



# NORITY INTERNATIONAL GROUP LIMITED

## 耐力國際集團有限公司\*

(incorporated in Cayman Islands with limited liability)

(Stock code: 0660)

<http://www.0660.hk>

### INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2007

#### UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Nority International Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiary (collectively, the “Group”) for the six months ended 30th June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June	
		2007	2006
		Unaudited HK\$'000	Unaudited HK\$'000
<b>Turnover</b>	2	<b>45,084</b>	76,298
Cost of sales		<b>(61,849)</b>	(88,546)
Gross loss		<b>(16,765)</b>	(12,248)
Other revenue		<b>750</b>	394
Selling expenses		<b>(2,610)</b>	(8,440)
Administrative expenses		<b>(10,028)</b>	(21,570)
Other operating income/(expenses), net		<b>3,428</b>	(407)
Finance costs		<b>(252)</b>	(4)
Loss on disposal of subsidiaries		<b>(11,733)</b>	—
<b>Loss before taxation</b>	2 & 3	<b>(37,210)</b>	(42,275)
Taxation	4	—	(10,879)
Loss for the period		<b>(37,210)</b>	<b>(53,154)</b>
Loss attributable to:			
— Equity holders of the Company		<b>(29,493)</b>	(49,982)
— Minority interests		<b>(7,717)</b>	(3,172)
		<b>(37,210)</b>	<b>(53,154)</b>
Interim Dividend	5	—	—
Special Dividend	5	<b>55,554</b>	—
Basic loss per share	6	<b>HK (1.10) cents</b>	HK(1.86) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		30th June 2007 Unaudited HK\$'000	31st December 2006 Audited HK\$'000
<b>NON-CURRENT ASSETS</b>			
Prepaid lease payments on land use rights		—	3,018
Property, plant and equipment and construction-in-progress		16,665	20,567
Held-to-maturity investments		246	246
		16,911	23,831
<b>CURRENT ASSETS</b>			
Inventories		8,262	28,916
Trade and bills receivables	7	4,324	13,609
Deposits, prepayments and other receivables		2,085	1,378
Prepaid lease payments on land use rights		—	101
Cash and bank balances		52,291	4,685
		66,962	48,689
Assets classified as held for sale		—	74,176
		66,962	122,865
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	8	9,555	25,568
Accruals and other payables		33,708	11,957
Tax payable		1,006	1,006
Interest bearing bank and other borrowings		7,126	—
Retirement benefit obligations		1,009	2,998
Amount due to related companies		—	10,000
		52,404	51,529
Liabilities associated with assets classified as held for sale		—	1,500
		52,404	53,029
<b>NET CURRENT ASSETS</b>		14,558	69,836
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		31,469	93,667
<b>NON-CURRENT LIABILITIES</b>			
Convertible Note	9	26,509	—
		4,960	93,667
<b>CAPITAL AND RESERVES</b>			
Share capital	10	26,837	26,837
Reserves		(15,121)	65,039
		11,716	91,876
Equity attributable to equity holders of the Company		(6,756)	1,791
Minority interests		4,960	93,667
		4,960	93,667

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE SIX MONTHS ENDED 30TH JUNE 2007

	Share Capital <i>HK\$'000</i>	Convertible Share Premium <i>HK\$'000</i>	Note Reserve <i>HK\$'000</i>	Capital Reserve <i>HK\$'000</i>	Working Capital Reserve <i>HK\$'000</i>	Exchange Translation Reserve <i>HK\$'000</i>	Accumulated Profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority Interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st January 2005	26,837	48,079	—	(1,000)	1,275	(1,859)	128,194	201,526	7,825	209,351
Impairment loss recognised on goodwill	—	—	—	1,000	—	—	(1,000)	—	—	—
Loss for the year	—	—	—	—	—	—	(51,974)	(51,974)	(412)	(52,386)
Exchange difference arising on translation of foreign operations directly recognised in equity	—	—	—	—	—	(7,609)	—	(7,609)	—	(7,609)
As at 31 December 2005 and 1st January 2006	26,837	48,079	—	—	1,275	(9,468)	75,220	141,943	7,413	149,356
Loss for the year	—	—	—	—	—	—	(50,791)	(50,791)	(3,122)	(53,913)
Exchange difference arising on translation of foreign operations directly recognised in equity	—	—	—	—	—	724	—	724	—	724
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(2,500)	(2,500)
At 31st December 2006 and 1st January 2007	26,837	48,079	—	—	1,275	(8,744)	24,429	91,876	1,791	93,667
Reserves acquired by Micon	—	—	—	—	—	—	(961)	(961)	961	—
Share premium arising from shares subscribed by Micon in Nority	—	3,520	—	—	—	—	—	3,520	—	3,520
Elimination on disposal of Nority (BVI) and subsidiaries	—	—	—	—	(1,275)	8,744	(7,469)	—	(1,791)	(1,791)
Loss on disposal of Nority (BVI) and subsidiaries	—	—	—	—	—	—	(11,733)	(11,733)	—	(11,733)
Issue of Convertible Note	—	—	2,328	—	—	—	—	2,328	—	2,328
Loss for the period	—	—	—	—	—	—	(17,760)	(17,760)	(7,717)	(25,477)
Special Dividend	—	—	—	—	—	—	(55,554)	(55,554)	—	(55,554)
At 30th June 2007	<u>26,837</u>	<u>51,599</u>	<u>2,328</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(69,048)</u>	<u>11,716</u>	<u>(6,756)</u>	<u>4,960</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30th June</b>	
	<b>2007</b>	2006
	<b>Unaudited</b> <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
Net cash used in operating activities	(17,493)	(10,553)
Net cash used in investing activities	82,090	(1,956)
Net cash used in financing activities	(15,706)	(2,504)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	48,891	(15,013)
Cash and cash equivalents at 1st January	3,400	23,974
Effect of changes in exchange rate	—	5
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	<b>52,291</b>	8,966
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<b>52,291</b>	8,966
	<hr/> <hr/>	<hr/> <hr/>

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30TH JUNE 2007

### **1. PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, under the historical cost convention, except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2006.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2006.

### **2. SEGMENT INFORMATION**

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

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

	<b>Six months ended 30th June</b>			
	<b>2007</b>	<b>Segment</b>	<b>2006</b>	<b>Segment</b>
	<b>Turnover</b>	<b>results</b>	<b>Turnover</b>	<b>results</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
North America	<b>15,484</b>	<b>(6,654)</b>	28,770	(4,641)
Europe	<b>13,010</b>	<b>(5,591)</b>	33,725	(9,557)
Others	<b>16,590</b>	<b>(7,130)</b>	13,803	(6,490)
	<u><b>45,084</b></u>	<u><b>(19,375)</b></u>	<u>76,298</u>	<u>(20,688)</u>
Other revenue		<b>750</b>		394
Other operating income/(expenses), net		<b>3,428</b>		(407)
Unallocated expenses		<b>(10,028)</b>		(21,570)
Finance costs		<b>(252)</b>		(4)
Loss on disposal of subsidiaries		<b>(11,733)</b>		—
Loss before taxation		<b>(37,210)</b>		(42,275)
Taxation		<b>—</b>		(10,879)
Loss for the period		<u><b>(37,210)</b></u>		<u>(53,154)</u>

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

### 3. DEPRECIATION

Loss before taxation for the period is arrived at after charging depreciation of approximately HK\$3,976,048 (six months ended 30th June 2006: HK\$6,063,000) in respect of the Group's property, plant and equipment.

### 4. TAXATION

No Hong Kong and overseas profits tax has been provided as the Group does not have any assessable profits for the period (six months ended 30th June 2006: Nil).

## 5. DIVIDENDS

### Special Dividend

Pursuant to the disposal of the entire interest in Nority (BVI) and its subsidiaries for a consideration of HK\$75,555,000, the Board of Directors on 3rd January 2007, declared a Special Dividend of HK\$0.207 per share totalling approximately HK\$55,554,000. Following the completion of the said disposal on 5th January 2007, the Special Dividend was paid on 9th January 2007.

### Interim Dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30th June 2007.

## 6. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of approximately HK\$29,493,000 (six months ended 30th June 2006: HK\$49,982,000) and the weighted average number of ordinary shares of 2,683,726,120 (six months ended 30th June 2006: 2,683,726,120 as adjusted for the subdivision of each share of HK\$0.10 each to 10 shares of HK\$0.01 each on 25 May 2007) in issue during the period.

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

## 7. TRADE AND BILLS RECEIVABLES

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

	<b>30th June 2007 HK\$'000</b>	31st December 2006 HK\$'000
0 - 30 days	—	9,467
31- 60 days	—	1,419
61 - 90 days	—	2,720
90 - 180 days	<u>4,324</u>	<u>3</u>
	<u><b>4,324</b></u>	<u><b>13,609</b></u>

The majority of the Group's turnover is on open account terms with a general credit period of 30 to 90 days.

## 8. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables was as follows:

	<b>30th June</b>	31st December
	<b>2007</b>	2006
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 - 30 days	—	14,193
31 - 60 days	—	8,433
61 - 90 days	—	1,223
90 - 180 days	<b>9,555</b>	1,719
	<hr/>	<hr/>
	<b>9,555</b>	25,568
	<hr/> <hr/>	<hr/> <hr/>

## 9. Convertible Note

On 27th February 2007 Spring Garden Investments Limited (the “Subscriber”) and the Company entered into a subscription agreement, pursuant to which the Subscriber subscribed the Convertible Note from the Company in the principal amount of HK\$28,836,800. Upon full conversion of the Note at the initial conversion price, the Subscriber will be interested in a total of 536,000,000 shares, representing approximately 16.65% of the issued share capital of the Company as enlarged by the issue of the conversion shares.

The Convertible Note carries interest at 2% per annum payable semi-annually in arrears.

## 10. Share Capital

On 5th January 2007 Chinese Success Limited (“Chinese Success”) acquired 95.35% of the total issued share capital of the Company from Micon Limited (“Micon”). Pursuant to a placing agreement entered into on 27th February 2007, Sanfull Securities Limited (the “Placing Agent”) agreed to place, on a best effort basis, 54,700,000 shares (representing approximately 20.38% of the existing issue share capital of the Company) held by Chinese Success (the “Offeror”) to not less than six independent professional, institutional and/or other investor(s) at the placing price of HK\$0.468 per share.

The trading of shares of the Company was resumed on 9 March 2007 after placement of 54,700,000 existing shares to the public by Chinese Success. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float as required under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) as at the date of this Interim Report.

At the AGM held on 25th May 2007, the shareholders passed the resolution to subdivide the entire share capital, issued and unissued, of HK\$0.10 each into 10 shares of HK\$0.01 each. The shares, previously traded in board lots of 2,000 shares, would be changed to be traded in board lots of 10,000 shares.

The subdivided shares rank pari passu in all respects with each other and the share subdivision would not result in any change in the relative rights of the shareholders.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Performance**

Turnover of the Group for the six months ended 30th June 2007 amounted to HK\$45,084,000 (six months ended 30th June 2006: HK\$76,298,000), representing a decrease of approximately 41% over the corresponding period last year. Loss attributable to equity holders of the Company was HK\$29,493,000 as compared to loss of HK\$49,982,000 for the same period last year.

### **Business Review and Prospects**

Following the Company's disposal of the non-core business in January 2007, the Group's main business was the holding of 65% equity interest in Nority Limited, a manufacturer and exporter of athletic and athlete-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional footwear.

The drop in the turnover was attributed to the change in product and client mix compounded by intense competition. The loss for the year was a result of rising material cost, increase in labour cost and the appreciation of the Renminbi.

The existing business of manufacture of footwear is facing severe competition and it is envisaged that this will continue in the future. Management is considering to adjust operations to fit a more efficient model resulting in the scaling down of some internal operations on footwear manufacturing. The directors of the Company are exploring other potential business opportunities to become new profit centres which will ultimately benefit all the shareholders.

On 10th July 2007 the Company and Wai Chun Investment Fund (“Wai Chun”) entered into the Letter of Intent with the vendors to acquire 90% equity interest in Minera Chile Explotacion Limitada (“MINCEL”). The Company will acquire 60% and Wai Chun 30% equity interest for HK\$20.7 million and HK\$10.5 million respectively at its current status with the vendors retaining 10% equity interest.

Currently as it stands, the proposed acquisition may or may not materialise. The Company will make the appropriate announcements on further developments in accordance with the Listing Rules.

### **Liquidity and Financial Resources**

The Company received proceeds amounting to approximately HK\$75,555,000 on the disposal of its entire interest in Nority (BVI) and its subsidiaries. As stipulated in the terms of the disposal agreement and on the completion of the disposal, a Special Dividend of HK\$0.207 per share, totalling approximately HK\$55,554,000, was paid out of the proceeds of the disposal.

The net proceeds of the disposal amounting to approximately HK\$20,001,000 together with the proceeds from the issue of the Convertible Note of HK\$28,836,800 would be utilised as general working capital of the Company.

### **Exposure to exchange rate fluctuation**

The Directors considered that the Group has no significant exposure to foreign exchange fluctuation. Hence there is no hedging or any other arrangements necessary to reduce the currency risk.

### **Employees and remuneration policy**

As at 30th June 2007 the Group had a total of 10 employees in Hong Kong and approximately 500 workers in its processing bases in the PRC. Employees’ costs (including directors’ emoluments) amounted to approximately HK\$10,718,000 for the six months ended 30th June 2007. In addition to the offering of competitive remuneration packages to the employees, discretionary bonuses may also be granted to eligible employees based on the Group and the individual’s performance. The Company adopted an employee Share Option Scheme which came into effect on 10th June 2003.

### **Significant Investment**

The Group had not made any significant investment for the six months ended 30th June 2007.

### **Material acquisitions and disposals of subsidiaries**

On 6th November 2006 the Group entered into an agreement with Micon, a wholly-owned subsidiary of South China Industries Limited (“South China Industries”), to dispose of its entire interest in Nority (BVI) and its subsidiaries to Micon at a total consideration of approximately HK\$75,555,000. The disposal was completed on 5th January 2007.

On 5th January 2007, Nority Limited, a subsidiary of the Group, issued and allotted shares to Micon at a cash consideration of HK\$3.5 million. As a result, the Company and Micon are interested in 65% and 35% of the issued share capital of Nority Limited respectively.

In addition, Micon as grantor, the Company as grantee and South China Industries as guarantor entered into a put option deed, whereby Micon will grant the Company a put option, pursuant to which the Company shall have a right to sell its 65% interest in Nority Limited to Micon at an aggregate consideration of HK\$10.5 million at any time during the period commencing from (and including) the day falling 24 months after and ending on (and including) the day falling 30 months after 5th January 2007.

### **Pledge of assets, contingent liabilities and commitments**

There was no material change in the Group’s pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

## OTHER INFORMATION

### Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June 2007, except for the interests in the shares arising from the share options granted to certain Directors or Directors who may receive options granted to them, none of the Directors have any interests in the shares or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “SEHK”).

### Substantial Shareholders

As at 30th June 2007 the following persons had the following interests and short positions in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (“SFO”):

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Chinese Success Limited	Beneficial owner	2,011,855,610	74.99%
Mr. Lam Ching Kui	Interests of controlled corporations	2,011,855,610	74.99%
Wai Chun Investment Fund	Interests of controlled corporations	2,011,855,610	74.99%

All interests disclosed above represent long positions.

Save as disclosed above, as at 30th June 2007, the Company had not been notified by any other persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **Share Option Scheme**

The Share Option Scheme (the “Scheme”) of the Company was adopted by the shareholders on 10th June 2003 in compliance with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the SEHK.

Under the Scheme 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.

On 4th April 2007 the shareholders approved an aggregate of 268,000,000 options granted to 3 directors of the Company to subscribe an aggregate of 268,000,000 shares at a subscription price of HK\$0.236 per share, representing approximately 9.99% of the existing issued share capital of the Company and approximately 9.08% of the enlarged issued share capital of the Company, assuming that all options are fully exercised.

## **Management Contract**

South China Strategic Limited (“South China Strategic”) has been appointed by the Company’s subsidiary, Nority Limited, pursuant to a management agreement with effect from 5th January 2007, as its manager for a term of 3 years, during which South China Strategic has taken overall management and supervision responsibilities of Nority Limited and provide guidance and advice on enhancement of business operations and internal control systems under monitoring of its performance by the directors.

In consideration for the provision of the management services by South China Strategic and in consideration of Micon paying its portion of the management fee for the management services by South China Strategic, the Company shall pay to South China Strategic a management fee of \$2 million each year throughout the term.

## **Corporate Governance**

The Company complied with the Code on Corporate Governance Practices (the “CG Code”) of the Listing Rules throughout the six months ended 30th June 2007.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Shares set out in Appendix 10 of the Listing Rules. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

During the six months ended 30th June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## **AUDIT COMMITTEE**

The Audit Committee comprises three Independent Non-Executive Directors, namely Mr Shaw Lut, Leonardo, Mr Frank Hu and Mr Tony Chan Chun Wai. The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the independence of the Auditors and the Group's financial statements and system of internal control in accordance with its terms of reference, which is substantially the same as the CG Code.

The Audit Committee has reviewed with management the internal control systems and financial reporting matters, including the review of the unaudited condensed interim financial statements of the Group relating to the preparation of the interim report for the six months ended 30th June 2007.

On behalf of the Board

**He Xuechu**

*Chairman*

Hong Kong, 29 September 2007

\* *For identification purpose only*

*As at the date of this report, the Board of Directors of the Company comprises Mr He Xuechu (Chairman), Mr Alexander Yueh (Chief Executive Officer), Ms Yue Qian, Mr Guo Bo, Ms Liu Qing as Executive Directors; and Mr Shaw Lut, Leonardo, Mr Frank Hu, Mr Tony Chan Chun Wai as Independent Non-Executive Directors.*