1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 July 2002.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture, sale of footwear products, provision of system integration services and trading of information technology related products. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 17 to 51 are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

Adoption of new SSAP

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP12 (Revised) has not had any material impact on the prior year's financial statements and accordingly no prior year adjustments are required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

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. The gain or loss on disposal of subsidiaries represents the difference between the proceeds from the disposal and the Group's share of the subsidiaries' net assets at the date of disposal together with any goodwill which was not previously charged in the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(d) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition. Goodwill is recognised in the consolidated balance sheet as an asset and amortised on a straight-line basis over its estimated useful life for a period not exceeding twenty years.

On disposal of a subsidiary, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and the relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(e) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost or valuation of property, plant and equipment less their residual value, being the net amount which the Group expects to obtain from disposal of an asset at the end of its useful life after deducting the expected cost of disposal, over their estimated useful lives, using the straight line method, at the following rates per annum:

Plant and machinery	10%
Equipment and furniture	20%
Motor vehicles	20%
Buildings	Over the shorter of the terms of the leases or the estimated useful lives. The principal annual rate used is 5%.

Leasehold land is amortised over the remaining unexpired period of the lease or its estimated useful life to the Group, whichever is shorter. The principal annual rate used is 2%.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

(ii) Measurement bases

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and amortisation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to the working condition and location for its intended use.

Land and buildings are stated at valuation less accumulated depreciation and amortisation and impairment losses.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Surplus arising on revaluation of land and buildings is credited to assets revaluation reserve. A decrease in net carrying amount arising on revaluation is charged to the income statement to the extent that this exceeds the surplus, if any, held in assets revaluation reserve relating to the previous revaluation of the same item of land and buildings. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, computed using the weighted average method, and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less further costs of completion and the estimated costs necessary to make the sale.

(g) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Impairment *(Continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Leases

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

Finance leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risk and rewards of ownership of the asset to the group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

(i) Employee benefits

(i) Employee 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 balance sheet date. Non-accumulating compensated absences are not recognised until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Employee benefits *(Continued)*

(ii) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the People's Republic of China ("PRC"), each of the Company's subsidiaries operating in the PRC is required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of the employees, at 10% to 17%, to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

(iii) Equity compensation benefits

The Group has a share option scheme which is part of the remuneration policy with rewards determined based upon the performance of the Group and individual employees. When options are granted, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(j) Income tax

Income tax for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Income tax *(Continued)*

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

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

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated income statement.

On consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are dealt with as movements in exchange reserve.

(l) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are dispatched to the customers.

Interest income is recognised on a time proportion basis.

Service fees are recognised when the related services are rendered.

3. TURNOVER AND REVENUE

The Group is principally engaged in the design, manufacture and sale of footwear products, provision of system integration services and trading of information technology related hardware and software.

Turnover represents total invoiced value of goods sold, net of sales tax.

An analysis of the Group's turnover and revenue is as follows:

	2004	2003
	HK$'000	HK$'000
Turnover		
Footwear products	**105,884**	297,336
Information technology business	**31,105**	—
	136,989	297,336
Other revenue		
Exchange difference	**92**	—
Bank interest income	**119**	321
	211	321
Total revenue	**137,200**	297,657

For the year ended 30 September 2004

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Business segments

The following tables present revenue, loss and certain assets, liabilities and capital expenditure information for the Group's business segments.

	Information technology business		Leisure and athletic footwear		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
By principal activity:						
Sales to external customers	**31,105**	—	**105,884**	297,336	**136,989**	297,336
Segment results	**(1,541)**	—	**(37,504)**	(3,436)	**(39,045)**	(3,436)
Bank interest income					**119**	321
Exchange difference					**92**	—
Finance costs					**(235)**	(185)
Provision for doubtful debt			**(2,523)**		**(2,523)**	—
Gain on disposal of subsidiaries					**20,534**	—
Others			**(410)**		**(410)**	—
Loss before taxation					**(21,468)**	(3,300)
Taxation					**—**	(903)
Loss attributable to shareholders					**(21,468)**	(4,203)
Segment assets	**24,005**	8,259	**120,298**	148,952	**144,303**	157,211
Segment liabilities	**15,425**	6,140	**16,459**	79,126	**31,884**	85,266
Other information for the year						
Capital expenditure	**2**	14	**214**	608	**216**	622
Depreciation and amortisation on property, plant and equipment	**4**	—	**1,390**	1,757	**1,394**	1,757
Amortisation of goodwill	**—**	—	**6,577**	—	**6,577**	—

4. SEGMENT INFORMATION *(Continued)*

Geographical segments

The following tables provide an analysis of the Group's revenue and contribution to loss from operations by geographical market:

	Europe HK$'000	PRC HK$'000	United States of America HK$'000	Others HK$'000	Total HK$'000
2004					
Segment revenue:					
Sales to external customers	72,169	38,822	6,563	19,435	136,989
Segment results	(13,874)	(12,220)	(1,545)	(11,406)	(39,045)
Bank interest income					119
Exchange difference					92
Finance costs					(235)
Provision for doubtful debt		(2,523)			(2,523)
Gain on disposal of subsidiaries					20,534
Others		(410)			(410)
Loss before taxation					(21,468)
Taxation					—
Loss attributable to shareholders					(21,468)

Over 90% of the Group's assets as at 30 September 2004 and its capital expenditure for the year then ended were located or utilised in the PRC. Accordingly, geographical segment information in relation to the Group's assets and capital expenditure have not been presented.

4. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

	Europe HK$'000	PRC HK$'000	United States of America HK$'000	Others HK$'000	Total HK$'000
2003					
Segment revenue:					
Sales to external customers	230,590	17,233	20,403	29,110	297,336
Segment results	(756)	(2,518)	(67)	(95)	(3,436)
Bank interest income					321
Finance costs					(185)
Loss before taxation					(3,300)
Taxation					(903)
Loss attributable to shareholders					(4,203)

All of the Group's assets as at 30 September 2003 and its capital expenditure for the year then ended were located or utilised in the PRC.

5. OPERATING LOSS

	Group 2004 HK$'000	Group 2003 HK$'000
Operating loss is arrived at after charging:		
Auditors' remuneration	**600**	500
Costs of inventories recognised as expense		
- Footwear products	**128,448**	277,167
- Information technology business	**29,140**	—
	157,588	277,167
Depreciation and amortisation on property, plant and equipment		
- owned assets	**1,308**	1,675
- leased assets	**86**	82
	1,394	1,757
Loss on disposal of property, plant and equipment	**411**	—
Amortisation of goodwill	**6,577**	—
Provision for doubtful debt (Note)	**2,523**	—
Rental in respect of land and buildings under operating leases	**52**	223
Staff costs (including directors' remuneration of HK$1,925,000 (2003: HK$1,644,000) and contributions to retirement benefits schemes of HK$771,000 (2003: HK$1,139,000)	**13,460**	26,410

Note: During the year, an agreement was entered into between Huayi Footwear Co., Ltd. Jinjiang (晉江市華意鞋業有限公司) ("Huayi"), a wholly-owned subsidiary of the Company, and the local municipal government, under which Huayi agreed to surrender part of its land and a portion of the building premises constructed on the land, for the expansion by the municipal government of a road, in return for a compensation of approximately RMB2,687,000 (HK$2,523,000). As of the year end date and up to the date of approval of these financial statements, Huayi has not received this compensation which has been long overdue according to the agreement. As a result of this, full provision has been made against the amount of compensation receivable as at the year end date.

6. FINANCE COSTS

	Group 2004 HK$'000	Group 2003 HK$'000
Interest on bank and other loans	**225**	170
Interest on finance lease	**10**	15
	235	185

7. TAXATION

	Group	
	2004	2003
	HK$'000	HK$'000
Overseas income tax		
- subsidiaries	**—**	903

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(21,468)**	(3,300)
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**(4,025)**	(495)
Tax effect of non-deductible expenses	**4,031**	12,557
Tax effect of non-taxable revenue	**(4)**	(11,159)
Tax effect of tax losses not recognised	**19**	—
Tax effect on temporary differences not recognised	**(21)**	—
Actual tax expense	**—**	903

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

No income tax has been provided in the financial statements as the Group did not derive any assessable profit in the PRC for the year.

The tax effect of temporary differences for which deferred tax assets have not been recognised in the financial statements is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Accelerated depreciation allowances	**2**	—
Tax losses	**(506)**	—
	(504)	—

Deferred tax assets have not been recognised in the financial statements due to the uncertainty regarding the availability of future profit streams. The tax losses will not expire under current tax legislation.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the financial statements of the Company was approximately HK$2,250,000 (2003: a profit HK$28,823,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the year of HK$21,468,000 (2003: HK$4,203,000) and on the weighted average of 748,372,603 (2003: 403,706,849) ordinary shares in issue during the year.

No diluted loss per share is presented for both years as there were no dilutive potential ordinary shares in issue.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

Directors' fees and emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the provisions of the Listing Rules are as follows:

	2004	2003
	HK$'000	HK$'000
Fees	**66**	100
Other emoluments:		
- basic salaries, other allowances and benefits in kind	**1,859**	1,467
- retirement benefits contributions	**31**	77
	1,956	1,644

Independent non-executive directors received remuneration of HK$66,000 (2003: HK$100,000) from the Group during the year.

The number of directors whose remuneration fall within the following bands is as follows:

	Number of directors			
	Executive directors		**Independent non-executive directors**	
	2004	2003	**2004**	2003
Nil - HK$1,000,000	**5**	3	**2**	2

No director waived or agreed to waive any remuneration in respect of the years ended 30 September 2004 and 2003.

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

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, one (2003: one) was a director of the Company. The remaining four (2003: four) highest paid individuals were management of the Group. The aggregate amount of the remuneration of these individuals which has not been disclosed in the directors' remuneration above is as follows:

	2004	2003
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**1,771**	2,505
Discretionary bonus	**—**	2,823
Retirement benefits contributions	**24**	21
	1,795	5,349

The number of the above individuals whose remuneration fall within the following bands is as follows:

	Number of individuals	
	2004	2003
Nil - HK$1,000,000	**4**	1
HK$1,000,001 - HK$1,500,000	**—**	1
HK$1,500,001 - HK$2,000,000	**—**	2

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Plant and machinery HK$'000	Equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1 October 2003	6,200	13,808	844	1,264	22,116
Additions	—	31	185	—	216
Disposals	(2,450)	(6,250)	(93)	(766)	(9,559)
Revaluation surplus	997	—	—	—	997
Exchange differences	53	130	9	12	204
At 30 September 2004	**4,800**	**7,719**	**945**	**510**	**13,974**
Accumulated depreciation and amortisation					
At 1 October 2003	—	6,910	308	792	8,010
Charge for the year	186	991	108	109	1,394
Disposals	(685)	(5,089)	(93)	(758)	(6,625)
Eliminated on revaluation	499	—	—	—	499
Exchange differences	—	76	6	7	89
At 30 September 2004	**—**	**2,888**	**329**	**150**	**3,367**
Net book value					
At 30 September 2004	**4,800**	**4,831**	**616**	**360**	**10,607**
At 30 September 2003	6,200	6,898	536	472	14,106

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

	Land and buildings HK$'000	Plant and machinery HK$'000	Equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	—	7,719	945	510	9,174
At professional valuation	4,800	—	—	—	4,800
	4,800	**7,719**	**945**	**510**	**13,974**

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

All of the Group's land and buildings are situated in the PRC. As at 30 September 2004, all of the Group's land and buildings were stated at professional valuation, which was carried out by an independent professional valuers, on an open market value basis.

Had the land and buildings been carried at cost less accumulated depreciation and amortisation and impairment losses, their carrying amount would have been HK$2,968,000 (2003: HK$4,867,000).

The net book value of land and buildings comprises the following :

	HK$'000
Medium term leases (less than 50 years but not less than 10 years), at professional valuation	4,800

At 30 September 2004, the Group's land and buildings with an aggregate carrying value of HK$1,867,000 (2003: HK$2,775,000) were pledged as security for the Group's bank loan.

The net book value of the Group's property, plant and equipment held under a finance lease included in the total amount of motor vehicles at 30 September 2004 was HK$329,000 (2003: HK$415,000).

12. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Investments in subsidiaries		
Unlisted shares, at cost	**42,800**	42,800
Amounts due from subsidiaries*	**102,447**	49,997
Amounts due to subsidiaries*	**—**	8,496

The cost of the Company's investments in subsidiaries is determined by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the group reorganisation completed on 12 June 2002.

* Amounts due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms.

12. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 30 September 2004 are as follows :

Name	Country/ Place of incorporation/ establishment and operations	Issued/ Registered capital	Attributable equity interests held by the Company Direct	Attributable equity interests held by the Company Indirect	Principal activities
Fortress Ocean Limited	British Virgin Islands ("BVI")	US$1,000 Ordinary shares	100%	—	Investment holding
Appraise Asia Investments Limited	BVI	US$1 Ordinary share	100%	—	Investment holding
Chinaway Network Technology Limited	Hong Kong	HK$4,000,000 Ordinary shares	—	100%	Network engineering and trading of information technology related hardware and software
Daily Development Company Limited	Hong Kong	HK$2 Ordinary shares	—	100%	Provision of administrative and management services
Kaitai United Company Limited ("Kaitai")	BVI	US$50,000 Ordinary shares	—	100%	Investment holding
Huayi 晉江市華意鞋業有限公司	PRC	RMB18,000,000 Registered capital	—	100% Note	Manufacture and sale of footwear products and provision of subcontracting services
Wider Development Limited	Hong Kong	HK$1 Ordinary share	—	100%	Provision of administrative and management services

For the year ended 30 September 2004

12. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Country/ Place of incorporation/ establishment and operations	Issued/ Registered capital	Attributable equity interests held by the Company Direct	Attributable equity interests held by the Company Indirect	Principal activities
Sunplan Technology Limited	Samoa	US$1 Ordinary share	—	100%	Trading of footwear products
Open Challenge Group Limited	BVI	US$1 Ordinary share	—	100%	Dormant
Joy Century Holding Limited	Samoa	US$1 Ordinary share	—	100%	Dormant

Note: Huayi was established with limited liability in the PRC on 23 August 1989 as a Sino-foreign equity joint venture with a term of operation of 20 years from 23 August 1989 and during the year ended 30 September 2002, became a wholly foreign owned enterprise and is wholly owned by Kaitai.

13. GOODWILL

	Group 2004 HK$'000	Group 2003 HK$'000
Carrying value at 1 October	**32,882**	—
Acquisition of a subsidiary	**—**	32,882
Charge for the year	**(6,577)**	—
Carrying value at 30 September	**26,305**	32,882
Gross amount at 30 September	**32,882**	32,882
Accumulated amortisation	**6,577**	—
Carrying value at 30 September	**26,305**	32,882

No amortisation of goodwill was charged to the consolidated income statement for the prior year as the acquisition of the subsidiary took place on 30 September 2003.

Goodwill is amortised on a straight-line basis over its estimated useful life of five years.

14. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**2,334**	8,358
Work in progress	**311**	2,322
Finished goods	**193**	13,291
	2,838	23,971

All the inventories are stated at cost.

15. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

The Group's policy is to allow an average credit period of 30 to 60 days to its trade customers.

At 30 September 2004, the ageing analysis of the Group's trade receivables is as follows :

	Group	
	2004	2003
	HK$'000	HK$'000
0 - 30 days	**20,126**	23,865
31 - 60 days	**38**	172
61 - 90 days	**296**	60
91 - 180 days	**543**	60
181 - 365 days	**901**	51
Trade receivables	**21,904**	24,208
Other receivables and deposits	**27,729**	13,235
	49,633	37,443

16. SHORT TERM LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loan	**1,415**	1,402
Other loans		
- Loans from a PRC credit company	**1,698**	1,682
	3,113	3,084

The bank loan is secured by the Group's land and buildings with an aggregate carrying value of HK$1,867,000 at 30 September 2004 (2003: HK$2,775,000).

The loans from a PRC credit company are secured by guarantees provided by certain unrelated third parties, interest bearing at monthly rates of 0.66375% (2003: 0.7965%) and repayable on dates falling between 5 December 2004 and 11 July 2005 (2003: 4 October 2003 and 26 August 2004).

17. OBLIGATIONS UNDER A FINANCE LEASE

The analysis of the obligations under a finance lease is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Due within one year	**129**	135
Due in the second to fifth years	**10**	138
	139	273
Future finance charges	**(4)**	(13)
Present value of finance lease liabilities	**135**	260

17. OBLIGATIONS UNDER A FINANCE LEASE *(Continued)*

The present value of finance lease liabilities is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Due within one year	**125**	125
Due in the second to fifth years	**10**	135
	135	260
Less: Portion due within one year included under current liabilities	**(125)**	(125)
Non-current portion included under non-current liabilities	**10**	135

18. TRADE AND OTHER PAYABLES

At 30 September 2004, the ageing analysis of the Group's trade payables is as follows :

	Group	
	2004	2003
	HK$'000	HK$'000
0 - 30 days	**13,740**	11,970
31 - 60 days	**1,479**	692
61 - 90 days	**597**	616
91 - 180 days	**646**	1,119
181 - 365 days	**851**	1,017
Trade payables	**17,313**	15,414
Other payables	**11,323**	44,884
	28,636	60,298

For the year ended 30 September 2004

19. SHARE CAPITAL

		Company	
	Notes	**2004**	2003
		HK$'000	HK$'000
Authorised :			
5,000,000,000 (2003: 1,000,000,000) ordinary shares of HK$0.10 each	(ii)	**500,000**	100,000
Issued and fully paid :			
1,030,000,000 (2003: 412,000,000) ordinary shares of HK$0.10 each		**103,000**	41,200

A summary of the above movements in the issued ordinary share capital of the Company is as follows:

		2004		2003	
	Notes	**Number of shares issued**	**Share capital HK$'000**	Number of shares issued	Share capital HK$'000
As at 1 October		**412,000,000**	**41,200**	400,000,000	40,000
Exercise of share options	(i)	**—**	**—**	12,000,000	1,200
Rights issue (3 rights shares for every 2 shares)	(iii)	**618,000,000**	**61,800**	—	—
As at 30 September		**1,030,000,000**	**103,000**	412,000,000	41,200

Notes :

(i) On 5 May 2003, 12,000,000 share options with exercise price of HK$0.435 granted to certain employees of the Group were exercised. All these share options were exercised in the period from 30 May 2003 to 23 June 2003 (note 20). The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

(ii) Pursuant to a special resolution passed on 16 March 2004, the authorised share capital of the Company was increased from HK$100,000,000 to HK$500,000,000 by the creation of 4,000,000,000 new shares of HK$0.10 each. These new shares rank pari passu in all respects with the existing shares of the Company.

(iii) On 14 April 2004, 618,000,000 shares of HK$0.10 each in the proportion of three rights shares for every two then shares in issue were issued at par.

20. SHARE OPTIONS

The Company operates a share option scheme, further details of which are set out in the "Share Option Scheme" section in the Report of Directors on page 11.

(a) Movements in share options held by employees

	2004 Number of options	2003 Number of options
Granted during the year	—	12,000,000
Exercised during the year	—	(12,000,000)
Options vested at 30 September 2004	—	—

(b) Details of share options granted during the prior year

Date of grant	**Exercise period**	**Exercise price**	**Number of options**
5 May 2003	5 May 2003 to 4 May 2006	HK$0.435	12,000,000

(c) Details of share options exercised during the prior year

Exercise date	**Exercise price** HK$	**Market value per share at exercise date** HK$	**Proceeds received** HK$	**Number of shares**
30 May 2003	0.435	0.455 - 0.480	1,740,000	4,000,000
10 June 2003	0.435	0.490 - 0.540	870,000	2,000,000
11 June 2003	0.435	0.530 - 0.560	870,000	2,000,000
13 June 2003	0.435	0.500 - 0.520	435,000	1,000,000
18 June 2003	0.435	0.500 - 0.520	435,000	1,000,000
19 June 2003	0.435	0.460 - 0.500	435,000	1,000,000
23 June 2003	0.435	0.455 - 0.485	435,000	1,000,000
			5,220,000	**12,000,000**

For the year ended 30 September 2004

21. RESERVES

Group

	Share premium HK$'000	Assets revaluation reserve HK$'000	Merger reserve HK$'000 *(note (a))*	Exchange reserve HK$'000	Statutory reserve fund HK$'000 *(note (c))*	Retained profits HK$'000	Total HK$'000
At 30 September 2002	—	1,507	8,390	—	292	21,289	31,478
Premium arising from issue of new shares pursuant to exercise of share options - *note 19 (i)*	4,020	—	—	—	—	—	4,020
Revaluation deficit on land and buildings	—	(174)	—	—	—	—	(174)
Exchange difference	—	—	—	(138)	(2)	(236)	(376)
Loss attributable to shareholders	—	—	—	—	—	(4,203)	(4,203)
At 30 September 2003 and at 1 October 2003	4,020	1,333	8,390	(138)	290	16,850	30,745
Share issue expenses	(646)	—	—	—	—	—	(646)
Disposal of land and buildings	—	(220)	—	—	—	220	—
Revaluation surplus on land and buildings	—	498	—	—	—	—	498
Exchange difference	—	—	—	159	3	128	290
Loss attributable to shareholders	—	—	—	—	—	(21,468)	(21,468)
At 30 September 2004	**3,374**	**1,611**	**8,390**	**21**	**293**	**(4,270)**	**9,419**

21. RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000 *(note (b))*	Retained profits HK$'000	Total HK$'000
At 30 September 2002	—	27,210	5,225	32,435
Premium arising from issue of new shares pursuant to exercise of share options - *note 19 (i)*	4,020	—	—	4,020
Profit attributable to shareholders	—	—	28,823	28,823
At 30 September 2003 and at 1 October 2003	4,020	27,210	34,048	65,278
Share issue expenses	(646)	—	—	(646)
Loss attributable to shareholders	—	—	(2,250)	(2,250)
At 30 September 2004	**3,374**	**27,210**	**31,798**	**62,382**

(a) Merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued pursuant to the group reorganisation.

(b) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares of the Company issued in a share for share exchange and the fair value of the aggregate net assets of the subsidiaries acquired.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus of the Company is available for distribution, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) According to the Articles of Association of Huayi, Huayi is required to transfer at least 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into capital but is not distributable to shareholders. No appropriation was made during the year as Huayi incurred a net loss for the year.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 30 September 2004 consisted of the aggregate of the contributed surplus and retained profits totalling approximately HK$59,008,000 (2003: HK$61,258,000).

22. CASH AT BANKS

Included in cash at banks is an amount of approximately HK$89,000 (2003:HK$23,569,000), representing Renminbi deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	2004	2003
	HK$'000	HK$'000
Net liabilities disposed of:		
Trade receivables, other receivables and deposits	**10,733**	—
Trade and other payables	**(7,533)**	—
Provision for tax	**(21,624)**	—
Cash at bank	**1,161**	—
	(17,263)	—
Gain on disposal of subsidiaries	**20,534**	—
Consideration	**3,271**	—
Satisfied by :		
Cash consideration received	**3,271**	—

Analysis of the net inflow of cash in respect of the disposal of subsidiaries is as follows:

	2004	2003
	HK$'000	HK$'000
Cash consideration received	**3,271**	—
Cash at bank disposed of	**(1,161)**	—
Net inflow of cash in respect of the disposal of subsidiaries	**2,110**	—

The business sold during the year contributed HK$114,078,000 to the Group's turnover and HK$22,127,000 to the consolidated loss after taxation for the year ended 30 September 2004.

The business sold during the year contributed HK$19,171,000 to the Group's net operating cash outflow.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of a subsidiary

	2004	2003
	HK$'000	HK$'000
Property, plant and equipment	—	14
Trade receivables, other receivables and deposits	—	6,105
Trade and other payables	—	(6,141)
Cash at bank	—	2,140
Net assets acquired	—	2,118
Goodwill on acquisition	—	32,882
Consideration	—	35,000
Satisfied by :		
Cash consideration paid	—	13,000
Unpaid consideration	—	22,000
	—	35,000
Net cash outflow in respect of the acquisition		
Cash consideration paid	—	(13,000)
Cash at bank acquired	—	2,140
	—	(10,860)

During the prior year, the Group acquired the entire equity interest in Chinaway Network Technology Limited from independent third parties for a total consideration of HK$35,000,000, of which HK$13,000,000 was paid prior to 30 September 2003 and the remaining balance of HK$22,000,000 was paid during the year.

The subsidiary did not contribute to the results of the Group for the prior year as the acquisition of the subsidiary took place on 30 September 2003.

(c) Major non-cash transaction

During the year, Huayi surrendered part of its land and a portion of the building premises constructed on the land, for the expansion by the local municipal government of a road, in return for a compensation of approximately RMB2,687,000 (HK$2,523,000), which has not been received and was fully provided for as at the year end date.

24. COMMITMENTS

(a) Commitments under operating leases

At 30 September 2004, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2004	2003
	HK$'000	HK$'000
Within one year	**228**	167
In the second to fifth years	**152**	—
	380	167

At 30 September 2004, the Company had no operating lease commitments.

(b) Capital commitments

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for in the financial statements in respect of construction costs for certain buildings in the PRC	**1,245**	7,009
Contracted but not provided for in the financial statements in respect of investment in a joint venture in the PRC	**—**	3,123
	1,245	10,132

During the prior year, Chinaway Network Technology Limited had entered into an agreement with an independent third party for the establishment of a joint venture company in the PRC. Under the agreement, Chinaway Network Technology Limited had committed to contribute approximately HK$3,123,000 to the joint venture and would be entitled to 84% of its equity interest. During the current year, Chinaway Network Technology Limited and the independent third party have agreed to terminate this agreement.

At 30 September 2004, the Company had no outstanding capital commitment.

25. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

The employees of the Company's subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contribution to the retirement schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of HK$771,000 (2003: HK$1,139,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. As at 30 September 2004 and 2003, all contributions due in respect of the reporting years have been paid to the schemes.

26. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date.

27. POST BALANCE SHEET EVENTS

(a) On 24 September 2004, an agreement was entered into between Appraise Asia Investments Limited ("Appraise Asia"), a wholly-owned subsidiary of the Company, and Silky Limited ("Silky"), pursuant to which, inter alia, Silky agreed to sell and Appraise Asia agreed to purchase the entire issued share capital of Excel Star Technology Limited ("Excel Star") at a cash consideration of HK$13,000,000 (subject to downward adjustment). Excel Star is incorporated in the British Virgin Islands as an investment holding company which holds 51% interest in 嘉興易視佳通訊有限公司 (Jiaxing Easeful Communication Co., Ltd.) Details of the transaction are set out in the Company's circular dated 14 October 2004. The transaction has been completed on 7 October 2004.

(b) On 7 January 2005, an agreement was entered into between Appraise Asia and Fortis Development Limited ("Fortis"), pursuant to which, inter alia, Fortis agreed to sell and Appraise Asia agreed to purchase the entire issued share capital of Popular Asset Limited ("Popular Asset") at a cash consideration of HK$15,000,000 (subject to downward adjustment). Popular Asset is incorporated in Hong Kong and is principally engaged in the business of the provision of information technology and telecommunication facility management services. Details of the transaction are set out in the Company's circular dated 28 January 2005. The transaction has been completed on 11 January 2005.

The Group is in the process of making an assessment of the goodwill on acquisition but is not yet in a position to conclude on this.

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 17 to 51 were approved by the board of directors on 28 January 2005.