

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (The "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries ("the Group").

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the Group's results for the current and/or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill previously recognised in reserves of HK\$ 1,000,000 as at 1 January 2005 continues to be held in reserves and will be transferred to the accumulated profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Impairment loss of HK\$1,000,000 has occurred during the year.

Year ended 31st December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”)

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition.

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, “investment securities” amounted to approximately HK\$5,676,000 have been reclassified to available-for-sale investments, held-to-maturity investments, loans and receivables amounting to approximately HK\$3,370,000, HK\$211,000 and HK\$1,684,000 respectively. “Other investments” amounted to approximately HK\$545,000 have been reclassified to financial assets at fair value through profit or loss on 1st January 2005. The adoption of HKAS 39 with respect to the classification and measurement of debt or equity securities has resulted in a decrease of HK\$411,000 to accumulated profits as at 1st January 2005. (See: note 3 for the financial impact)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group classifies and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit and loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The Group has applied the relevant transitional provision in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively in relation to transfer of financial assets from 1st January 2005 onwards. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 retrospectively. Comparative figures for 2004 have been restated. The amount held in the investment properties revaluation reserve at 1st January 2004 has been transferred to the Group’s accumulated profit. (See note 3 for the financial report).

Year ended 31st December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless the lease payments cannot be allocated between land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	2005 HK\$'000	2004 HK\$'000
Decrease in depreciation of property, plant and equipment	341	341
Increase in amortisation of prepaid lease payments on land use rights	(327)	(327)
Decrease in tax credit for the year	(10)	(10)
Decrease in fair value of investment properties	-	(120)
	<hr/>	<hr/>
Decrease in loss for the year	<u>4</u>	<u>(116)</u>

Analysis of (increase)/decrease in loss for the year by line items presented according to their function:

	2005 HK\$'000	2004 HK\$'000
Depreciation on property, plant and equipment	341	341
Amortisation on prepaid lease payments on land use rights	(327)	(327)
Tax credit for the year	(10)	(10)
Deficit on revaluation of investment properties, net of taxation	-	(120)
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Decrease in loss for the year	<u>4</u>	<u>(116)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

(Continued)

The cumulative effects of the application of the new HKFRSs on the balance sheet as at 31st December 2004 and 1st January 2005 are summarised as follows:

	As at 31st December 2004 (originally stated)			As at 31st December 2004 (restated)		As at 1st January 2005 (restated)
	HKAS 1	HKAS 17		HKAS 39		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Prepaid lease payments						
on land use rights	-	-	12,220	12,220	-	12,220
Property, plant and equipment	128,910	-	(12,405)	116,505	-	116,505
Investment securities	5,676	-	-	5,676	(5,676)	-
Available-for-sale investments	-	-	-	-	3,370	3,370
Held-to-maturity investments	-	-	-	-	211	211
Loans and receivables	-	-	-	-	1,684	1,684
Deferred tax assets	4,767	-	306	5,073	-	5,073
Other investments	545	-	-	545	(545)	-
Financial assets at fair value through profit or loss	-	-	-	-	545	545
Other assets	69,743	-	-	69,743	-	69,743
Total effects on assets and liabilities	209,641	-	121	209,762	(411)	209,351
Share capital	26,837	-	-	26,837	-	26,837
Accumulated profits	128,484	-	121	128,605	(411)	128,194
Other reserves	46,495	-	-	46,495	-	46,495
Minority interests	-	7,825	-	7,825	-	7,825
Total effect on equity	201,816	7,825	121	209,762	(411)	209,351
Minority interests	7,825	(7,825)	-	-	-	-
	209,641	-	121	209,762	(411)	209,351

Year ended 31st December 2005

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

(Continued)

The cumulative effects of the application of the new HKFRSs on the Group's equity as at 1st January 2004 are summarised as follows:

	As originally				As restated
	stated	HKAS 1	HKAS 17	HKAS 40	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share capital	26,810	-	-	-	26,810
Accumulated profits	157,993	-	117	120	158,230
Investment properties					
revaluation reserve	120	-	-	(120)	-
Minority interests	-	7,216	-	-	7,216
Other reserves	46,599	-	-	-	46,599
Total equity	<u>231,522</u>	<u>7,216</u>	<u>117</u>	<u>-</u>	<u>238,855</u>

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective as at 31st December 2005. The directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ³
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease ²
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment ³
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st January 2006.

³ Effective for annual periods beginning on or after 1st December 2005.

⁴ Effective for annual periods beginning on or after 1st March 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at revalued amounts and fair values, respectively, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest 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.

Year ended 31st December 2005

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill previously recognised in reserves as at 1 January 2005 continues to be held in reserves and will be transferred to the accumulated profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. Impairment loss for goodwill is not reversed in subsequent years.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Amortisation and depreciation are provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. No amortisation is provided on freehold land. Leasehold land is amortised over the terms of relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction-in-progress

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

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

Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Land use rights are amortised over the terms of relevant leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis and are arrived at as follows:-

- (i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.
- (ii) Work-in-progress and finished manufactured goods – cost of direct materials and an appropriate proportion of direct labour and production overheads including depreciation.

Year ended 31st December 2005

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

Impairment (other than goodwill – see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity leave and other non-accumulating compensated absences are not recognised until the time of leave.

Retirement benefit obligations

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

For defined benefit retirement plan, retirement benefit costs are assessed using the projected unit credit method. Under this method, the costs of providing benefit are charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan annually. The retirement benefit obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximately the terms of the related liability. Actuarial gains and losses of the amount in excess of 10% of the present value of the retirement benefit plan obligations are recognised in the income statement over the average remaining service lives of employees. Past service cost is recognised as expense on a straight-line basis over the average period until the benefit becomes vested.

The Group's contributions to defined benefit retirement plan are charged to the income statement in the period to which the obligation of the contribution is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Equity compensation benefits

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Year ended 31st December 2005

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Year ended 31st December 2005

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

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables, bills payable, accruals and retirement benefit obligations are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Revenue recognition

Sales of goods

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

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Subcontracting fee income

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

Year ended 31st December 2005

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

Revenue recognition *(Continued)*

Rental income

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

Dividend income

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

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

Segment reporting

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and export of athletic, athletic-style leisure footwear and golf shoes, an analysis of the consolidated trading results of the Group by business segment is not presented.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

The Group operates in Taiwan, Mainland China and Hong Kong. In respect of geographical segment reporting, sales are based on the countries in which the customers are located. Total assets, liabilities, capital expenditure, amortisation and depreciation are based on where the assets and liabilities are located.

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

Year ended 31st December 2005

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4 above, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation of property, plant and equipment

The Group's net book value of property, plant and equipment as at 31st December 2005 was approximately HK\$72,301,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of five to twenty years, and after taking into account of their estimated residual value, at the rate of 2.5% – 50% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimate of fair value of investment properties

As described in note 17, the investment properties were revalued at the balance sheet date on an open market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, deposits, prepayments and other receivables, trade and bills payables, accruals and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales and purchases in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is exposed to interest rate risk through the impact of the rate changes on bank balances.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, 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 regularly the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Year ended 31st December 2005

7. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Turnover and revenue

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover – sales of goods	<u>297,638</u>	<u>259,472</u>
Other revenue		
Interest income	290	78
Subcontracting fee income	1,101	944
Rental income	526	574
Dividend income	<u>3</u>	<u>3</u>
	<u>1,920</u>	<u>1,599</u>
Total revenue	<u><u>299,558</u></u>	<u><u>261,071</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

7. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information

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

	North America		Europe		Other countries		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	<u>94,115</u>	<u>118,852</u>	<u>157,917</u>	<u>101,457</u>	<u>45,606</u>	<u>39,163</u>	<u>297,638</u>	<u>259,472</u>
Results								
Segment results	<u>(6,522)</u>	<u>(8,603)</u>	<u>(14,821)</u>	<u>(3,934)</u>	<u>7,577</u>	<u>6,850</u>	<u>(13,766)</u>	<u>(5,687)</u>
Unallocated revenue							1,920	1,599
Other operating income/ (expenses), net							769	4,503
Unallocated expenses							(27,284)	(30,709)
Impairment loss recognised on freehold land and buildings in Taiwan							(20,593)	-
Finance costs							(110)	(9)
Loss before taxation							(59,064)	(30,303)
Taxation							6,678	1,287
Loss for the year							<u>(52,386)</u>	<u>(29,016)</u>

Other Segment information

	Mainland China and Hong Kong		Taiwan		Total	
	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (restated)
Capital expenditure	12,839	9,109	-	-	12,839	9,109
Amortisation of prepaid lease payments on land use rights	326	326	-	-	326	326
Depreciation on property, plant and equipment	12,108	13,320	525	783	12,633	14,103
Loss / (gain) on disposal of property, plant and equipment	260	(875)	(271)	(240)	(11)	(1,115)
Impairment loss recognised on freehold land and building in Taiwan	-	-	20,593	-	20,593	-

There are no sales between the geographical segments during the years ended 31st December 2005 and 2004.

Year ended 31st December 2005

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

(b) Segment information *(Continued)*

	Mainland China and Hong Kong		Taiwan		Total	
	As at 31 December		As at 31 December		As at 31 December	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Total assets	201,103	202,984	20,830	78,469	221,933	281,453
Total liabilities	59,667	55,255	12,910	16,436	72,577	71,691
Minority interests	7,413	7,825	-	-	7,413	7,825

8. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank loan and overdraft	110	9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

9. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):-

	2005 HK\$'000	2004 HK\$'000 (restated)
Auditors' remuneration	547	516
Staff costs, including directors' emoluments and retirement benefit costs (note 10)	67,651	62,005
Net exchange loss	1,314	1,461
Operating lease payments in respect of land and buildings	1,473	1,243
(Increase)/decrease in fair value of investment properties	(58)	640
Amortisation of prepaid lease payment on land use rights	326	326
Depreciation on property, plant and equipment	12,633	14,103
Gain on disposal of property, plant and equipment	(11)	(1,115)
Loss on written off of property, plant and equipment	32	33
Impairment loss recognised on investment securities	-	25
Unrealised loss on other investments	-	132
Loss on disposal of available-for-sale investments	177	-
Impairment loss recognised on available-for-sale investments	1,460	-
Impairment loss recognised on financial assets at fair value through profit and loss	143	-
Allowance for inventories	2,067	2,364
Increase/(decrease) in allowance for bad and doubtful debts	533	(514)
Written back of over-provision for commission payable in the previous year	-	(628)
	<u>-</u>	<u>(628)</u>

Year ended 31st December 2005

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS (NOTE 11a))

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	62,368	57,359
Unutilised annual leave	43	109
Termination benefits	105	802
Retirement benefit costs		
– defined contribution retirement plans (note 28a)	2,170	2,107
– defined benefit retirement plan (note 28b)	459	(1,252)
Other employee benefits	2,506	2,880
	<u>67,651</u>	<u>62,005</u>

Included in staff costs were the costs related to the employees of the relevant factories which provide sub-contracting services to the Group as the Group has undertaken to bear all the costs related to their employment.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2005 HK\$'000	2004 HK\$'000
Fees	<u>618</u>	<u>605</u>
Other emoluments:-		
Basic salaries, other allowance and benefits in kind	2,165	2,894
Retirement benefit costs		
– defined contribution retirement plans	52	61
– defined benefit retirement plan	153	152
	<u>2,370</u>	<u>3,107</u>
Total emoluments	<u>2,988</u>	<u>3,712</u>

Directors' fees disclosed above include approximately HK\$348,000 (2004: HK\$280,000) paid to the independent non-executive directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Directors' emoluments

The emoluments paid or payable to each of the nine (2004: eight) directors were as follows:

	Other emoluments				Total emoluments
	Basic salaries, other allowance and benefits in kind	Defined contribution retirement plans	Defined benefit retirement plans	Directors' fees	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Feng Shen Chuan	65	1,394	15	56	1,530
Hung Kun Fu	10	357	6	68	441
Feng Yung Chuan	65	–	3	–	68
Kuo Shu Chen	65	206	3	29	303
Wu Xiaoqin	65	208	14	–	287
Lo Kwok Kwei, David	130	–	7	–	137
Au Wing Kit	120	–	–	–	120
Eugenia Yang	26	–	–	–	26
Lam Tak Yee	72	–	4	–	76
Total for 2005	618	2,165	52	153	2,988

Year ended 31st December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Directors' emoluments *(Continued)*

	Other emoluments				Total emoluments
	Basic salaries, other allowance and benefits in kind	Defined contribution retirement plans	Defined benefit retirement plans	Total	
Directors' fees	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Feng Shen Chuan	65	1,431	16	49	1,561
Hung Kun Fu	65	1,000	16	66	1,147
Feng Yung Chuan	65	-	3	-	68
Kuo Shu Chen	65	217	3	37	322
Wu Xiaoqin	65	246	14	-	325
Lo Kwok Kwei, David	130	-	7	-	137
Au Wing Kit	120	-	-	-	120
Lam Tak Yee	30	-	2	-	32
Total for 2004	605	2,894	61	152	3,712

No director waived any emoluments in any of the years ended 31st December, 2005 and 2004.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

- (c) During the year, five highest paid individuals in the Group, four (2004: two) were executive directors of the Company whose emoluments are set out above. The emoluments of the remaining one (2004: three) highest paid individuals were as follows:-

	2005 HK\$'000	2004 HK\$'000
Basic salaries, other allowances and benefits in kind	451	1,599
Retirement benefit costs		
- defined contribution retirement plans	12	24
- defined benefit retirement plans	33	37
	<u>496</u>	<u>1,660</u>

The emoluments of the aforementioned one (2004: three) highest paid individuals were within the band of Nil to HK\$1,000,000 for both years.

12. TAXATION

	2005 HK\$'000	2004 HK\$'000 (restated)
Current taxation		
- Hong Kong profits tax	-	303
- overseas taxation	18	2
- over-provision in previous years	(1,113)	(1,355)
	<u>(1,095)</u>	<u>(1,050)</u>
Deferred tax (note 29)		
- relating to origination and reversal of temporary differences	(5,583)	(237)
Tax credit for the year	<u>(6,678)</u>	<u>(1,287)</u>

Year ended 31st December 2005

12. TAXATION (Continued)

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

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

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

The taxation for the years can be reconciled to the loss per the consolidated income statement as follows:-

	2005 HK\$'000	2004 HK\$'000 (restated)
Loss before taxation	<u>(59,064)</u>	<u>(30,303)</u>
Tax at the domestic income tax rate of 17.5%	(10,336)	(5,303)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,414)	55
Tax effect of expenses not deductible for tax purpose	52,837	38,160
Tax effect of income not taxable for tax purpose	(46,652)	(32,844)
Over-provision in previous years	<u>(1,113)</u>	<u>(1,355)</u>
Tax credit for the year	<u>(6,678)</u>	<u>(1,287)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

13. DIVIDENDS

The directors do not recommend the payment of a dividend for both years.

14. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK\$51,974,000 (2004 as restated: HK\$29,625,000) and the weighted average number of ordinary shares of 268,372,612 (2004: 268,105,241) in issue during the year.

No diluted loss per share has been presented as there were no dilutive potential ordinary shares for both years.

15. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

The Group's prepaid lease payments comprise:

Medium term leasehold land in Hong Kong
 Medium term leasehold land in
 Mainland China

Analysed for reporting purposes as:

Current asset
 Non-current asset

	2005 HK\$'000	2004 HK\$'000 (restated)
	3,220	3,320
	8,674	8,900
	<u>11,894</u>	<u>12,220</u>
	326	326
	11,568	11,894
	<u>11,894</u>	<u>12,220</u>

Year ended 31st December 2005

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

	Freehold land and buildings in Taiwan HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000	
COST								
At 1st January 2004								
- as originally stated	44,417	51,518	7,955	40,362	252,220	6,146	8,151	410,769
- Effect on adoption of HKAS 17	-	(11,290)	(4,603)	-	-	-	-	(15,893)
as restated	44,417	40,228	3,352	40,362	252,220	6,146	8,151	394,876
Additions	-	-	-	795	6,365	143	1,806	9,109
Disposals/written off	-	-	-	(1,580)	(2,416)	(630)	-	(4,626)
At 31st December 2004 and 1st January 2005	44,417	40,228	3,352	39,577	256,169	5,659	9,957	399,359
Transfer to investment properties	-	(1,336)	-	-	-	-	-	(1,336)
Additions	-	-	-	3,580	8,333	-	926	12,839
Disposals/written off	-	-	-	(5,529)	(58,148)	(873)	(473)	(65,023)
Exchange difference	(7,020)	-	-	(553)	19	(654)	-	(8,208)
At 31st December 2005	37,397	38,892	3,352	37,075	206,373	4,132	10,410	337,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

(Continued)

	Freehold land and buildings in Taiwan HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000	
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES								
At 1st January 2004								
- as originally stated	3,825	11,325	1,968	36,527	220,214	4,100	-	277,959
- effect of adoption of HKAS 17	-	(2,164)	(983)	-	-	-	-	(3,147)
- as restated	3,825	9,161	985	36,527	220,214	4,100	-	274,812
Charge for the year	368	1,197	84	1,379	10,524	551	-	14,103
Elimination on disposals/written off	-	-	-	(1,564)	(1,349)	(547)	-	(3,460)
At 31st December 2004 and 1st January 2005	4,193	10,358	1,069	36,342	229,389	4,104	-	285,455
Charge for the year	319	612	84	1,429	9,812	377	-	12,633
Elimination on disposals/written off	-	-	-	(5,488)	(57,021)	(575)	-	(63,084)
Impairment loss recognised	20,593	-	-	-	-	-	-	20,593
Exchange difference	(393)	-	-	(90)	18	(212)	-	(677)
At 31st December 2005	24,712	10,970	1,153	32,193	182,198	3,694	-	254,920
NET BOOK VALUES								
At 31st December 2005	12,685	27,922	2,199	4,882	24,175	438	10,410	82,711
At 31st December 2004	40,224	29,870	2,283	3,235	26,780	1,555	9,957	113,904

Year ended 31st December 2005

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

(Continued)

In prior year, land use rights are amortised on a straight-line basis over 40 to 50 years. With effect from 1st January 2005, prepaid lease payments on land use rights are amortised on a straight-line basis over the lease term with the adopted of the new HKAS 17. This change in accounting estimate has been applied retrospectively. Accordingly, the cost and accumulated depreciation of buildings as at 1st January 2004 have been restated.

Impairment test on freehold land and buildings in Taiwan was assessed on the basis of their open market value by an independent firm of auditors in Taiwan. The impairment test gave rise to an impairment loss of approximately HK\$20,593,000 (2004: Nil) which has been dealt with in the consolidated income statement.

At 31st December 2005, land and buildings in Taiwan and Hong Kong with an aggregate net book value of HK\$14,884,000 (2004 as restated: HK\$42,507,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company (note 31a).

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

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Freehold building	Nil
Leasehold building	2.5%-4%
Leasehold improvements, furniture and fixtures	12.5%-33.33%
Machinery and equipment	10%-50%
Motor vehicles	20%-25%

17. INVESTMENT PROPERTIES

	Taiwan	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000
FAIR VALUE			
At 1st January 2004	3,281	-	3,281
Net decrease in fair value recognised in the consolidated income statement	(680)	-	(680)
At 31st December 2004 and 1st January 2005	2,601	-	2,601
Reallocated of land use rights with undetermined use from leasehold buildings in Mainland China	-	1,336	1,336
Net increase in fair value recognised in the consolidated income statement	58	-	58
Exchange difference	202	-	202
At 31st December 2005	<u>2,861</u>	<u>1,336</u>	<u>4,197</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

17. INVESTMENT PROPERTIES *(Continued)*

Investment properties were revalued at 31st December 2005 on the basis of their open market value by Taiwan Dawa Real Estate Appraiser Office, an independent firm of professional valuers. This valuation gave rise to a revaluation surplus of HK\$260,000 (2004: deficit of HK\$680,000) of which HK\$58,000 has been dealt with in the consolidated income statement and HK\$202,000 has been dealt with in the exchange translation reserve.

At 31st December 2005, the carrying amount of investment properties would have been HK\$4,457,000 (2004: HK\$3,121,000) had they been stated at cost.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

18. INVESTMENT SECURITIES

Investment securities as at 31st December 2004 are set out below. Upon the application of HKAS 39 on 1st January 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details).

	2004 HK\$'000
Unlisted equity securities, at cost	2,314
Shares in golf clubs, at cost	1,417
Golf clubs debentures	1,335
Refundable deposits placed with golf clubs	1,684
	<hr/>
	6,750
Less: Impairment loss recognised on unlisted equity securities	(1,074)
	<hr/>
	5,676
	<hr/> <hr/>

Year ended 31st December 2005

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st December 2005 comprise:

	<i>HK\$'000</i>
Unlisted securities:	
– equity securities unlisted outside Hong Kong	628
Listed securities:	
– equity securities listed outside Hong Kong	11
Shares in golf clubs, at valuation	1,419
Less: Impairment loss recognised	(744)
	1,314
Total	1,314
 Analysed for reporting purposes as:	
Non-current asset	1,314

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of listed investments have been determined by reference to bid prices quoted in active market.

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Taiwan. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments as at 31st December 2005 represent golf clubs debentures and are carried at amortised cost using effective interest method.

The directors consider that the carrying amount of held-to-maturity investments approximates their fair value.

21. LOANS AND RECEIVABLES

Loan and receivables as at 31st December 2005 represent refundable deposits placed with golf clubs and are carried at amortised cost using effective interest method.

The directors consider that the carrying amount of loan and receivables approximates their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

22. INVENTORIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
At cost		
Raw materials	18,333	25,930
Work-in-progress	8,878	11,401
Finished goods	13,072	15,813
	<u>40,283</u>	<u>53,144</u>

23. TRADE AND BILLS RECEIVABLES

At 31st December 2005, the ageing analysis of the trade and bills receivables was as follows:-

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0-30 days	30,136	31,364
31-60 days	8,901	20,949
61-90 days	1,366	4,560
Over 90 days	1,348	955
	<u>41,751</u>	<u>57,828</u>

The fair values of the Group's trade and bills receivables at 31st December 2005 approximate to the corresponding carrying amounts.

24. OTHER INVESTMENTS

Other investments as at 31st December 2004 are set out below. Upon the application of HKAS 39 on 1st January 2005, other investment were reclassified to appropriate categories under HKAS 39 (see note 2 for details).

	2004 <i>HK\$'000</i>
Equity securities, listed outside Hong Kong, at open market value	<u>545</u>

Year ended 31st December 2005

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss as at 31st December 2005 comprise:

	<i>HK\$'000</i>
Equity securities, listed outside Hong Kong, at open market value	<u>396</u>

26. FROZEN BANK BALANCES

Frozen bank balances represent bank balances of a wholly-owned subsidiary incorporated in Mainland China which have been frozen by the local government of Kunshan due to a litigation claim in respect of a dispute on the construction costs of a factory in Kunshan.

27. TRADE AND BILLS PAYABLES

At 31st December 2005, the ageing analysis of the trade and bills payables was as follows:-

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0-30 days	33,797	22,673
31-60 days	3,826	12,520
61-90 days	944	6,194
Over 90 days	3,568	3,918
	<u>42,135</u>	<u>45,305</u>

The fair values of the Group's trade and bills payables at 31st December 2005 approximate to the corresponding carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

28. RETIREMENT BENEFIT OBLIGATIONS

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

(a) Defined contribution retirement plans

The subsidiaries in Hong Kong make contributions to defined contribution retirement plans based on 5% of the employee's monthly gross earnings with a ceiling of HK\$1,000 per month. Pursuant to the Mandatory Provident Fund Schemes Ordinance, the assets of the scheme are held separately from those of the Group in an independently administered fund.

Subsidiaries operating in Mainland China are required to participate in defined contribution retirement plans organised by relevant government authorities. The subsidiaries are required to make contributions to the retirement plans at a fixed amount for each Mainland China employee of the Group.

(b) Defined benefit retirement plan

A subsidiary in Taiwan has an unfunded defined benefit retirement plan providing benefits to all eligible employees based on final pay. The obligation for the unfunded defined benefit retirement plan is provided with reference to the latest actuarial valuation.

The latest actuarial valuation was prepared as at 31st December 2005 by KTMC Actuaries Co. Ltd., a qualified actuary, using the projected unit credit method.

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

	2005 HK\$'000	2004 HK\$'000
Current service cost	184	341
Interest cost	275	268
Curtailment gain (i)	-	(1,861)
Total charge/(credit), included in staff costs (note 10)	459	(1,252)

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

The total credit has been included in administrative expenses for the years ended 31st December 2005 and 2004.

Year ended 31st December 2005

28. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

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

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

	2005 HK\$'000	2004 HK\$'000
Present value of unfunded obligations	5,846	7,308
Fair value of retirement benefit obligations	(71)	-
Unrecognised actuarial losses/(gains)	721	(63)
	<u>6,496</u>	<u>7,245</u>
Liability as at 31st December	6,496	7,245
Current portion	(54)	(1,115)
	<u>6,442</u>	<u>6,130</u>
Non-current portion	6,442	6,130

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

	2005 HK\$'000	2004 HK\$'000
At 1st January	7,245	8,966
Exchange differences	(96)	(20)
Total expense/(income) – as shown above	459	(1,252)
Amounts paid to employees	(1,112)	(449)
	<u>6,496</u>	<u>7,245</u>
At 31st December	6,496	7,245

The principal actuarial assumptions used were as follows:-

	2005 %	2004 %
Discount rate	3.50	3.50
Expected rate of future salary increases	4.00	4.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

29. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%)

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

	2005 HK\$'000	2004 HK\$'000 (restated)
At 1st January	5,073	4,796
Deferred taxation credited to the income statement (<i>note 12</i>)	5,583	237
Taxation credited to equity – investment properties revaluation reserve	–	40
At 31st December	<u>10,656</u>	<u>5,073</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31st December 2005, the Group has no unrecognised tax losses (2004: Nil) to carry forward against future taxable income. At 31st December 2005, the Group has unrecognised deferred tax assets amounted to approximately HK\$1,075,000 (2004: HK\$1,510,000) in respect of unrealised exchange losses arising from long-term loan receivable from the Taiwan branch office as it is not expected that the loan will be repaid in the foreseeable future.

Year ended 31st December 2005

29. DEFERRED TAXATION (Continued)

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

Deferred tax assets

	Amortisation and depreciation					Total
	General provisions	Pensions	Estimated tax losses	Others		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004						
(as originally stated)	908	1,172	2,230	46	219	4,575
Effect of adoption of HKAS 17	316	-	-	-	-	316
At 1st January 2004						
(as restated)	1,224	1,172	2,230	46	219	4,891
Charged to the consolidated income statement						
(as originally stated)	141	278	(419)	(46)	238	192
Effect of adoption of HKAS 17	(10)	-	-	-	-	(10)
As restated	131	278	(419)	(46)	238	182
At 31st December 2004 and at 1st January 2005						
(as restated)	1,355	1,450	1,811	-	457	5,073
Credited/(charged) to the income statement	(9)	5,936	(187)	384	(318)	5,806
At 31st December 2005	1,346	7,386	1,624	384	139	10,879

Deferred tax liabilities

	Amortisation and depreciation		Total
	Others		
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	(55)	(40)	(95)
Credited to the income statement	55	-	55
Deferred tax (charge)/credit to equity	-	40	40
At 31st December 2004 and 1st January 2005	-	-	-
Credited to the consolidated income statement	(223)	-	(223)
At 31st December 2005	(223)	-	(223)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

29. DEFERRED TAXATION (Continued)

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

	2005 HK\$'000	2004 HK\$'000 (restated)
Deferred tax assets	10,879	5,073
Deferred tax liabilities	(223)	-
	<u>10,656</u>	<u>5,073</u>

At 31st December 2005 and 2004, deferred tax assets and liabilities of HK\$10,879,000 (2004 as restated: HK\$5,073,000) and HK\$223,000 (2004: \$Nil) respectively, shown in the consolidated balance sheet are to be recovered after more than 12 months.

30. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:-		
At 1st January 2004, 31st December 2004 and 2005	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:-		
At 1st January 2004	268,104,508	26,810
Issued and allotted during the year	<u>268,104</u>	<u>27</u>
At 31st December 2004 and 2005	<u>268,372,612</u>	<u>26,837</u>

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Year ended 31st December 2005

31. PLEDGE OF ASSETS AND GUARANTEES

At 31st December 2005, the Group's banking facilities, including short-term bank loan and bank overdraft, were secured by the followings:-

- (a) legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with an aggregate net book value of HK\$14,884,000 (2004 as restated: HK\$42,507,000);
- (b) a corporate guarantee from the Company;
- (c) joint and several guarantees from two directors of the Company, Ms. Fang Hsiao Ping, the spouse of Mr. Feng Shen Chuan; and
- (d) a general letter of indemnity from a subsidiary of the Company.

32. COMMITMENTS

At 31st December 2005, the Group had the following commitments so far as not provided for in the financial statements, in respect of:-

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

	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for	<u>1,607</u>	<u>2,653</u>

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

	2005 HK\$'000	2004 HK\$'000
Within one year	1,353	1,251
In the second to fifth year inclusive	5,345	5,471
After five years	5,136	-
	<u>11,834</u>	<u>6,722</u>

Leases are negotiated for an average term of 10 years and rentals are fixed for an average of 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

32. COMMITMENTS (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Within one year	195	437
In the second to fifth year inclusive	-	85
	<u>195</u>	<u>522</u>

Property rental income earned during the year was HK\$392,000 (2004: HK\$519,000). The properties are expected to generate rental yields of 1% on an ongoing basis. They have committed tenants for the next 1 year.

33. SHARE OPTION SCHEME

Under the Company's share option scheme adopted by the shareholders of the Company on 10th June 2003, the directors may, at their discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries who have contributed or will contribute to the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A nominal consideration will be paid by the employees for each lot of share options granted. An option may be exercised at any time during a period to be determined and identified by the directors to each grantee at the time of making the offer, but in any event, shall not exceed the period of ten years from the date of grant of the particular option, subject always to the early termination of the Scheme. No share option has been granted and exercised during the year and outstanding as at 31st December 2005. Particulars of the share options granted and exercised during the year and outstanding as at 31st December 2004 were as follows:-

	Number of share issuable	
	2005	2004
Balance at 1st January	-	-
Granted during the year	-	268,104
Exercised during the year	-	(268,104)
Balance at 31st December	<u>-</u>	<u>-</u>

In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005.

Year ended 31st December 2005

34. CONTINGENT LIABILITIES

One of the Group's subsidiary is engaged in litigation in which an amount of approximately HK\$2,139,000 has been claimed by a constructor in respect of a construction project in Kunshan, Mainland China.

35. POST BALANCE SHEET EVENTS

According to an announcement dated 24th March 2006, the Company received a notification from Micon Limited, a wholly-owned subsidiary of South China Industries Limited and a subsidiary of South China Holdings Limited ("the Offeror") stating that the Offeror has acquired an additional of approximately 9.31% of the issued share capital of the Company and has accordingly incurred an obligation to make a general offer to purchase all the issued Shares, other than those shares already held by the Offeror and parties acting in concert with it, at a price of HK\$0.47 per Share.

According to the Offer document dated 10th April 2006, the Offeror has made a mandatory unconditional cash offer to acquire all issued shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) of the Company at the Offer Price specified in the Offer document.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

36. PRINCIPAL SUBSIDIARIES

Details of the company's principal subsidiaries as at 31st December 2005 are as follows:-

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

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

Year ended 31st December 2005

36. PRINCIPAL SUBSIDIARIES *(Continued)*

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

- (b) The rights and restrictions of the non-voting class "B" shares of Nority Limited and Wilken Footwear Limited are as follow:-
 - (i) To profits which Nority Limited and Wilken Footwear Limited may determine to distribute in respect of any financial year shall be distributed among the holders of voting class "A" shares according to the amounts paid up on the voting class "A" shares held by them respectively and no part of the profits shall be distributed among the holders of the non-voting class "B" shares;

 - (ii) On a return of assets on a winding-up or otherwise the assets of Nority Limited and Wilken Footwear Limited to be returned shall be distributed as regards the first HK\$100,000,000,000,000 thereof among the holders of voting class "A" shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting class "B" shares and the other half thereof to and among the holders of voting class "A" shares in proportion in each case to the nominal amounts of the shares held by them, respectively, and

 - (iii) The holders of the non-voting class "B" shares shall have no right to receive notice of or to attend or vote at any general meeting of Nority Limited and Wilken Footwear Limited.