

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in notes 31.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investment in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Joint ventures

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, plus the goodwill/less the negative goodwill in so far as it has not already been written off/amortised/released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Land held for development is carried at cost, less any identified impairment loss.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment other than land held for development over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land or land use rights	Over the term of the lease
Buildings	2% – 5%
Leasehold improvements	9% – 45%
Plant and machinery	9% – 45%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	16% – 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

In previous years, moulds were depreciated over their estimated useful life of 18% to 20% per annum. Upon a reassessment of the estimated useful lives of moulds, the Group commenced to write off the cost of moulds over 12 months and included the moulds in other receivables effective from 1st January, 2004. The change in depreciation rate has resulted in a decrease in the profit for the year ended 31st December, 2004 by approximately HK\$20,889,000.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

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 an 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 losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to those properties is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

A golf club membership is stated at cost less any impairment loss.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net 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 income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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 profit 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 period when the liability is settled or the asset realised. Deferred tax is charged or credited in 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Operating leases

Rental income/payments under operating leases are credited/charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expenses as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable by the Group for goods sold, after allowances for returns and trade discounts, to outside customers and gross rental income received and receivable from investment properties during the year.

Turnover represents the net amounts received and receivable for the followings:

	2004 HK\$'000	2003 HK\$'000
Manufacture and sales of footwear products	1,446,393	1,182,532
Rental income	1,458	1,116
	1,447,851	1,183,648

Business segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and marketing of footwear products.

Geographical segments

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by geographical segments, irrespective of the origin of the goods, is presented below:

2004

	United States of America HK\$'000	Canada HK\$'000	Europe HK\$'000	Asia HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	807,796	92,165	329,216	94,697	38,014	85,963	1,447,851
RESULTS							
Segment results	117,441	13,399	47,863	14,667	5,527	12,498	211,395
Unallocated corporate expenses							(20,738)
Profit from operations							190,657
Share of results of jointly controlled entities							(2,646)
Profit before taxation							188,011
Income tax expense							(16,807)
Profit before minority interests							171,204
Minority interests							(7,015)
Net profit for the year							164,189

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2004

	United States of America HK\$'000	Canada HK\$'000	Europe HK\$'000	Asia HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	555,204	63,346	226,273	65,086	26,128	59,082	995,119
Interest in a jointly controlled entity							69,521
Deferred tax assets							5,794
Unallocated corporate assets							362,485
Consolidated total assets							1,432,919
LIABILITIES							
Segment liabilities	234,112	26,711	95,412	27,445	11,017	24,914	419,611
Tax payable							27,491
Deferred tax liabilities							9,167
Unallocated corporate liabilities							18,806
Consolidated total liabilities							475,075
OTHER INFORMATION							
Capital additions	55,692	6,354	22,697	6,529	2,621	5,926	99,819
Depreciation and amortisation	26,066	2,974	10,623	3,056	1,227	2,773	46,719
Loss on disposal/write-off of property, plant and equipment	75	9	31	9	3	8	135
Allowances for bad and doubtful debts	7,881	899	3,212	924	370	839	14,125

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2003

	United States of America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Australia <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	605,919	126,015	293,539	59,302	32,094	66,779	1,183,648
RESULTS							
Segment results	98,424	20,470	47,682	9,565	5,213	10,847	192,201
Unallocated corporate expenses							(54,187)
Profit from operations							138,014
Interest on bank loans and overdrafts wholly repayable within five years							(2)
Share of results of a jointly controlled entity							137,232
Profit before taxation							275,244
Income tax expense							(16,100)
Profit before minority interests							259,144
Minority interests							(2,381)
Net profit for the year							256,763

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2003

	United States of America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Australia <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS							
Segment assets	402,026	83,611	194,762	39,347	21,294	44,308	785,348
Interest in a jointly controlled entity							1,095
Deferred tax assets							2,581
Unallocated corporate assets							381,885
Consolidated total assets							1,170,909
LIABILITIES							
Segment liabilities	156,684	32,586	75,906	15,335	8,299	17,270	306,080
Tax payable							17,296
Deferred tax liabilities							4,525
Unallocated corporate liabilities							3,593
Consolidated total liabilities							331,494
OTHER INFORMATION							
Capital additions	71,751	14,922	34,760	7,022	3,800	7,908	140,163
Depreciation and amortisation	15,266	3,175	7,395	1,494	808	1,682	29,820
Loss on disposal/write-off of property, plant and equipment	13,542	2,816	6,560	1,325	717	1,494	26,454
Allowances for bad and doubtful debts	1,866	388	904	98	183	206	3,645

Notes to the Financial Statements

For the year ended 31st December, 2004

4. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	484,286	350,482	7,104	5,784
The People's Republic of China (the "PRC")	463,742	385,631	92,548	134,337
Others	47,091	49,235	167	42
	995,119	785,348	99,819	140,163

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 6</i>)	4,581	4,418
Other staff costs	277,344	222,282
Retirement benefits schemes contributions, excluding directors	455	186
	282,380	226,886
Auditors' remuneration	1,304	1,080
Allowances for bad and doubtful debts	14,125	3,645
Amortisation of goodwill of subsidiaries, included in other operating expenses	3,179	139
Cost of inventories recognised as expense	761,039	638,592
Depreciation and amortisation	43,540	29,681
Net exchange loss	1,865	1,845
and after crediting:		
Dividend income from investments in securities	45	40
Gross rental income from investment properties	1,458	1,116
Less: outgoings	(409)	(176)
	1,049	940
Interest income from:		
Bank deposits	4,620	1,873
Investments in securities	1,669	1,979
Trade debtors (<i>note</i>)	8,779	6,926
Loans to a jointly controlled entity	1,476	—

Note: Interest income was received from trade debtors with extended credit terms.

Notes to the Financial Statements

For the year ended 31st December, 2004

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

A. Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	300	325
Non-executive directors	78	90
Independent non-executive directors	156	130
	534	545
Other emoluments of executive directors:		
Salaries and other benefits	3,307	3,873
Discretionary bonus	654	–
Retirement benefits schemes contributions	86	–
	4,047	3,873
Total directors' emoluments	4,581	4,418

The emoluments of the directors were within the following bands:

	2004 Number of directors	2003 Number of directors
Nil – HK\$1,000,000	8	10
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	2

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31st December, 2004

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

B. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) are directors of the Company whose emoluments are disclosed in (A) above. The emoluments of the remaining three (2003: three) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	3,423	2,942
Retirement benefits schemes contributions	36	31
	3,459	2,973

The aggregate emoluments of one (2003: one) of the employees was within the emoluments band ranging from HK\$1,500,001 to HK\$2,000,000 and the remaining two (2003: two) were within the emoluments band ranging from Nil to HK\$1,000,000.

7. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong		
– current year	6,077	6,316
– overprovision in prior years	(208)	(293)
Other jurisdictions		
– current year	12,005	10,886
– underprovision in prior years	104	14
	17,978	16,923
Deferred tax (note 20)		
– current year	(1,171)	(797)
– attributable to a change in tax rate	–	(26)
	(1,171)	(823)
Taxation attributable to the Company and its subsidiaries	16,807	16,100

Notes to the Financial Statements

For the year ended 31st December, 2004

7. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

PRC income tax is calculated at 27% of the estimated assessable profit for both years.

Pursuant to the relevant laws and regulations in the PRC, 中山精美鞋業有限公司 ("中山精美"), Fuqing Grand Galatica Footwear Co. Ltd. ("Fuqing Grand Galatica"), 廣州番禺興泰鞋業有限公司 ("番禺興泰") and 中山華利企業有限公司 ("中山華利") are entitled to exemption from the PRC enterprise income tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to 50% relief from the PRC enterprise income tax for the following three years.

The tax relief of 番禺興泰 has expired and the tax rate thereafter is 27%. 中山精美 and Fuqing Grand Galatica were exempted from PRC income tax for the year.

Notes to the Financial Statements

For the year ended 31st December, 2004

7. INCOME TAX EXPENSE (Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	188,011		275,244	
Tax at Hong Kong Profits Tax rate of 17.5%	32,902	17.5	48,168	17.5
Tax effect of expenses not deductible for tax purpose	1,073	0.6	2,211	0.8
Tax effect of income not taxable for tax purpose	(2,236)	(1.2)	(3,746)	(1.4)
Tax effect of share of results of a jointly controlled entity	463	0.2	(24,016)	(8.7)
Overprovision in respect of prior year	(104)	(0.1)	(279)	(0.1)
Tax effect of deferred tax assets not recognised	1,413	0.8	(416)	(0.1)
Utilisation of deferred tax/tax losses previously not recognised	(6,288)	(3.3)	(8)	–
Effect of tax exemptions granted to certain subsidiaries	(12,927)	(6.9)	(7,591)	(2.8)
Increase in opening deferred tax asset resulting from an increase in applicable tax rate	–	–	(26)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,424	1.3	1,065	0.4
Others	87	–	738	0.3
Tax expense and effective tax rate for the year	16,807	8.9	16,100	5.9

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 20).

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For the year ended 31st December, 2004

8. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim, paid – HK\$0.028 per share (2003: HK\$0.02 per share)	31,074	19,934
Final, proposed – HK\$0.072 per share (2003: HK\$0.06 per share)	79,906	60,295
Underprovision in prior year	240	–
	111,220	80,229

The proposed final dividend per share has been proposed by the directors and is subject to the approval by the shareholders in a general meeting.

The underprovision represents final dividend payable to shares issued subsequent to the approval of the financial statements for the year ended 31st December, 2003 by the directors.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004	2003
Earnings:		
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	HK\$164,189,000	HK\$256,763,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,107,596,231	1,003,923,873

For the purpose of calculating basic earnings per share, the weighted average number of ordinary shares for the year ended 31st December, 2003 had been adjusted to reflect the bonus issue as set out in note 21(c).

No diluted earnings per share for the year ended 31st December, 2004 has been presented because the exercise price of the Company's options was higher than the average market price of the shares for that year.

No diluted earnings per share for the year ended 31st December, 2003 was presented as there were no potential ordinary shares outstanding during that year.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Land held for development <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
COST OR VALUATION								
At 1st January, 2004	143,091	25,234	36,989	18,194	116,137	12,286	9,610	361,541
Acquisition of subsidiaries	–	–	–	–	6,166	703	887	7,756
Additions	4,015	–	7,712	–	25,837	2,270	1,976	41,810
Transfer from investment properties (<i>note 11</i>)	7,881	–	–	–	–	–	–	7,881
Surplus arising on revaluation	19,082	–	–	–	–	–	–	19,082
Disposals	–	–	–	–	(2,074)	(1,063)	(103)	(3,240)
Exchange realignment	623	–	1	–	8	80	67	779
At 31st December, 2004	174,692	25,234	44,702	18,194	146,074	14,276	12,437	435,609
Comprising:								
At cost	–	–	44,702	18,194	146,074	14,276	12,437	235,683
At valuation	174,692	25,234	–	–	–	–	–	199,926
	174,692	25,234	44,702	18,194	146,074	14,276	12,437	435,609
DEPRECIATION AND AMORTISATION								
At 1st January, 2004	277	25,234	17,607	1,942	51,939	6,281	4,386	107,666
Provided for the year	4,835	–	7,000	16,252	12,047	1,677	1,729	43,540
Write back on revaluation	(4,739)	–	–	–	–	–	–	(4,739)
Eliminated on disposals	–	–	–	–	(1,839)	(956)	(93)	(2,888)
Exchange realignment	23	–	–	–	7	60	53	143
At 31st December, 2004	396	25,234	24,607	18,194	62,154	7,062	6,075	143,722
NET BOOK VALUES								
At 31st December, 2004	174,296	–	20,095	–	83,920	7,214	6,362	291,887
At 31st December, 2003	142,814	–	19,382	16,252	64,198	6,005	5,224	253,875

Notes to the Financial Statements

For the year ended 31st December, 2004

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Land and buildings outside Hong Kong		
Freehold	9,105	8,602
Medium-term lease	102,000	108,962
Land and buildings in Hong Kong		
Medium-term lease	61,591	25,250
Long-term lease	1,600	–
	174,296	142,814

The leasehold land and buildings of the Group in Hong Kong and outside Hong Kong which were held under medium-term lease and long-term lease were valued at 31st December, 2004 by Prudential Surveyors International Limited ("Prudential"), an independent firm of professional property valuers, Chartered Surveyors, on an open market existing use basis. At 31st December, 2004, the directors had reviewed the carrying value of the Group's freehold land and buildings with reference to the open market value. The revaluation resulted in a surplus amounting to HK\$23,821,000 of which HK\$7,907,000 has been credited directly to the consolidated income statement and HK\$15,914,000 has been credited directly to the revaluation reserve.

If land and buildings had not been revalued, they would have been included in these financial statements at historical costs less accumulated depreciation of HK\$161,814,000 (2003: HK\$164,210,000).

The land held for development represents the Group's 68% interest in a piece of land with an area of approximately 353,333 square metres for a term of 50 years from 12th December, 1997 in Zhongshan, the PRC for the construction of factory buildings and facilities (the "Project") thereon. During the year ended 31st December, 2001, the Group decided to suspend the Project indefinitely. In the opinion of the directors, after taking into consideration the conditions as stated in the land grant contracts and the suspension of the Project for an indefinite period of time, the recoverability of the carrying value of the land was considered to be remote. Accordingly, full provision in respect of the carrying value of the land of HK\$25,234,000 was made for the year ended 31st December, 2001. During the year, no progress in respect of the Project was made and, accordingly, no write back of the provision is considered.

Notes to the Financial Statements

For the year ended 31st December, 2004

11. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

VALUATION

At 1st January, 2004	65,000
Transfer to land and buildings (<i>note 10</i>)	(7,881)
Surplus arising on revaluation	24,390
At 31st December, 2004	81,509

The investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were valued at 31st December, 2004 by Prudential on an open market existing use basis. The revaluation surplus has been credited to the income statement.

Investment properties with a total carrying value of HK\$65,800,000 at 31st December, 2004 (2003: HK\$20,500,000) are rented out under operating leases. Details of operating lease arrangements are set out in note 26. The remaining investment properties with a balance of HK\$15,709,000 at 31st December, 2004 (2003: HK\$44,500,000) were not rented out at the balance sheet date.

12. GOODWILL

THE GROUP

HK\$'000

COST

At 1st January, 2004	2,786
Arising on acquisition of a subsidiary (<i>note 24</i>)	58,009
At 31st December, 2004	60,795

AMORTISATION

At 1st January, 2004	(139)
Provided for the year	(3,179)
At 31st December, 2004	(3,318)

NET BOOK VALUE

At 31st December, 2004	57,477
At 31st December, 2003	2,647

The amortisation period adopted for goodwill is ten years.

Notes to the Financial Statements

For the year ended 31st December, 2004

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	141,213	141,213
Less: impairment loss	(140,225)	(140,225)
	988	988

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 31.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Convertible bonds issued by a jointly controlled entity (note)	77,900	–
Share of net (liabilities) assets	(8,379)	1,095
	69,521	1,095

On 2nd January, 2004 and 8th June, 2004, the Group acquired 50% of the issued capital of Smart Shine Industries Limited ("Smart Shine") and Union Overseas Holdings Limited ("UOHL") at cash considerations of US\$1 and HK\$390, respectively. After the acquisition, UOHL becomes a wholly owned subsidiary of the Company.

Note: Pursuant to a subscription agreement dated 16th November, 2004 (the "Smartshine Agreement"), the Group acquired these convertible bonds issued by Smart Shine in the principal amount of US\$10,000,000, equivalent to approximately HK\$77,900,000. The bonds are unsecured, bear interest at London Interbank Offered Rate ("LIBOR") plus a margin of 1.25% per annum together with participation equally and rateably with the shareholders of Smart Shine in all distributions, assets, capital and capital gains of Smart Shine. The bonds have a maturity date on the earlier of 31st December, 2009 and the termination date of certain agreements specified in the Smartshine Agreement. The Group has the right at any time to convert all or any of the bonds into fully paid ordinary shares of US\$1.00 each in the share capital of Smart Shine at a conversion price of US\$1.00 per share.

Notes to the Financial Statements

For the year ended 31st December, 2004

14. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

At 31st December, 2004, the Group had interest in the following jointly controlled entity:

Name of jointly controlled entity	Place of incorporation and operation	Class of share held	Proportion of nominal value of issued capital indirectly held by the Group	Principal activity
Smart Shine	British Virgin Islands	Ordinary	50%	Investment holding

The following details have been extracted from the unaudited management accounts of the Group's jointly controlled entities:

	Smart Shine 2.1.2004 to 31.12.2004 HK\$'000	UOHL 1.1.2004 to 8.6. 2004 HK\$'000	2003 HK\$'000
Results for the year			
Turnover	47,019	–	–
(Loss) profit from ordinary activities before taxation	(16,828)	11,536	274,463
(Loss) profit from ordinary activities before taxation attributable to the Group	(8,414)	5,768	137,232
Financial position			
Non-current assets	4,255		–
Current assets	227,802		2,327
Non-current liabilities	(173,465)		–
Current liabilities	(75,350)		(136)
Net (liabilities) assets	(16,758)		2,191
Net (liabilities) assets attributable to the Group	(8,379)		1,095

Notes to the Financial Statements

For the year ended 31st December, 2004

15. INVESTMENTS IN SECURITIES

	Investment securities		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The Group						
Equity securities, at cost						
Listed	2,521	2,333	–	–	2,521	2,333
Unlisted	760	760	–	–	760	760
Less: Impairment loss recognised	(1,998)	(1,936)	–	–	(1,998)	(1,936)
	1,283	1,157	–	–	1,283	1,157
Debt securities						
Listed	9,930	29,317	–	–	9,930	29,317
Less: Impairment loss recognised	(197)	–	–	–	(197)	–
	9,733	29,317	–	–	9,733	29,317
Golf club membership in the PRC, at cost	–	–	880	880	880	880
Less: Impairment loss recognised	–	–	(430)	(430)	(430)	(430)
	–	–	450	450	450	450
Total:						
Listed						
Hong Kong	20	20	–	–	20	20
Elsewhere	10,920	30,378	–	–	10,920	30,378
Unlisted	76	76	450	450	526	526
	11,016	30,474	450	450	11,466	30,924
Market value of listed securities	11,069	30,638	–	–	11,069	30,638
Carrying amount analysed for reporting purposes as:						
Current	–	–	–	–	–	–
Non-current	11,016	30,474	450	450	11,466	30,924
	11,016	30,474	450	450	11,466	30,924

Notes to the Financial Statements

For the year ended 31st December, 2004

16. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	81,571	52,234
Work in progress	58,978	45,773
Finished goods	95,826	57,233
	236,375	155,240

All inventories were carried at cost at the balance sheet date.

17. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 60 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$328,375,000 (2003: HK\$268,454,000) and an aged analysis thereof is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	163,679	153,933
31 to 60 days	65,406	33,937
61 to 90 days	22,074	36,620
Over 90 days	105,446	58,069
	356,605	282,559
Less: Allowances for bad and doubtful debts	(28,230)	(14,105)
	328,375	268,454

18. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31st December, 2004

19. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$243,684,000 (2003: HK\$179,233,000) and an aged analysis thereof is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	102,888	85,553
31 to 60 days	83,880	59,370
61 to 90 days	20,244	11,300
Over 90 days	36,672	23,010
	243,684	179,233

20. DEFERRED TAX

The Group

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Allowance for bad and doubtful debts HK\$'000	Unrealised profit on inventories HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2003	-	1,732	(1,728)	(221)	(60)	(277)
(Credit) charge to income	-	(270)	68	(321)	(274)	(797)
Charge to equity for the year	3,044	-	-	-	-	3,044
Effect of change in tax rate - charge (credit) to income statement	-	162	(162)	(21)	(5)	(26)
At 1st January, 2004	3,044	1,624	(1,822)	(563)	(339)	1,944
Charge (credit) to income	-	1,794	(2,211)	(310)	(444)	(1,171)
Charge to equity for the year	2,600	-	-	-	-	2,600
At 31st December, 2004	5,644	3,418	(4,033)	(873)	(783)	3,373

Notes to the Financial Statements

For the year ended 31st December, 2004

20. DEFERRED TAX (Continued)

The Group (Continued)

At 31st December, 2004, the Group had unused tax losses of HK\$28,322,000 (2003: HK\$24,976,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK\$4,476,000 (2003: HK\$1,937,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$23,846,000 (2003: HK\$23,039,000) due to the unpredictability of future profit streams.

At the balance sheet date, the Group had deductible temporary differences of HK\$3,521,000 (2003: HK\$32,452,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Temporary differences arising in connection with interests in a jointly controlled entity were insignificant for the year ended 31st December, 2003.

21. SHARE CAPITAL

	Number of shares 2004 '000	Amount 2004 HK\$'000
Authorised:		
At 1st January, 2003, at HK\$1.00 each	2,000,000	2,000,000
Share subdivision (note b)	6,000,000	–
At 31st December, 2003 and at 31st December, 2004, at HK\$0.25 each	8,000,000	2,000,000
Issued and fully paid:		
At 1st January, 2003, at HK\$1.00 each	208,170	208,170
Issue of shares on subscription (note a)	41,000	41,000
Share subdivision (note b)	747,510	–
At 31st December, 2003, at HK\$0.25 each	996,680	249,170
Exercise of share options	12,232	3,058
Issue of shares on bonus issue (note c)	100,891	25,223
At 31st December, 2004, at HK\$0.25 each	1,109,803	277,451

Notes to the Financial Statements

For the year ended 31st December, 2004

21. SHARE CAPITAL (Continued)

Notes:

- (a) On 27th May, 2003, the Company entered into a subscription agreement with Ko Shing Limited (the "Subscriber") and Mr. Chang Tsung Yuan ("Mr. Chang") (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company agreed to issue and the Subscriber agreed to subscribe for 41,000,000 ordinary shares of HK\$1.00 each in the share capital of the Company (the "Subscription Shares") at a price of HK\$2.38 each per Subscription Share in cash, and Mr. Chang undertook to the Company to ensure the performance by the Subscriber of its obligations under the Subscription Agreement (the "Subscription").

The sole owner of the Subscriber is Mr. Chang, who is the chairman and director of various subsidiaries of the Company and is therefore a connected person to the Company as defined under the Rules Governing the Listing of Securities on the Stock Exchange. A special general meeting of the Company was held on 2nd July, 2003 where the shareholders of the Company passed resolutions, inter alia, approving the Subscription which was completed on 7th July, 2003. The net proceeds were used to enhance the footwear production facilities and to finance the Group's general working capital and future expansion in related footwear business. The Subscription Shares rank pari passu with the existing shares in all respects.

- (b) Pursuant to an announcement dated 5th August, 2003 (the "Announcement") and a circular dated 18th August, 2003 (the "Circular"), the board of directors (the "Board") proposed that each of the existing issued and unissued shares of HK\$1.00 each in the share capital of the Company be subdivided (the "Share Subdivision") into four shares of HK\$0.25 each in the share capital of the Company (the "Subdivided Shares"). On 14th August, 2003, being the latest practicable date for the purpose of ascertaining certain information referred to in the Circular, the authorised share capital of the Company was HK\$2,000,000,000 which was divided into 2,000,000,000 shares, of which 249,169,996 shares were in issue. Immediately following the implementation of the Share Subdivision and on the basis of 249,169,996 shares in issue, 996,679,984 Subdivided Shares were in issue. The Share Subdivision was approved by shareholders at a special general meeting on 3rd September, 2003 and became effective on 4th September, 2003.

- (c) Pursuant to a circular dated 20th April, 2004, the directors of the Company proposed to make a bonus issue of new ordinary shares of HK\$0.25 each in the capital of the Company ("Bonus Shares") to the registered holders of the shares whose names appeared on the Company's register at the close of business on 12th May, 2004 on the basis of one new share, credited as fully paid, for every ten shares then held (the "Bonus Issue"). The Bonus Shares credited as fully paid rank pari passu in all respects with the then existing issued shares except that they did not rank for the Bonus Issue. The directors of the Company were authorised to capitalise a sum of approximately HK\$25,223,000, being part of the amount standing to the credit of the Company's share premium and apply such sum in paying up in full the Bonus Shares. The total number of shares in issue was increased to 1,109,803,182 after the Bonus Issue.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. SHARE OPTIONS SCHEME

Pursuant to the share option scheme of the Company adopted on 22nd October, 2001, the Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. SHARE OPTIONS SCHEME (Continued)

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of directors at the time the option is offered to the participants.

No options may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

During the year ended 31st December, 2003, no option was granted under the 2001 Scheme. At 31st December, 2003, no share option of the 2001 Scheme was outstanding.

The following table discloses details of the 2001 Scheme held by employees (including directors) and movements in such holdings during the year ended 31st December, 2004:

Name	Date of grant	Exercisable period	Exercise price per share <i>(Note)</i>	Outstanding at 1.1.2004 <i>(Note)</i>	Number of share options				
					Granted during the year	Exercised during the year	Cancelled during the year	Adjustment during the year	Outstanding at 31.12.1004
Category I:									
Directors	9th January, 2004	7th February, 2004- 6th February, 2006	HK\$1.91	-	30,100,000	(9,000,000)	-	2,109,769	23,209,769
Category II:									
Employees	9th January, 2004	7th February, 2004 6th February, 2006	HK\$1.91	-	51,060,000	(3,232,000)	(549,995)	4,782,274	52,060,279
				-	81,160,000	(12,232,000)	(549,995)	6,892,043	75,270,048

Note: On 12th May, 2004, the Company made a bonus issue on the basis of one new ordinary share of HK\$0.25 each in the capital of Company, credited as fully paid, for every ten shares then held as set out in note 21(c) to the financial statements. Accordingly, the exercise price and the number of share options were adjusted.

The exercise price of the share options exercised during the year was HK\$2.10 per share.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. SHARE OPTIONS SCHEME (Continued)

Details of closing prices of the Company's share immediately before the date of exercise of the share options under the 2001 Scheme were as follows:

Number of share options exercised	Closing price before the date of exercise HK\$
4,612,000	2.50
4,000,000	2.25
3,000,000	2.325
330,000	2.35
180,000	2.15
60,000	2.275
50,000	2.375
<u>12,232,000</u>	

Total consideration received during the year from employees (including directors) for taking up the options granted is amounted to HK\$51 (2003: Nil).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2003	28,057	63,561	87,832	179,450
Premium arising on issue of shares	56,580	–	–	56,580
Net profit for the year	–	–	61,223	61,223
Dividends paid	–	–	(55,323)	(55,323)
At 31st December, 2003	84,637	63,561	93,732	241,930
Issue of shares on bonus issue	(25,223)	–	–	(25,223)
Exercise of share options	22,630	–	–	22,630
Net profit for the year	–	–	120,947	120,947
Dividends paid	–	–	(91,609)	(91,609)
At 31st December, 2004	82,044	63,561	123,070	268,675

The contributed surplus of the Company represents the excess of the fair value of the shares of the acquired subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation on 9th February, 1995.

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), the balance in the Company's contributed surplus and share premium accounts is also available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus and share premium if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share premium	82,044	84,637
Contributed surplus	63,561	63,561
Accumulated profits	123,070	93,732
	268,675	241,930

Notes to the Financial Statements

For the year ended 31st December, 2004

24. ACQUISITION OF SUBSIDIARIES

On 8th June, 2004 and 12th July, 2004, the Group acquired additional 50% of the issued capital of UOHL and the entire interest in Misto Worldwide Limited and its subsidiaries for considerations of HK\$390 and HK\$70,961,000, respectively. These acquisitions have been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was approximately HK\$58,009,000.

On 1st July, 2003, the Group acquired 80% of the issued share capital of Nice Well Holdings Limited ("Nice Well") and its subsidiary for a consideration of HK\$20,474,000. That acquisition was accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of that acquisition was HK\$2,786,000.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	7,756	16,473
Inventories	28,242	21,148
Trade and other receivables	43,018	34,204
Bank balances and cash	8,088	4,252
Trade and other payables	(74,066)	(47,004)
Minority interests	–	(11,385)
Net assets	13,038	17,688
Goodwill arising on acquisition (note 12)	58,009	2,786
Total consideration	71,047	20,474
Satisfied by:		
Reclassified from interest in a jointly controlled entity	86	–
Cash	70,961	20,474
	71,047	20,474
Net cash outflow arising on acquisition:		
Cash consideration paid	70,961	20,474
Bank balances and cash acquired	(8,088)	(4,252)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	62,873	16,222

The subsidiaries acquired during the year contributed approximately HK\$107,045,000 (2003: HK\$136,429,000) to the Group's turnover and approximately HK\$18,133,000 (2003: HK\$12,159,000) to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31st December, 2004

25. DISPOSAL OF SUBSIDIARIES

On 9th June, 2004, the Group disposed of its entire interest in certain subsidiaries, Muspole International Limited ("Muspole") and its subsidiaries for a consideration of HK\$36,828,000 to Smart Shine.

On 1st July, 2004, the Group disposed of its entire interest in Symphony Marketing Limited for a consideration of HK\$18,000.

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Trade and other receivables	2,155	–
Bank balances and cash	57,489	–
Trade and other payables	(141)	–
Minority interests	(22,657)	–
Net assets and total consideration	36,846	–
Net cash outflow arising on disposal:		
Cash consideration	36,846	–
Bank balances and cash disposed	(57,489)	–
	(20,643)	–

The subsidiaries disposed of during the year did not made any significant contribution to the results and cashflows of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum leases payments paid under operating leases for land and buildings during the year was HK\$18,758,000 (2003: HK\$12,505,000).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	18,597	14,707
In the second to fifth year inclusive	55,571	51,104
After five years	6,169	12,864
	80,337	78,675

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated and rentals are fixed for terms ranging from two to eight years.

At 31st December, 2004, the Company had no operating lease commitment (2003: Nil).

The Group as lessor

Property rental income earned during the year was approximately HK\$1,458,000 (2003: HK\$1,116,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 2% (2003: 5%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	990	1,424
In the second to fifth year inclusive	75	1,065
	1,065	2,489

Notes to the Financial Statements

For the year ended 31st December, 2004

27. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of:				
– the acquisition of property, plant and equipment	7,233	–	–	–
– investments in subsidiaries in the PRC	–	–	11,685	93,600
– leasehold improvements of land and buildings	–	39	–	–
	7,233	39	11,685	93,600

28. CONTINGENT LIABILITIES

At 31st December, 2004, the Group and the Company have made revolving stand-by letters of credit facilities amounting to HK\$30,000,000 to a subsidiary of a jointly-controlled entity, of which HK\$16,000,000 was utilized as at 31st December 2004. (2003: nil)

At 31st December, 2004, this company provided a collateral in the form of cash amounted to HK\$16,000,000.

In addition, at 31st December, 2004, the Company had outstanding corporate guarantees amounting to HK\$78,000,000 (2003: HK\$39,000,000) issued in favour of a bank to secure general banking facilities granted to the Company and certain of its subsidiaries.

At 31st December, 2003, the Group did not have significant contingent liabilities.

29. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

Notes to the Financial Statements

For the year ended 31st December, 2004

30. RELATED PARTY TRANSACTIONS

- (a) During the year, loans of approximately HK\$75,777,000 were granted to Smart Shine. A portion of these loans to the extent of HK\$38,949,000 was unsecured and bore interest at a rate of 6.4363% per annum from 12th May, 2004 to 30th June, 2004 and at LIBOR plus 2% per annum thereafter. The balance of the loans was unsecured and interest-free. All the loans were fully repaid during the year and the amount of interest the Group received from Smart Shine amounted to HK\$936,000.
- (b) On 9th June, 2004, the Group disposed of the entire interest in Muspole to Smart Shine as set out in note 25.
- (c) On 16th November, 2004, the Group acquired convertible bonds issued by Smart Shine in the principal amount of US\$10,000,000, equivalent to HK\$77,900,000 as set out in note 14.
- (d) The Company has made banking facilities in respect of revolving stand-by letters of credit amounting to HK\$30,000,000 to a subsidiary of Smart Shine. The extent of such facilities utilised at 31st December, 2004 amounted to HK\$16,000,000.

At 31st December, 2004, this company provided a collateral in the form of cash amounting to HK\$16,000,000.

- (e) On 27th May, 2003, the Company entered into a subscription agreement with Ko Shing Limited and Mr. Chang Tsung Yuan ("Mr. Chang") for the subscription by Ko Shing Limited of 41,000,000 new ordinary shares of HK\$1.00 each in the share capital of the Company ("Subscription Share(s)") for a subscription price of HK\$2.38 per Subscription Share. The subscription price represented a discount of approximately 23.23% to HK\$3.10 per share, being the last traded price per share immediately before trading in the shares was suspended at the request of the Company with effect from 2:30pm on 27th May, 2003.

Ko Shing Limited is wholly beneficially owned by Mr. Chang who is a chairman and director of various subsidiaries of the Company and is therefore a connected person to the Company.

Notes to the Financial Statements

For the year ended 31st December, 2004

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Canray Int'l Limited	British Virgin Islands	Ordinary US\$1	–	100%	Footwear trading
Cashmaster Profits Limited	British Virgin Islands	Ordinary US\$1	–	100%	Footwear trading
Chi Yuen Developments Limited	British Virgin Islands/PRC	Ordinary US\$1	–	100%	Footwear manufacturing
Cosmo Group Holdings Limited	British Virgin Islands	Ordinary US\$10,000	100%	–	Investment holding
Continuance Enterprises Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
廣州番禺興泰鞋業有限公司	PRC (Co-operative joint venture)	Registered capital RMB68,260,876	–	92.78%	Footwear manufacturing
Fuqing Grand Galatica	PRC (Wholly foreign owned enterprise)	Registered capital US\$700,000	–	100%	Footwear manufacturing
Holey Trading Limited	Hong Kong	Ordinary HK\$2	–	100%	Footwear trading
Liang Shing Industries Limited	Hong Kong	Ordinary HK\$72,000 Non-voting deferred (note i) HK\$1,428,000	–	100%	Provision of management services

Notes to the Financial Statements

For the year ended 31st December, 2004

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Liang Shing Industries (HK) Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Footwear marketing and trading
Lucky Port Trading Limited	Hong Kong	Ordinary US\$2	–	100%	Footwear marketing and trading
Misto Worldwide Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Nice Well Holdings Limited	British Virgin Islands	Ordinary US\$50,000	–	80%	Investment holding
Power Plus Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Sunrise Footwear Limited	Macau	MOP1,000,000	–	100%	Footwear manufacturing
Takson Asia Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Footwear purchasing
Uprise Group Limited	British Virgin Islands	Ordinary US\$50,000	–	80%	Footwear manufacturing
Zenith Billion Trading Limited	Hong Kong	Ordinary HK\$2	–	100%	Footwear trading
中山精美鞋業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital US\$21,500,000	–	100%	Footwear manufacturing
中山華利企業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital US\$2,500,000 (note ii)	–	100%	Footwear manufacturing

Notes to the Financial Statements

For the year ended 31st December, 2004

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

- (i) The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividend and are, on a winding-up, only entitled out of the surplus assets of the Company, to a return of the capital after a total sum of HK\$100,000,000,000 has been distributed to the holders of the ordinary shares of the Company.
- (ii) As at 31st December, 2004, the capital of 中山華利 was paid up to US\$1,000,000.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.