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 directors consider Pegasus Footgear Management Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

These financial statements are presented in United States dollars because that is the currency in which the majority of the Group's transactions are denominated.

The Group is engaged principally in the manufacture and sale of footwear products.

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 ("HKFRSs") (herein 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 land use rights and buildings and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

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.

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 an associate 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 an associate is included within the carrying amount of the associate.

On disposal of an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and any accumulated impairment losses.

Medium-term land use rights 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 revaluation of land use rights and buildings is credited to the assets 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 the net carrying amount arising on 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 previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Medium-term land use rights and buildings	Over the term of the lease
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33$^{1}/_{3}$%
Motor vehicles	20%

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress is stated at cost which includes all development expenditure and the direct costs attributable to such projects. Construction in progress is not depreciated or amortised until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS IN SUBSIDIARIES

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

INTERESTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

INVESTMENTS IN SECURITIES

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

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

LEASES

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas 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.

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 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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.

RETIREMENT BENEFITS SCHEMES

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes and state-managed retirement benefits schemes.

4. SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold by the Group to customers, less returns and allowances, during the year.

GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into three major geographical segments based on the location of its customers. These segments are the bases on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

2004

	North America	**Asia**	**Europe**	**Others**	**Consolidated**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
TURNOVER					
External sales	104,615	23,392	10,200	5,497	143,704
RESULTS					
Segment results	4,313	964	421	226	5,924
Other operating income					1,156
Unallocated corporate expenses					(5,983)
Profit from operations					1,097
Interest on bank borrowings wholly repayable within five years					(649)
Write-off of an investment security					(2,328)
Share of results of associates					313
Share of results of jointly controlled entities					64
Loss before taxation					(1,503)
Taxation					421
Net loss attributable to shareholders					(1,082)

4. SEGMENT INFORMATION *(Continued)*

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
BALANCE SHEET					
ASSETS					
Segment assets	10,974	2,454	1,070	576	15,074
Investments in associates	–	831	–	–	831
Investment in jointly controlled entities	–	2,499	–	–	2,499
Unallocated corporate assets					130,430
Consolidated total assets					148,834
LIABILITIES					
Unallocated corporate liabilities					45,637
Consolidated total liabilities					45,637

2004

OTHER INFORMATION

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
Allowance for bad and doubtful debts	362	–	–	–	362
Capital additions	3,690	825	360	194	5,069
Depreciation and amortisation of property, plant and equipment	6,336	1,417	618	333	8,704

4. SEGMENT INFORMATION *(Continued)*

2003

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Consolidated *US$'000*
TURNOVER					
External sales	93,062	21,553	10,109	4,828	129,552
RESULTS					
Segment results	9,100	2,108	988	473	12,669
Other operating income					1,393
Unallocated corporate expenses					(6,703)
Profit from operations					7,359
Interest on bank borrowings wholly repayable within five years					(725)
Amortisation of goodwill of an associate					(79)
Impairment loss recognised in respect of an investment security					(2,493)
Share of results of associates					191
Share of results of jointly controlled entities					136
Profit before taxation					4,389
Taxation					(172)
Net profit attributable to shareholders					4,217

4. SEGMENT INFORMATION *(Continued)*

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Consolidated *US$'000*
BALANCE SHEET					
ASSETS					
Segment assets	11,181	1,214	2,590	581	15,566
Investments in associates	–	598	–	–	598
Investment in jointly controlled entities	–	2,135	–	–	2,135
Investment security	–	2,328	–	–	2,328
Unallocated corporate assets					141,074
Consolidated total assets					161,701
LIABILITIES					
Unallocated corporate liabilities					55,357
Consolidated total liabilities					55,357

2003

OTHER INFORMATION

	North America *US$'000*	Asia *US$'000*	Europe *US$'000*	Others *US$'000*	Consolidated *US$'000*
Capital additions	1,510	350	164	78	2,102
Depreciation and amortisation of property, plant and equipment	6,985	1,618	759	363	9,725

The Group's operations are located in Mainland China (the "PRC"), Hong Kong and Taiwan.

4. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, as analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
PRC	**2,404**	2,953	**4,134**	2,066
Hong Kong	**12,495**	12,491	**911**	28
Taiwan	**175**	122	**24**	8
	15,074	15,566	**5,069**	2,102

BUSINESS SEGMENTS

No analysis of financial information by business segment is presented as all the Group's turnover and trading results are generated from the manufacture and sale of footwear products.

5. PROFIT FROM OPERATIONS

	2004	2003
	US$'000	*US$'000*
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 6)*	**727**	1,041
Other staff costs	**31,458**	28,255
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**1,188**	1,131
Total staff costs	**33,373**	30,427
Auditors' remuneration	**96**	97
Cost of inventories recognised as an expense	**77,266**	63,100
Depreciation and amortisation of property, plant and equipment	**8,704**	9,725
Loss on disposal of property, plant and equipment	**6**	4
Allowance for bad and doubtful debts	**362**	–
Net foreign exchange losses	**–**	1,343
and after crediting:		
Interest income	**76**	123
Net foreign exchange gain	**225**	–

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004	2003
	US$'000	*US$'000*
Directors' fees:		
Executive	**73**	73
Non-executive	**6**	8
Independent non-executive	**17**	15
Other emoluments (executive directors):		
Basic salaries and allowances	**538**	512
Bonus	**93**	433
Total	**727**	1,041

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK$1,000,000 (equivalent to Nil to US$129,032)	**7**	4
HK$1,000,001 to HK$1,500,000 (equivalent to US$129,033 to US$193,548)	**1**	2
HK$1,500,001 to HK$2,000,000 (equivalent to US$193,549 to US$258,064)	**1**	–
HK$2,000,001 to HK$2,500,000 (equivalent to US$258,065 to US$322,581)	**1**	1
HK$3,000,001 to HK$3,500,000 (equivalent to US$387,097 to US$451,613)	**–**	1

The five highest paid individuals of the Group included 3 executive directors (2003: 4 executive directors) of the Company, details of whose emoluments are included in the amounts disclosed above. The emoluments of the remaining 2 highest paid individuals (2003: 1 employee), other than directors of the Company, were as follows:

	2004	2003
	US$'000	*US$'000*
Basic salaries and allowances	**256**	144
Retirement benefits scheme contributions	**2**	–
	258	144

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

The emoluments of these highest paid employees were within the following bands:

	Number of employees	
	2004	2003
Nil to HK$1,000,000 (equivalent to Nil to US$129,032)	**1**	–
HK$1,000,001 to HK$1,500,000 (equivalent to US$129,033 to US$193,548)	**1**	1

7. TAXATION

	2004	2003
	US$'000	*US$'000*
Current taxation:		
Hong Kong	**11**	10
PRC	**268**	152
Taiwan	**(2)**	7
	277	169
(Over)underprovision in prior years:		
Hong Kong	**–**	3
PRC	**(7)**	–
	(7)	3
Deferred taxation:		
Current year *(note 22)*	**(691)**	–
Taxation attributable to the Company and its subsidiaries	**(421)**	172

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for both years.

PRC income tax is charged at 27% or 33% on the assessable profits of the PRC subsidiaries.

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

Save as disclosed above, in the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

Details of the deferred taxation are set out in note 22.

7. TAXATION *(Continued)*

The tax (credit) charge for the year can be reconciled to the (loss) profit per the income statement as follows:

	2004	2003
	US$'000	*US$'000*
(Loss) profit before taxation	**(1,503)**	4,389
Tax at the domestic income tax rate of 33% (2003: 33%)	**(496)**	1,448
Tax effect of results of associates/jointly controlled entities	**(124)**	(108)
Tax effect of expenses not deductible for tax purpose	**2,796**	3,229
Tax effect of income not taxable for tax purpose	**(651)**	(933)
(Over)underprovision in respect of prior year	**(7)**	3
Tax effect of tax losses/deferred tax assets not recognised	**781**	447
Effect of tax exemptions granted to PRC subsidiaries	**(51)**	(24)
Tax effect on net income not taxable in any jurisdiction	**(2,702)**	(3,879)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(10)**	(11)
Others	**43**	–
Tax (credit) charge for the year	**(421)**	172

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

8. DIVIDENDS

	2004	2003
	US$'000	*US$'000*
Interim, paid – HK1 cent per ordinary share (2003: HK1 cent)	**943**	943
Final, proposed – Nil (2003: HK1.5 cent per ordinary share)	**–**	1,414
Underprovision of final dividend (note)	**–**	12
	943	2,369

For the year ended 31st December, 2003, the final dividend of HK1.5 cent per share had been proposed by the directors and was subject to approval by the shareholders in general meeting.

Note: The amount represents final dividend paid to shares issued subsequent to the approval of the financial statements for the year ended 31st December, 2002 by the Directors.

9. (LOSS) EARNINGS PER SHARE

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

	Earnings	
	2004	2003
	US$'000	*US$'000*
Net (loss) profit attributable to shareholders	**(1,082)**	4,217

	Number of shares	
	2004	2003
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**730,700**	727,841
Effect of dilutive potential ordinary shares for share options	**–**	1,647
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**730,700**	729,488

No diluted loss per share for the year ended 31st December, 2004 has been presented because there are no potential ordinary shares outstanding.

10. PROPERTY, PLANT AND EQUIPMENT

	Medium-term land use rights and buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
THE GROUP							
COST OR VALUATION							
At 1st January, 2004	47,632	126	1,468	82,835	14,305	910	147,276
Additions	146	1,067	10	3,356	386	104	5,069
Transfers	–	(29)	–	29	–	–	–
Disposals	–	–	(11)	–	(44)	–	(55)
Revaluation	(729)	–	–	–	–	–	(729)
At 31st December, 2004	47,049	1,164	1,467	86,220	14,647	1,014	151,561
Comprising:							
At cost	–	1,164	1,467	86,220	14,647	1,014	104,512
At valuation - December 2004	47,049	–	–	–	–	–	47,049
	47,049	1,164	1,467	86,220	14,647	1,014	151,561
DEPRECIATION AND AMORTISATION							
At 1st January, 2004	–	–	1,463	51,476	10,638	766	64,343
Provided for the year	1,131	–	2	6,569	935	67	8,704
Eliminated on disposals	–	–	(7)	–	(27)	–	(34)
Eliminated on revaluation	(1,131)	–	–	–	–	–	(1,131)
At 31st December, 2004	–	–	1,458	58,045	11,546	833	71,882
NET BOOK VALUE							
At 31st December, 2004	47,049	1,164	9	28,175	3,101	181	79,679
At 31st December, 2003	47,632	126	5	31,359	3,667	144	82,933

The medium-term land use rights and buildings and the construction in progress are situated in the PRC.

The medium-term land use rights and buildings were revalued as at 31st December, 2004 by Sallmanns (Far East) Limited, on an open market value basis. Sallmanns (Far East) Limited are not connected with the Group.

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

If the medium-term land use rights and buildings in the PRC had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation as follows:

	2004	2003
	US$'000	*US$'000*
Cost at the end of the year	**42,529**	42,383
Accumulated depreciation and amortisation	**(6,298)**	(5,419)
Net book value at the end of the year	**36,231**	36,964

11. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	US$'000	*US$'000*
Unlisted shares, at cost	**26,465**	26,465
Amounts due from subsidiaries	**25,729**	26,447
	52,194	52,912

On 16th November, 2004, the Group acquired additional 0.08% of the issued share capital of Topstair International (Taiwan) Ltd. ("Topstair Taiwan") for a consideration of US$350. After the acquisition, Topstair Taiwan becomes a wholly-owned subsidiary of the Company.

The carrying value of the unlisted shares is based on the net book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1996.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date and the balances are therefore shown as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2004 are set out in note 28.

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

12. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Overseas listed shares, at cost	**–**	–	**–**	5,000
Share of net assets of associates	**831**	2,926	**–**	–
Goodwill of an associate	**–**	2,493	**–**	–
	831	5,419	**–**	5,000
Transfer to investment security *(note)*	**–**	(4,821)	**–**	(5,000)
At 31st December	**831**	598	**–**	–
Amount due from an associate	**14**	–	**–**	–
Amount due to an associate	**–**	222	**–**	–

The amount due from/to an associate was unsecured, interest-free, and had no fixed repayment terms.

Particulars of the Group's associates at 31st December, 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activities
Hi-Tech Pacific Limited	Private limited company	British Virgin Islands	Hong Kong	Ordinary US$1,000,000	40%	Trading in footwear and investment holding
廣州和仁化學塑料有限公司	Wholly-owned foreign enterprise	PRC	PRC	Registered capital US$500,000	40%	Manufacturing of footwear materials

Note: The amount represented an investment in Secaicho Corporation ("Secaicho"), a company incorporated in Japan. The investment represented a holding of 23.83% of the ordinary shares of Secaicho. On 30th July, 2003, Secaicho filed an application to the Osaka Court for corporate reorganisation (the "Reorganisation") as it was in short supply of short-term working capital. According to the application for the Reorganisation, Secaicho's assets were under protection and negotiation with its creditor banks for debt-alleviation and interest reduction would take place. Upon the Reorganisation, the directors considered that the Group no longer had significant influence over the financial and operating decisions of Secaicho and therefore Secaicho was no longer regarded as an associate. Therefore, the Group's share of net assets of Secaicho together with the unamortised goodwill were reclassified to investment security in 2003 (see note 14).

12. INTERESTS IN ASSOCIATES *(Continued)*

The goodwill of an associate arose on the acquisition of Secaicho in 2002. The goodwill was amortised on a straight-line basis over a period of 20 years. The goodwill of approximately US$2,707,000 was amortised to the extent of US$135,000 on 1st January, 2003. Amortisation charged in 2003 amounting to approximately US$79,000 was included in the consolidated income statement.

The results of Secaicho incorporated into the Group's financial statements in 2003 were derived from its audited financial statements made up to 31st March, 2003.

The results of associates other than Secaicho incorporated into the Group's financial statements in the current year are derived from its audited financial statements made up to 31st December each year.

13. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Share of net assets of jointly controlled entities	**2,499**	2,135

Particulars of the Group's principal jointly controlled entity at 31st December, 2004 are as follows:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activities
C.P.L. International Company Limited ("C.P.L.")	Private limited company	British Virgin Islands	PRC	Ordinary US$8,000,000	30%	Manufacture of leather materials

The results of C.P.L. incorporated into the Group's financial statements are derived from the audited financial statements made up to 31st December each year.

14. INVESTMENT SECURITY

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Listed equity securities	**4,821**	4,821	**5,000**	5,000
Impairment loss recognised *(note i)*	**(2,493)**	(2,493)	**(2,672)**	(2,672)
Write-off of investment security *(note ii)*	**(2,328)**	–	**(2,328)**	–
	–	2,328	**–**	2,328
Market value *(note iii)*	**N/A**	N/A	**N/A**	N/A

The investment security represents an investment in Secaicho. The investment represents a holding of 23.83% of the ordinary shares of Secaicho. Secaicho is ceased to be an associate of the Company after the Reorganisation as set out in note 12 since 30th July, 2003.

As at 31st December, 2003, the amount due from an investee amounting to US$199,000 was unsecured, interest-free and had no fixed repayment terms.

Notes:

(i) As at 31st December, 2003, based on a review of Secaicho's latest financial information and a projection of its operating results with reference to market information, the directors determined that an impairment loss which represented the unamortised amount of goodwill arising on the acquisition of Secaicho (note 12) be recognised in the income statement for the year ended 31st December, 2003.

(ii) On 17th September, 2004, the corporate reorganisation of Secaicho, approved by the Osaka Court in Japan, was confirmed. Pursuant to the court order and subsequent to the capital reduction, the then existing shareholders experienced a loss in the legal ownership of Secaicho and no compensation would be made to the then existing shareholders of Secaicho. Accordingly, the directors determined to write off the remaining carrying amount of investment in Secaicho in the income statement for the year ended 31st December, 2004.

(iii) The shares of Secaicho were listed on the Osaka Securities Exchange of Japan, prior to being suspended on 30th July, 2003.

15. INVENTORIES

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Raw materials	**31,023**	27,645
Work in progress	**7,810**	8,421
Finished goods	**6,212**	5,763
	45,045	41,829

At the balance sheet date, all inventories were carried at cost.

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
0-30 days	**10,311**	9,910
31-60 days	**952**	196
>60 days	**586**	1,000
Total trade receivables	**11,849**	11,106
Other receivables	**3,225**	4,460
	15,074	15,566

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
0-30 days	**3,054**	2,813
31-60 days	**811**	2,816
>60 days	**283**	4,304
Total trade payables	**4,148**	9,933
Other payables	**7,557**	7,802
	11,705	17,735

18. UNSECURED BANK BORROWINGS

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Bank loans	**27,748**	32,340
Trust receipt loans	**2,695**	947
	30,443	33,287

The maturity profile of the above bank borrowings which carry interest at prevailing market rates is as follows:

On demand or within one year	**17,073**	18,584
More than one year, but not exceeding two years	**10,165**	10,177
More than two years, but not exceeding five years	**3,205**	4,526
	30,443	33,287
Less: Amounts due within one year shown under current liabilities	**(17,073)**	(18,584)
	13,370	14,703

19. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each (note)		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	150	15,000
		34,355

Note: Convertible non-voting preference shares, when issued and outstanding, carry fixed cumulative dividend. Under certain circumstances, they are entitled to additional dividend and are convertible into shares of the Company.

	Number of shares		Amount	
	2004	2003	**2004**	2003
	'000	*'000*	***US$'000***	*US$'000*
Issued and fully paid				
Ordinary shares of HK$0.10 each				
At beginning of year	**730,700**	721,300	**9,428**	9,307
Shares issued on exercise of share options	**–**	9,400	**–**	121
At end of year	**730,700**	730,700	**9,428**	9,428

20. RESERVES

	Share premium US$'000	Contributed surplus US$'000	Dividend reserve US$'000	Accumulated profits US$'000	Total US$'000
THE COMPANY					
At 1st January, 2003	21,038	19,486	931	8,602	50,057
Issue of shares on exercise of share options	606	–	–	–	606
Net loss for the year	–	–	–	(969)	(969)
Dividends paid for 2002	–	–	(931)	–	(931)
Dividends declared for 2003	–	–	2,357	(2,357)	–
Underprovision of final dividend for 2002 *(note 8)*	–	–	12	(12)	–
Dividend paid for 2002	–	–	(12)	–	(12)
Dividends paid for 2003	–	–	(943)	–	(943)
At 31st December, 2003	21,644	19,486	1,414	5,264	47,808
Net loss for the year	–	–	–	(719)	(719)
Dividends paid for 2003	–	–	(1,414)	–	(1,414)
Dividends declared for 2004	–	–	943	(943)	–
Dividends paid for 2004	–	–	(943)	–	(943)
At 31st December, 2004	21,644	19,486	–	3,602	44,732

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under a corporate reorganisation undertaken in 1996.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus 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.

The Company's reserves available for distribution to shareholders as at 31st December, 2004 are represented by its accumulated profits, dividend reserve and contributed surplus, totalling approximately US$23,088,000 (2003: US$26,164,000).

21. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25th September, 1996 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 24th September, 2006. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31st December, 2004 and 31st December, 2003, no share option remained outstanding under the Scheme. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

No consideration is payable on the grant of an option. Options may be exercised at any time for a period of three years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant an option.

During the year ended 31st December, 2004, no share options were granted or exercised. At 31st December, 2004, no share options were outstanding.

Details of the Group's share options held by employees (including directors) under the Scheme for the year ended 31st December, 2003 were as follows:

					Number of share options			
	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
Directors	23.4.1999	23.4.1999 to 22.4.2000	23.4.2000 to 22.4.2003	0.60	14,300,000	9,200,000	5,100,000	–
Employee	23.4.1999	23.4.1999 to 22.4.2000	23.4.2000 to 22.4.2003	0.60	300,000	200,000	100,000	–
					14,600,000	9,400,000	5,200,000	–

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.

22. DEFERRED TAXATION

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

THE GROUP

	Revaluation of medium-term land use rights and buildings in the PRC	Accelerated tax depreciation	Total
	US$'000	*US$'000*	*US$'000*
At 1st January, 2003	3,783	–	3,783
Charge to equity	259	–	259
At 31st December, 2003	4,042	–	4,042
Charge to equity	109	–	109
Credit to income statement	–	(691)	(691)
At 31st December, 2004	4,151	(691)	3,460

At the balance sheet date, the Group had unused tax losses of approximately US$4,664,000 (2003: US$2,396,000) available for offset against future profits, and deductible temporary difference of approximately US$118,000 (2003: US$20,000) in respect of accelerated tax depreciation. No deferred tax assets have been recognised in respect of such assets due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$174,000, US$711,000, US$525,000 and US$485,000 (2003: US$174,000, US$711,000 and US$525,000) that will expire in the year of 2007, 2008, 2009 and 2010 (2003: 2007, 2008 and 2009), respectively. Other losses may be carried forward indefinitely.

THE COMPANY

The Company had no significant provided or unprovided deferred taxation for the year or at the balance sheet date.

23. CONTINGENT LIABILITIES

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Bills discounted with recourse	**107**	196

THE COMPANY

The Company has given corporate guarantees to certain banks in respect of general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December, 2004 amounted to approximately US$30,550,000 (2003: US$33,292,000).

24. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**–**	14

At the respective balance sheet dates, the Company did not have any significant capital commitment.

25. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Property rentals paid by the Group under operating leases during the year in respect of:		
Minimum lease payments	**612**	474
Contingent rent	**1,132**	949
	1,744	1,423

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	US$'000	*US$'000*
Within one year	**616**	537
In the second to fifth year inclusive	**435**	422
Over five years	**928**	993
	1,979	1,952

25. OPERATING LEASE COMMITMENTS *(Continued)*

Operating lease payments represent rentals payable by the Group for its factories and office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

In addition to the above, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of certain outlets which are based on a fixed percentage of the annual gross turnover of the outlets.

At the respective balance sheet dates, the Company had no commitments under non-cancellable operating leases.

26. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all 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 scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the PRC. These subsidiaries are required to contribute 11% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

27. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had the following transactions with its related parties:

	THE GROUP	
Nature of transactions	**2004**	2003
	US$'000	*US$'000*
Sales by the Group to Secaicho	**4,819**	6,390
Purchases by the Group from Secaicho	**25**	366
Purchases by the Group from an associate	**850**	431
Purchases by the Group from a jointly controlled entity	**954**	1,047

In the opinion of the directors, the transactions were entered into on terms determined by reference to market prices.

Details of the balances with the associates and the investee as at respective balance sheet dates are set out in the consolidated balance sheet and notes 12 and 14, respectively.

28. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
W.P.T. Development Inc.	British Virgin Islands/Hong Kong	Ordinary US$8	100%	–	Investment holding
Pacific Footgear Corporation	British Virgin Islands/Hong Kong	Ordinary US$1	–	100%	Marketing and trading in footwear
Wuco Corporation	British Virgin Islands/Hong Kong	Ordinary US$8	–	100%	Trading in footwear and investment holding
Nagano Management Limited	British Virgin Islands/Hong Kong	Ordinary US$11	–	100%	Investment holding
Topstair International (H.K.) Company Limited	Hong Kong	Ordinary HK$10,000	–	100%	Provision of administrative services to group companies
Pan Yu Fang Chun Footwear Co., Ltd.* 番禺豐群鞋業有限公司	PRC	US$10,600,000	–	100%	Manufacture of footwear and footwear materials
Panyu Pegasus Footwear Co. Ltd. * 番禺創信鞋業有限公司	PRC	US$27,100,000	–	100%	Manufacture of footwear and footwear materials
Topstair International (Taiwan) Ltd. 台灣松鄰國際有限公司	Taiwan	NT$5,000,000	–	100%	Trading in raw materials of footwear
廣州創信鞋品服飾有限公司 *	PRC	RMB1,000,000	–	100%	Marketing and trading in footwear in the PRC

* These subsidiaries are established in the PRC as wholly-owned foreign enterprises.

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.

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