248)	–	(7,794)	(4,524)	(2,457)	(22,010)
At 31 December 2005	**142,120**	**98,139**	**52,279**	**109,443**	**62,538**	**25,030**	**489,549**
Accumulated depreciation							
At 1 January 2005, as previously reported	38,939	7,886	–	86,056	17,978	11,589	162,448
Effect of adopting HKAS 17	(11,138)	–	–	–	–	–	(11,138)
At 1 January 2005, as restated	27,801	7,886	–	86,056	17,978	11,589	151,310
Exchange adjustment	574	162	–	1,976	236	212	3,160
Charge for the year	4,894	28,241	–	5,990	6,413	3,365	48,903
Disposals	(1,889)	(662)	–	(7,748)	(3,694)	(2,420)	(16,413)
At 31 December 2005	**31,380**	**35,627**	**–**	**86,274**	**20,933**	**12,746**	**186,960**
Net book value							
At 31 December 2005	**110,740**	**62,512**	**52,279**	**23,169**	**41,605**	**12,284**	**302,589**
At 1 January 2005	99,298	37,613	14,520	17,727	22,581	9,332	201,071

14. FIXED ASSETS *(Continued)*

	Group						
	Leasehold buildings *HK$'000*	Leasehold improvements *HK$'000*	Construction-in-progress *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost							
At 1 January 2004, as previously reported	128,595	21,127	8,122	97,122	28,137	15,941	299,044
Effect of adopting HKAS 17	(21,714)	–	–	–	–	–	(21,714)
At 1 January 2004, as restated	106,881	21,127	8,122	97,122	28,137	15,941	277,330
Exchange adjustment	(453)	(90)	(34)	(447)	103	(32)	(953)
Additions	328	39,808	28,115	8,494	14,144	5,963	96,852
Transfer	21,439	–	(21,683)	244	–	–	–
Disposals	(1,096)	(15,346)	–	(1,630)	(1,825)	(951)	(20,848)
At 31 December 2004	127,099	45,499	14,520	103,783	40,559	20,921	352,381
Accumulated depreciation							
At 1 January 2004, as previously reported	35,636	8,419	–	83,516	17,511	10,394	155,476
Effect of adopting HKAS 17	(10,531)	–	–	–	–	–	(10,531)
At 1 January 2004, as restated	25,105	8,419	–	83,516	17,511	10,394	144,945
Exchange adjustment	(125)	(37)	–	(395)	42	(20)	(535)
Charge for the year	3,917	9,879	–	4,565	2,152	2,166	22,679
Disposals	(1,096)	(10,375)	–	(1,630)	(1,727)	(951)	(15,779)
At 31 December 2004	27,801	7,886	–	86,056	17,978	11,589	151,310
Net book value							
At 31 December 2004	99,298	37,613	14,520	17,727	22,581	9,332	201,071
At 1 January 2004	81,776	12,708	8,122	13,606	10,626	5,547	132,385

14. FIXED ASSETS *(Continued)*

Notes:

(a) As at 31 December 2005, leasehold buildings of carrying value of HK$13,349,000 (2004: nil) were pledged as for the Group's short-term bank loans *(Note 23)*.

(b) During the year ended 31 December 2005, motor vehicles of carrying value of HK$242,000 were leased out under operating leases. During the year ended 31 December 2004, leasehold buildings of carrying value of HK$1,556,000 were leased out under operating leases.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments, at cost	**165,635**	165,635

The following is a list of the principal subsidiaries as at 31 December 2005:

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	China; equity joint venture	US$3,180,000	90	Manufacture of footwear products in China
Dasheng Footwear Co., Ltd. Putian City	China; wholly-owned foreign enterprise	US$4,285,700	100	Manufacture of shoe components in China
Daxin Footwear Co., Ltd. Putian City	China; wholly-owned foreign enterprise	US$1,262,000	100	Manufacture of footwear products in China
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	China; wholly-owned foreign enterprise	US$1,499,925	100	Manufacture of footwear products in China
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 China

15. 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
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.	China; wholly-owned foreign enterprise	US$4,000,000	100	Manufacture of footwear products in China
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.	China; equity joint venture	US$6,000,000	75	Manufacture of footwear products in China
Shanghai Guang Wei Industry & Commerce Co., Ltd.	China; equity joint venture	US$4,600,000	87.8	Manufacture of footwear products in China
Shoebox Holdings Limited	Hong Kong; limited liability company	HK$10,000 ordinary shares of HK$1 each	59	Retail sales right holder of footwear and apparel products in China
Victoria Success Investment Co., Ltd.	China; wholly-owned foreign enterprise	US$30,000,000	100	Distribution of footwear and related products and investment holding in China

15. 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
Victoria Success (Shanghai) Limited	China; wholly-owned foreign enterprise	US$5,000,000	100	Manufacture of footwear products in China
Victoria Success Shoes (Suqian) Co. Ltd.	China; wholly-owned foreign enterprise	RMB3,000,000	100	Manufacture of footwear products in China
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.

16. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

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

17. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**2,346**	2,205
Unlisted investment, at cost	**2,340**	2,340

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

Details of the associated company as at 31 December 2005 are as follows:

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

A summary of financial information of the associated company is as follows:

	2005 *HK$'000*	2004 *HK$'000*
Assets	8,028	8,749
Liabilities	311	1,405
Revenues	9,839	7,847
Profit	844	624

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Unlisted investments *(Note (a))*	33,437	33,437
Listed securities *(Note (b))*	–	–
	33,437	33,437

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Notes:

(a) Unlisted investments comprise investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") of HK$33,000,000 (2004: HK$33,000,000) and investment in Daen Shoe Material Co. Ltd. ("Daen") of HK$437,000 (2004: HK$437,000). The fair values of unlisted investments are estimated by the directors of the Company.

(i) Investment in Jingxing

The Group holds 30% interest in Jingxing which is a sino-foreign equity joint venture established in China 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.

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 ended 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 2005 was HK$3,000,000 (2004: HK$3,000,000) which has been recognised in the profit and loss account.

(ii) Investment in Daen

The Group holds 16% interest in Daen which is an equity joint venture established in China. Daen is engaged in the manufacturing and distribution of footwear products in China.

(b) As at 31 December 2005, the Group holds approximately 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 there were only infrequent and low volume of trading transactions of the shares of Sun Home in 2005, the directors consider that there has no material change in the fair value of the investment in Sun Home as at 31 December 2005.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans *(note 23)*.

(c) Pursuant to the transitional provision of HKAS 39, the Group has redesignated the investment securities as "available-for-sale financial assets" with effect from 1 January 2005.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**82,488**	50,981
Work-in-progress	**44,760**	22,616
Finished goods	**505,139**	395,514
	632,387	469,111

20. TRADE RECEIVABLES

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

	Group 2005 HK$'000	Group 2004 HK$'000
0 – 30 days	**93,188**	54,171
31 – 60 days	**19,668**	6,326
61 – 90 days	**4,439**	1,175
91 – 120 days	**3,578**	2,277
121 – 180 days	**875**	2,024
181 – 360 days	**704**	333
Over 360 days	**12**	842
	122,464	67,148

(a) The carrying value of trade receivables approximated its fair value.

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments which represent foreign exchange forward contracts which are not qualified for hedge accounting under the requirements of HKAS 39 are deemed as held for trading.

As at 31 December 2005, no bank deposit was pledged against committed forward contracts while bank deposits of HK$3,446,000 were pledged against committed forward contracts as at 31 December 2004.

22. TRADE PAYABLES

The ageing analysis of trade payables (including trade balances due to related parties) by invoice date is as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
0 – 30 days	**168,464**	144,554
31 – 60 days	**79,853**	62,664
61 – 90 days	**13,166**	26,766
91 – 120 days	**4,729**	9,273
121 – 180 days	**15,451**	6,705
181 – 360 days	**2,784**	6,375
Over 360 days	**4,255**	4,200
	288,702	260,537

23. BANK LOANS AND OVERDRAFTS

	Group 2005 HK$'000	Group 2004 HK$'000
Bank loans and overdrafts		
– Secured *(Note (b))*	**71,753**	46,827
– Unsecured	**61,309**	51,700
	133,062	98,527

The carrying amounts of the bank loans and overdrafts are denominated in the following currencies:

	Group 2005 HK$'000	Group 2004 HK$'000
New Taiwanese dollar	**42,126**	46,827
US dollar	**25,628**	36,817
Hong Kong dollar	**30,770**	13,003
Renminbi	**34,538**	1,880
	133,062	98,527

Notes:

(a) As at both 31 December 2005 and 2004, the Group's bank loans were repayable within one year.

(b) As at 31 December 2005, the Group's secured short-term bank loans were secured by certain land use rights *(Note 13(b))* and leasehold buildings *(Note 14(b))*, listed securities of Sun Home classified under available-for-sale financial assets with nil carrying value and a bank deposit of HK$6,000,000. As at 31 December 2004, the Group's secured short-term bank loans were secured by listed securities of Sun Home with nil carrying value.

(c) The weighted average effective interest rate of bank loans and overdrafts as at 31 December 2005 is 4.60% (2004: 2.84%) per annum.

24. SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2005 Number of ordinary shares	2005 Share capital HK$'000	2004 Number of ordinary shares	2004 Share capital HK$'000
Issued and fully paid:				
At 1 January	**1,567,892,384**	**156,789**	1,528,892,384	152,889
Shares issued under share option scheme	**70,000,000**	**7,000**	39,000,000	3,900
At 31 December	**1,637,892,384**	**163,789**	1,567,892,384	156,789

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 2005	2004
At 1 January	**70,000,000**	29,000,000
Granted	**–**	80,000,000
Exercised *(Note)*	**(70,000,000)**	(39,000,000)
At 31 December	**–**	70,000,000

Note: Share options exercised during the year resulted in 70,000,000 (2004: 39,000,000) ordinary shares being issued at HK$0.311 each (2004: 29,000,000 share options at HK$0.20 each and 10,000,000 share options at HK$0.311 each). The weighted average closing price immediately before the exercise of options was HK$1.718 (2004: HK$0.680) per share.

No share options were cancelled during the year (2004: nil).

25. RESERVES

	Group										
	Share premium HK$'000	Capital redemption reserve HK$'000 (Note (a))	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Fair value adjustment reserve HK$'000	Translation reserve HK$'000	Goodwill HK$'000 (Note (b))	Merger reserve HK$'000 (Note (c))	Other reserves HK$'000 (Note (d))	Retained profits HK$'000	Total HK$'000
At 1 January 2005, as previously reported	9,735	2,882	794	(4,000)	–	(12,415)	(36,782)	322	11,984	405,205	377,725
Effect of adopting HKAS 17	–	–	(794)	–	–	–	–	–	–	–	(794)
Effect of adopting HKAS 39	–	–	–	4,000	(4,000)	–	–	–	–	–	–
At 1 January 2005, as restated	9,735	2,882	–	–	(4,000)	(12,415)	(36,782)	322	11,984	405,205	376,931
Shares issued under share option scheme	14,770	–	–	–	–	–	–	–	–	–	14,770
Currency translation differences	–	–	–	–	–	7,874	–	–	–	–	7,874
Transfer	–	–	–	–	–	–	–	–	2,246	(2,246)	–
Share of an associated company's reserve	–	–	–	–	–	(45)	–	–	4	(4)	(45)
Profit for the year	–	–	–	–	–	–	–	–	–	254,593	254,593
Dividends	–	–	–	–	–	–	–	–	–	(73,705)	(73,705)
At 31 December 2005	24,505	2,882	–	–	(4,000)	(4,586)	(36,782)	322	14,234	583,843	580,418

25. RESERVES *(Continued)*

	Group									
	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note (a))*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Goodwill *HK$'000* *(Note (b))*	Merger reserve *HK$'000* *(Note (c))*	Other reserves *HK$'000* *(Note (d))*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004, as previously reported	4,725	2,882	794	–	(9,626)	(36,782)	322	10,649	277,057	250,021
Effect of adopting HKAS 17	–	–	(794)	–	–	–	–	–	–	(794)
At 1 January 2004, as restated	4,725	2,882	–	–	(9,626)	(36,782)	322	10,649	277,057	249,227
Shares issued under share option scheme	5,010	–	–	–	–	–	–	–	–	5,010
Currency translation 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)
At 31 December 2004	9,735	2,882	–	(4,000)	(12,415)	(36,782)	322	11,984	405,205	376,931

25. RESERVES *(Continued)*

	Company				
	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note (a))*	Contributed surplus *HK$'000* *(Note (e))*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004	4,725	2,882	152,891	24,783	185,281
Shares issued under share option scheme	5,010	–	–	–	5,010
Profit for the year	–	–	–	47,902	47,902
Dividends	–	–	–	(46,737)	(46,737)
At 1 January 2005	9,735	2,882	152,891	25,948	191,456
Shares issued under share option scheme	14,770	–	–	–	14,770
Profit for the year	–	–	–	97,185	97,185
Dividends	–	–	–	(73,705)	(73,705)
At 31 December 2005	24,505	2,882	152,891	49,428	229,706

(a) Capital redemption reserve

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

(b) Goodwill

The amount represents goodwill on acquisitions occurred prior to 1 January 2001 that was taken to reserves as a deduction from equity. The goodwill will not be recognised in the profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates is impaired.

(c) 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.

(d) Other reserves

Other reserves comprising general reserve fund of HK$6,467,000 (2004: HK$6,438,000) and enterprise expansion fund of HK$7,767,000 (2004: HK$5,546,000) required to be set up pursuant to the laws of China for the Company's subsidiaries and an associated company established in China. 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.

25. RESERVES *(Continued)*

(e) **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.

(f) **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.

26. DEFERRED TAXATION

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

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January, as previously reported	**17,591**	12,571
Effect of adopting HKAS 17	**390**	390
At 1 January, as restated	**17,981**	12,961
(Charged)/credited to profit and loss account *(Note 8)*	**(522)**	5,020
At 31 December	**17,459**	17,981

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. As at 31 December 2005, the Group has unrecognised tax losses of HK$296,000 (2004: HK$724,000) which will expire in 2010 (2004: 2009) to be carried forward against future taxable income.

26. 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:

	Group					
Deferred tax liabilities	**Accelerated tax depreciation**		**Others**		**Total**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January, as previously reported	**718**	751	**19**	–	**737**	751
Effect of adopting HKAS 17	**(390)**	(390)	**–**	–	**(390)**	(390)
At 1 January, as restated	**328**	361	**19**	–	**347**	361
Charged/(credited) to profit and loss account	**155**	(33)	**(19)**	19	**136**	(14)
At 31 December	**483**	328	**–**	19	**483**	347

	Group									
Deferred tax assets	**Provisions**		**Decelerated tax depreciation**		**Deferred expenses**		**Tax losses**		**Total**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January	**11,501**	7,843	**6,155**	4,695	**672**	784	**–**	–	**18,328**	13,322
Credited/(charged) to profit and loss account	**91**	3,658	**(937)**	1,460	**(241)**	(112)	**701**	–	**(386)**	5,006
At 31 December	**11,592**	11,501	**5,218**	6,155	**431**	672	**701**	–	**17,942**	18,328

27. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

	2005 *HK$'000*	2004 *HK$'000*
Operating profit	323,404	236,895
Interest income	(1,885)	(1,323)
Amortisation	1,039	604
Depreciation	48,903	22,679
Loss on disposal of fixed assets	5,020	4,532
Fair value gain on derivative financial instruments	(268)	–
Operating profit before working capital changes	376,213	263,387
Increase in inventories	(163,276)	(164,055)
Increase in trade receivables, other receivables, deposits and prepayments	(66,135)	(62,568)
Increase in trade payables, other payables and accrued charges	77,946	96,599
Decrease in trading investments	–	15,890
Net cash generated from operations	224,748	149,253

28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at both 31 December 2005 and 31 December 2004.

As at 31 December 2005, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK$123,800,000 (2004: HK$91,600,000). As at 31 December 2005, the utilised amount of such facilities covered by the Company's guarantees was HK$20,970,000 (2004: HK$22,023,000).

29. COMMITMENTS

(a) Capital commitments for purchase of land use rights and fixed assets

	Group 2005 *HK$'000*	 2004 *HK$'000*
Authorised but not contracted for	114,791	97,709
Contracted but not provided for	18,601	33,085
	133,392	130,794

29. COMMITMENTS *(Continued)*

(b) Commitments under operating leases

As at 31 December 2005, the Group had future aggregate minimum lease payments in respect of various production plants and facilities, warehouses, offices and distribution outlets under non-cancellable operating leases, as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**180,094**	167,359
Later than one year and not later than five years	**366,110**	246,536
Later than five years	**13,350**	23,981
	559,554	437,876

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

(c) The Company did not have any material commitments as at 31 December 2005 (2004: nil).

30. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended 31 December 2005, the Group has entered into the following transactions with related parties:

(a) Purchases of goods

Purchases of shoe materials and footwear products from investee companies, Sun Home, Jingxing and Daen amounting in total to HK$23,024,000 (2004: HK$31,490,000) are conducted in the normal course of the Group's business. The terms of transactions were determined and agreed between the Group and the counter parties.

(b) Amounts due from/to related parties

Included in the Group's trade receivables as at 31 December 2005 was an amount due from Jingxing of HK$1,918,000 (2004: nil) which was repayable within one year.

Included in the Group's trade payables as at 31 December 2005 were amounts due to an associated company and the investee companies as mentioned in (a) above of HK$41,000 (2004: HK$89,000) and HK$887,000 (2004: HK$8,166,000), respectively, which were repayable according to trade terms agreed between both parties.

(c) Key management personnel compensation

	2005	2004
	HK$'000	*HK$'000*
Salaries and bonuses	**17,108**	12,126
Defined contribution pension costs	**68**	40
	17,176	12,166