STRUGGLE YOUR WAY TO SUCCESS

ANNUAL REPORT **2005**

Nority International Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 0660)

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Feng Shen Chuan *(Chairman)*
Kuo Shu Chen
Feng Yung Chuan
Wu Xiaoqin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lo Kwok Kwei, David
Au Wing Kit
Engenia Yang

CHIEF EXECUTIVE OFFICER

Feng Jim Chia Chun

COMPANY SECRETARY

Chan Yuen Bik, Jane

QUALIFIED ACCOUNTANT

Chan Chi Tak

REGISTERED OFFICE

P.O. Box 309
Kirk House
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor
Parkes Commercial Centre
2–8 Parkes Street
Tsim Sha Tsui
Kowloon
Hong Kong

AUDITORS

Ho and Ho & Company, *Certified Public Accountants*

REGISTRAR IN HONG KONG

Abacus Share Registrars Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISERS

Fairbairn Catley Low & Kong

CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the audited results of Nority International Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December 2005.

On 24th March 2006, the Company received a notification from Micon Limited, a substantial shareholder of the Company, stating that Micon Limited has acquired an additional of approximately 9.31% of the issued share capital of the Company and has accordingly incurred an obligation to make a general offer to purchase all the issued shares of the Company, other than those shares already held by Micon Limited and parties acting in concert with it.

Since the Company is in the process of preparing and publishing this 2005 annual report, a response document regarding the mandatory unconditional cash offer ("Cash Offer") made by Dao Hang Securities Limited on behalf of Micon Limited has not been dispatched to the shareholders of the Company. At this stage, the Board of Directors cannot anticipate the level of acceptances of the Cash Offer as there is no indication of the preference of the independent shareholders of the Company. However, all directors intend to accept the Cash Offer and sell their shares.

Prior to the Cash Offer of the Company, the core business of the Group is the manufacture and export of athletic, athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes. During the year, the Company's major customers were Fila, Geox, Hi-Tech and etc.

In 2005, the core business of the Group continued to report a loss. It was mainly due to the intense competition from its peers, the high oil price and the increase in labour cost in the Pearl River Delta Region, which resulted in a sharp increase in the price of imported raw materials and operating cost. Hence, the consolidated results of the Group for the year ended 31st December 2005 have been be materially adversely affected by the increase in the operating cost. Also, the revaluation loss of the property in a wholly-owned subsidiary in Taiwan due to the change in accounting policies in Taiwan was led to the increase in loss of the Group for the year 2005.

However, the Board of Directors remain confident in its future prospects. The Group will continue to make an all-out effort to search for business opportunities by closely monitoring market trends and continue to look for investments with reasonable return. In order to enhance the operating efficiency, the Company also introduce the new Enterprises Resource Planning System and expect that the system can be fully operative shortly. The Company expects that there will be a improvement in its procurement and resources management, inventory control, manufacturing management and working capital management.

During the year, the Board of Directors also spent considerable time to review the strategic direction and business as well as financial performance and policies of the Company. We will also continue to develop and enhance corporate governance framework and we looked closely at the structure and composition of our Board and committees so as to achieve ongoing best practice. The Company is of a view to have a high standard of corporate governance so as to protect the interests of all shareholders of the Company.

CHAIRMAN'S STATEMENT

Looking ahead, the management still strongly believes that the Group's competitiveness will be improved by carrying out reforms in various aspects, increasing its productivity and improving cost control. The Group will also strive to maintain financial stability, strengthen its leading position in the market and adopt balanced and prudent project development strategies in order to create the highest value for our shareholders, as well as endeavour to maintain the quality of our products and services.

On behalf of the Board of Directors, I would like to take this opportunity to thank our employees, shareholders and customers for their continued support and commitment.

Feng Shen Chuan
Chairman

Hong Kong, 26th April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND DIVIDENDS

The net loss of the Group for the year ended 31st December 2005 is HK$52,386,000 (2004 as restated: loss of HK$29,016,000). The turnover of the Group for the year ended 31st December 2005 is HK$297,638,000 (2004: HK$259,472,000), representing an increase of approximately 14.71% over the previous year. The Group recorded a loss before taxation of HK$59,064,000 (2004 as restated: loss before taxation of HK$30,303,000) for the year.

The basic loss per share for the year ended 31st December 2005 is HK19.37 cents (2004 as restated: basic loss per share of HK11.05 cents).

The directors do not recommend the payment of dividend for the year ended 31st December 2005 (2004: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has adhered to stringent and prudent financial policies in monitoring and managing its cash resources as well as banking facilities. As at 31st December 2005, the Group had available cash and bank balances of approximately HK$20,846,000 (2004: HK$27,038,000). The Group did not incur any bank overdraft or loan for the year 31st December 2005. No deposit was pledged by the Company for banking facilities available to the Group of HK$25,000,000 (2004: HK$35,000,000). The banking facilities are secured by legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with an aggregate net book value of approximately HK$14,884,000 (2004 as restated: HK$42,507,000) as at 31st December 2005.

Funding of the Group's operations is mainly financed by internal resources. There were no borrowings from banks to the Group (2004: Nil) as at 31st December 2005.

The management is confident that the ample financial resources of the Group not only provide adequate funding for its operational requirements but also put the Group in a favorable position for future expansion.

There is no change in the capital structure of the Company during the year under review.

CONTINGENT LIABILITIES

At 31st December 2005, the Company provided a corporate guarantee to a bank in respect of banking facilities of HK$25,000,000 (2004: HK$35,000,000) granted to a subsidiary. At 31st December 2005, none (2004: HK$893,000) of the banking facilities was utilised.

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

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON GROUP ASSETS

During the year ended 31st December 2005, certain land and buildings of the Group in Hong Kong and Taiwan with an aggregated net book value of approximately HK$14,884,000 (2004 as restated: HK$42,507,000) were pledged for banking facilities.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Since essentially all of the transactions including purchases and sales of the Group are denominated in Hong Kong dollars, New Taiwan dollars, Renminbi or US dollars. In view of the stability of the exchange rates of Hong Kong dollars, New Taiwan dollars, Renminbi and US dollars, the directors consider that the Group has no significant exposure to foreign exchange fluctuation. No hedging or other arrangements to reduce the currency risk has been implemented.

SIGNIFICANT INVESTMENT

For the year ended 31st December 2005, the Group had not made significant investment.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There were no material acquisition and disposal of subsidiaries by the Group during the year. At present, the Group has no plan for material investments.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2005, the Group had a total of approximately 20 employees in its Hong Kong and Taiwan offices and approximately 2,700 workers in its processing bases in Mainland China. In addition to the competitive remuneration packages offered to employees, discretionary bonus may also be granted to eligible employees based on the performance of the Group and individual employees. In addition, the Group offers employee share options to employees according to individual merits.

CORPORATE GOVERNANCE REPORT

Nority International Group Limited (the "Company") is committed to achieving high standard of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability of the Company. The Company has applied the principles and complied with the code provisions as prescribed in Appendix 14 - Code on Corporate Governance Practices ("CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which became effective on 1 January 2005.

To ensure compliance with the CG Code, the Board of Directors (the "Board") has examined and reviewed the issues arising from application of corporate governance practices to the Company and where necessary and appropriate, will amend the Articles of Association of the Company (the "Articles") to bring the Articles in alignment with provisions of the CG Code. This report describes the Company's corporate governance practices and explains the applications of the principles of the CG Code and any deviation therefrom.

CORPORATE GOVERNANCE PRACTICES

The Board assumes overall responsibilities for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the financial performance of the Group.

To maximise the effectiveness of the Board, the Company has established audit committee and remuneration committee with specific written terms of reference respectively to assist the committes in execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time to enhance the corporate governance practices of the Company.

There is a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to directors and senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has to report back to the Board and obtain prior approval before making decisions for key matters or entering into any commitments on behalf of the Company. The Board has a balance of skill and experience appropriate for the requirements of the business of the Company.

All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc. All directors are given the opportunities to include matters to be discussed in the agenda of the board/committee meetings. The Company Secretary is delegated with the responsibility to prepare meeting agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda. An agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time. Relevant notices are also given to all directors of the Company for regular board meetings at least 14 days before the meetings.

CORPORATE GOVERNANCE REPORT

Minutes of the board/committee meetings are recorded in significant detail for any decision and recommendation made during the meetings. Draft and final versions of minutes are circulated to directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. To properly discharge their duties, directors are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, should be present at such a board meeting.

During the year ended 31 December 2005, the Company was in compliance with the CG Code except for the following:

Deviation from the CG Code	Relevant CG Code Provisions	Step has been taken to comply with the CG Code
1. The Independent Non-executive Directors ("INEDs") are not appointed for specific term but are subject to the provisions for retirement and rotation of directors under the Articles of Association of the Company (the "Articles").	A.4.1	All INEDs were not appointed for a specific term but they are subject to retirement at the first General Meeting after their appointments and thereafter they are subject to retirement by rotation at least once every three years in accordance with the Articles pursuant to the CG Code.
2. The Company has not established written guidelines for relevant employees in respect of dealing in securities of the Company by 1 January 2005.	A.5.4	The Company has adopted the written guidelines for relevant employees in respect of dealing in securities of the Company on 1 June 2005.
3. The Company has not set up a Remuneration Committee ("RC") by 1 January 2005.	B.1.1	The Company has established the RC on 1 June 2005.
4. The existing terms of reference of Audit Committee of the Company ("AC") have not comprised all the duties of AC as set out in the CG Code.	C.3.3	The Company has adopted a revised terms of reference of AC to include all the duties of AC as set out in the CG Code on 1 June 2005.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established written guidelines regarding the required standard of dealings in securities by directors of the Company. Having made specific enquiries of directors of the Company, the Board is pleased to confirm that they have fully complied with the required standard with respect to the securities dealings of the Company pursuant to the Listing Rules during the year ended 31 December 2005.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises seven members as follows:

Executive Directors:

Mr Feng Shen Chuan *(Chairman)*

Ms Kuo Shu Chen

Mr Feng Yung Chuan

Ms Wu Xiaoqin

Independent Non-executive Directors:

Mr Lo Kwok Kwei David

Mr Au Wing Kit

Ms Eugenia Yang

BOARD AND COMMITTEE ATTENDANCE

The Board held four meetings in the year 2005. Details of the attendance of individual director at Board meetings and committee meetings during their terms of services in the Company in the year 2005 are set out as below :

Directors	**Board**		**Audit Committee**	
	Number of meetings held	**Number of meetings attended**	**Number of meetings held**	**Number of meetings attended**
Executive Directors				
Mr Feng Shen Chuan	4	3	–	–
Ms Kuo Shu Chen	4	4	–	–
Mr Feng Yung Chuan	4	1	–	–
Ms Wu Xiaoqin	4	3	–	–
Mr Hung Kun Fu[1]	1	1	–	–
Independent Non-Executive Directors				
Mr Lo Kwok Kwei David	4	0	2	2
Mr Au Wing Kit	4	1	2	1
Ms Eugenia Yang[2]	1	0	1	1
Ms Lam Tak Yee[3]	3	1	1	1

Notes:

1. Mr Hung Kun Fu resigned as executive director on 18 March 2005.

2. Ms Eugenia Yang was appointed as an independent non-executive director and audit committee member on 5 August 2005.

3. Ms Lam Tak Yee resigned as an independent non-executive director and audit committee member on 5 August 2005.

In order to ensure that the Board is able to fulfill its responsibilities, management has provided adequate and timely information to the Board regarding any affairs that require decision by the Board. Management is also required to produce reports relating to operational and financial performance of the Company to the Board. The Board has separate and independent access to senior management at all times.

Mr Feng Shen Chuan, the Chairman of the Company, is the brother of Mr Feng Yung Chuan, an Executive Director of the Company. He is also the father of Mr Feng Jim Chia-Chun, the Chief Executive Officer of the Company. Other than disclosed above, there is no other relationship (including financial, business, family or other material or relevant relationships) among members of the Board and between the Chairman and the Chief Executive Officer.

The Independent Non-executive Directors have the same duties of care and skill and fiduciary duties as the Executive Directors. The name of all Independent Non-executive Directors are expressly identified in all corporate communications.

All Independent Non-executive Directors meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgements. Pursuant to the requirements of the Listing Rules, the Company has also received annual written confirmation from each of the Independent Non-executive Directors. The Company considers all the Independent Non-executive Directors to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Feng Shen Chuan is the Chairman of the Company and Mr Feng Jim Chia Chuan is the Chief Executive Officer ("CEO") of the Company.

The role of the Chairman and CEO are segregated with a clear division of responsibilities between them to ensure balance of power and authority. As the Chairman of the Board, Mr. Feng Shen Chuan is responsible for, among others, exercising control over the quality, quantity and timeliness of the flow of information between the management of the Company and the Board, and assisting in ensuring compliance with the Company's guidelines on corporate governance. As CEO, Mr. Feng Jim Chia Chun is responsible for coordinating the Group's business and assist the Chairman of the Company to market and locate potential business opportunities and also execute the policy of the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee ("RC") with specific terms of reference which deal clearly with its authorities and duties. The RC consists of three Independent Non-executive Directors, Mr Lo Kwok Kwei David, Mr Au Wing Kit and Ms Eugenia Yang; and one Executive Director, Mr Feng Shen Chuan. Mr Lo Kwok Kwei David is the Chairman of the RC. The responsibility of RC is to oversee Board remuneration matters and the main functions of the RC are as follows:

- recommend the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determine the remuneration packages of all Executive Directors and senior management;
- review and approve their performance-based remuneration;
- review and approve compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensure that no director or any of his associates is involved in deciding his own remuneration.

The emoluments of Executive Director comprise a basic salary for their contributions which are determined by reference to the skill, experience, responsibilities, employment conditions and performance of each director. All Independent Non-Executive Directors receive a fixed fee for their services. Revision to the remuneration packages for Directors are subject to the review and approval of the Board of Directors of the Company and is thereafter, subject to shareholders' approval at the annual general meeting. Details of directors' remuneration for each Director are set out in this Annual Report.

The Company has adopted a share option scheme on 10 June 2003 which serves as a long term incentive to attract and retain eligible staff including directors of the Company so that the level of remuneration packages of staff including directors are sufficient and competitive compared to the prevailing market condition.

No RC meeting has been held in year 2005 to review the remuneration packages of the Board, which are nominal by market standards and the Company's performance. The Board considered that the existing remuneration packages to each director are reasonable and appropriate with reference to the financial performance of the Company.

NOMINATION OF DIRECTORS

The Board does not establish a Nomination Committee at present to make recommendations to the Board regarding the Board appointments. The Company understands the need to maintain its cost competitiveness with reference to the financial performance of the Company and the current difficult market conditions. The Board will review the need for a Nomination Committee at appropriate time.

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new director is a matter for consideration by the Board. The Board reviews the profiles of the candidates and makes recommendations on the appointments, re-election and retirement of directors. Candidates are appointed to the Board on the basis of the skill, competencies and experience that they can contribute to the Company. The Company believes that members of the Board, individually and collectively, have satisfactorily discharged their duties to the Company. During the year, Mr Hung Kun Fu resigned as Managing Director and Executive Director of the Company and Ms Lam Tak Yee resigned as Independent Non-executive Director of the Company for personal reasons. Ms Eugenia Yang was appointed as Independent Non-executive Director of the Company in 2005.

Newly appointed director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company.

The Independent Non-executive Directors are not appointed for specific term and are subject to retirement by rotation and re-election by shareholders at Annual General Meeting ("AGM") after their appointment and thereafter at least once every three years in accordance with the Company's Articles of Association.

In accordance with Article 99 of the Company's Articles of Association, one-third of the directors who have been longest in office since their last election or re-election are subject to retirement by rotation. All retiring directors are eligible for re-election.

AUDIT COMMITTEE

The Company has established an Audit Committee ("AC") with specific terms of reference explaining its role and authorities delegated by the Board. The AC consists of three Independent Non-executive Directors, Mr Lo Kwok Kwei David, Mr Au Wing Kit and Ms Eugenia Yang, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 1 June 2005 which are substantially the same as the provisions set out in the CG Code.

CORPORATE GOVERNANCE REPORT

The Company provides sufficient resources to the members of AC for discharging their duties. The main duties and responsibilities of AC are set out as follows:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- discussing with external auditor's independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems.

The role of AC is to assist the Board in the execution of its corporate governance responsibilities within the established Board references and requirements. The AC has reviewed the interim and annual financial statements of the Group for the year ended 31 December 2005 as well as the auditors' report, interim results announcements and annual results announcements before they are presented to the Board for approval.

The AC noted that there were no non-audit services provided by the external auditors to the Group during the financial year ended 31 December 2005 that could affect the independence of the external auditors.

Minutes of AC are kept by the Company Secretary. Draft and final versions of minutes are sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis. The directors have also ensure timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

INTERNAL CONTROLS

The Board maintains a system of internal controls for all companies within the Group. The controls are to provide reasonable assurance (but not absolute guarantee) that assets are adequately safeguard, operational controls are in place, business risks are suitably protected and proper accounting records are maintained.

In order to fully complied with the CG Code provision C.2 "Internal Control" which will be implemented for accounting periods commencing on or after 1 July 2005, the Board is in the process of reviewing and modifying the Group's internal control system.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors, Ho & Ho and Company, is HK$547,000 for reviewing the interim results and auditing the final results of the Company. There is no non-audit services provided by Ho & Ho and Company during the year ended 31st December 2005.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company are available to answer questions raised by shareholders.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting to be despatched to the shareholders of the Company. The Chairman of the meeting ensures that the Company is in compliance with the voting by poll requirements.

CORPORATE GOVERNANCE REPORT

The Company has counted all proxy votes, and except where a poll is required, the Chairman of a meeting indicates to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution. The Company ensures that votes cast are properly counted and records.

The Chairman of the meeting ensures that at the commencement of the meeting an explanation is provided of (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and answers any questions from shareholders whenever voting by way of a poll is required.

REPORT OF THE DIRECTORS

The directors are pleased to present their annual report together with the audited financial statements of the Group for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the manufacture and export of athletic, athletic-style leisure footwear and golf shoes. Details of the activities of the subsidiaries are set out in note 36 to the financial statements.

An analysis of the Group's performance for the year by geographical segment is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 28.

The directors do not recommend the payment of dividend for the year.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the movements in property, plant and equipment and construction-in-progress of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

In accordance with Article 140 of the Company's Articles of Association, dividends can only be paid out of the accumulated profits of the Company. There is no distributable reserves of the Company as at 31st December 2005 (2004: HK$665,000).

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the past five financial years is set out on page 80.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:–

Mr Feng Shen Chuan *(Chairman)*	
Ms Kuo Shu Chen	
Mr Feng Yung Chuan	
Ms Wu Xiaoqin	
Mr Lo Kwok Kwei, David *	
Mr Au Wing Kit *	
Ms Eugenia Yang *	(appointed on 5th August 2005)
Ms Lam Tak Yee *	(resigned on 5th August 2005)

* *Independent non-executive directors*

The Company has received annual confirmations from each of the existing independent non-executive directors as regards their independence to the Company. The Board considers that all of them are independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr Feng Shen Chuan, aged 62, is the founder of the Group and chairman of the Company. He oversees the Group's overall policy and development as well as its sales and marketing functions. Mr Feng has been in the footwear business for more than 35 years. He is the brother of Mr Feng Yung Chuan and father of Mr Feng Jim Chia Chun.

Ms Kuo Shu Chen, aged 49, is a director of the Company and the financial manager of the Group. She has more than 21 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr Feng Yung Chuan, aged 61, joined the Group in 1997. He has more than 28 years of experience in the electronics industry. He is the brother of Mr Feng Shen Chuan.

Ms Wu Xiaoqin, aged 41, joined the Group in 1995, was appointed as a director of the Company in 1999. She obtained a bachelor degree in chemistry and has more than 16 years of experience in administrative management.

Independent non-executive directors

Mr Lo Kwok Kwei, David, aged 47, obtained degrees of bachelor of laws and bachelor of jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984. He has been a member of the Law Society of Hong Kong since 1987. He has been practising as a solicitor in Hong Kong for over 15 years and is a partner in David Lo & Partners. He joined the board of directors of the Company in 1992 and is a member of the Audit Committee of the Company.

Mr Au Wing Kit, aged 34, obtained a bachelor degree of commerce in accounting and finance from the University of New South Wales, Australia in 1995. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of Australia. He has over 10 years of experience in financial accounting and auditing. He joined the board of directors of the Company in 2002 and is a member of the Audit Committee of the Company.

Ms Eugenia Yang, aged 29, obtained a bachelor degree in Commerce, a bachelor degree in Laws and a master degree in Commerce (Finance). She is a member of the Australian Society of Certified Practicing Accountants and a member of the Hong Kong Institute of Certified Public Accountants. She joined the board of directors of the Company in 2005 and is a member of the Audit Committee of the Company.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior management

Mr Feng Jim Chia Chun, aged 33 is the Chief Executive Officer of the Group. He is responsible for coordinate of the Group's business and assist the Chairman of the Company to market and locate potential business opportunities and also execute the policy of the Company. He joined the Group during 2005 and is the son of Mr Feng Shen Chuan, the Chairman of the Company.

Mr Hsu Ching Huang, Kenny, aged 51, joined the Group in 1991 and is the Group's deputy general manager responsible for the overall manufacturing operations. He is responsible for footwear materials purchases and research and development in the Group's office in Mainland China. He has more than 26 years of experience in footwear manufacturing.

Mr Chan Chi Tak, aged 29, is the Qualified Accountant of the Group. Mr Chan holds a bachelor degree in Accountancy from University of Melbourne and a master degree in Business System from Monash University (Melbourne). He is a member of Hong Kong Institute of Certified Public Accountant and a member of the Australian Society of Certified Practicing Accountants. He joined the Group in 2005.

DIRECTORS' SERVICE CONTRACTS

Mr Feng Shen Chuan has entered into a service contract with the Company for a term of three years commencing from 1st December 2004.

Other than disclosed therein, none of the directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS SCHEME

Share option scheme of the Company was adopted by the shareholders of the Company on 10th June 2003 to comply with the requirements of Chapter 17 of the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited.

The purpose of the option scheme is to enable the Company to grant options to eligible participants in recognition of their contribution to the Group. Under the terms of the Scheme, the directors may, at their discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The maximum number of share in respect of which options may be granted (together with options exercised and options then outstanding) at any time under the Scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company to, or for the benefit of eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company as at the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may, from time to time, seek approval from shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

Furthermore, the total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant to each eligible participant shall not exceed 1% of the total issued shares.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days inclusive of and from the date of other offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with the consideration of HK$10 is received by the Company.

The subscription price for the shares shall be determined by the directors at their discretion but shall not be less than the higher of:–

(a) the closing price of the shares as stated in Stock Exchange's daily quotations sheet on the date of offer;

(b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and

(c) the nominal value of the shares on the date of offer.

REPORT OF THE DIRECTORS

SHARE OPTIONS SCHEME *(Continued)*

An option may be exercised at any time during a period to be determined and identified by the directors to each grantee at the time of making the offer, but in any event, shall not exceed the period of ten years from the date of grant of the particular option, subject always to the early termination of the Scheme.

During the year, the Company has not granted any option to any directors or eligible persons under the Scheme. No share option was outstanding as at 31st December 2005.

Apart from the share option scheme mentioned above,

(a) none of the directors and chief executives or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right; and

(b) at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2005, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:–

Name of director	Number of shares held in personal interests
Feng Shen Chuan	79,188,515
Kuo Shu Chen	3,067,248
Feng Yung Chuan	7,501,500
Wu Xiaoqin	80,000

* There were 248,000 shares held in the name of HKSCC Nominees Limited, of which Mr Feng Shen Chuan is the beneficial owner of these shares.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr Feng Shen Chuan in trust for the Group as at 31st December 2005, none of the directors and chief executives (including their spouse and children under 18 years of age) had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of shareholder	Number of Shares
Micon Limited	114,118,540

Note: Micon Limited is a wholly-owned subsidiary of South China Industries Limited which is itself a subsidiary of South China Holdings Limited.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

None of the Directors of the Company or their respective associates had any interests in business which competes or may compete with the business of the Group.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:–

Purchases	
– the largest supplier	6%
– five largest suppliers combined	26%
Sales	
– the largest customer	32%
– five largest customers combined	81%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and customers noted above.

CONNECTED TRANSACTIONS

No connected transactions required to be disclosed by the Company pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were entered into by the Company or any of its subsidiaries during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established written guidelines regarding the required standard of dealings in securities by directors of the Company. The Company confirms that, having made specific enquiry of all directors, the directors have fully complied with the required standard with respect to the securities dealing of the Company pursuant to the Listing Rules during the year ended 31st December 2005.

CORPORATE GOVERNANCE

The Company is committed to achieving high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 7 to 16.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITORS

Messrs. Ho and Ho & Company were auditors of the Company for the year ended 31st December 2005. The accompanying financial statements were audited by Messrs. Ho and Ho & Company. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Feng Shen Chuan
Chairman

Hong Kong, 26th April 2006

REPORT OF THE AUDITORS

To the shareholders of

Nority International Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Nority International Group Limited ("the Company") and its subsidiaries ("the Group") on pages 28 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

Ho and Ho & Company
Certified Public Accountants
Hong Kong
26th April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31st December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Turnover	7	**297,638**	259,472
Cost of sales		**(295,066)**	(252,653)
Gross profit		**2,572**	6,819
Other revenue	7	**1,920**	1,599
Selling expenses		**(16,338)**	(12,507)
Administrative expenses		**(27,284)**	(30,708)
Impairment loss recognised on freehold land and buildings in Taiwan	16	**(20,593)**	–
Other operating income, net		**769**	4,503
Finance costs	8	**(110)**	(9)
Loss before taxation	9	**(59,064)**	(30,303)
Taxation	12	**6,678**	1,287
Loss for the year		**(52,386)**	(29,016)
Attributable to:			
Equity holders of the Company		**(51,974)**	(29,625)
Minority interests		**(412)**	609
		(52,386)	(29,016)
Dividends	13	**–**	–
Basic loss per share	14	**HK(19.37) cents**	HK(11.05) cents

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Prepaid lease payments on land use rights	15	**11,568**	11,894
Property, plant and equipment and construction-in-progress	16	**82,711**	113,904
Investment properties	17	**4,197**	2,601
Investment securities	18	**–**	5,676
Available-for-sale investments	19	**1,314**	–
Held-to-maturity investments	20	**227**	–
Loans and receivables	21	**1,646**	–
Deferred tax assets	29	**10,656**	5,073
		112,319	139,148
Current assets			
Inventories	22	**40,283**	53,144
Trade and bills receivables	23	**41,751**	57,828
Deposits, prepayments and other receivables		**2,475**	2,964
Prepaid lease payments on land use rights	15	**326**	326
Other investments	24	**–**	545
Financial assets at fair value through profit or loss	25	**396**	–
Tax recoverable		**409**	460
Frozen bank balances	26	**3,128**	–
Cash and bank balances		**20,846**	27,038
		109,614	142,305
Current liabilities			
Trade and bills payables	27	**42,135**	45,305
Accruals and other payables		**21,929**	15,162
Tax payable		**2,017**	3,130
Retirement benefit obligations – current portion	28	**54**	1,115
Bank overdraft – secured		**–**	849
		66,135	65,561

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Net current assets		**43,479**	76,744
Total assets less current liabilities		**155,798**	215,892
Non-current liability			
Retirement benefit obligations			
– non-current portion	*28*	**6,442**	6,130
		149,356	209,762
Capital and reserves			
Share capital	*30*	**26,837**	26,837
Reserves		**115,106**	175,100
Equity attributable to equity holders of the Company		**141,943**	201,937
Minority interests		**7,413**	7,825
Total equity		**149,356**	209,762

The financial statements on pages 28 to 79 were approved and authorised for issue by the Board of Directors on 26th April 2006 and are signed on its behalf by:–

Feng Shen Chuan
Director

Kuo Shu Chen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December 2005

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve *(note (a))*	Working capital reserve *(note (b))*	Investment properties revaluation reserve	Exchange translation reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004										
– as originally stated	26,810	47,986	(1,000)	1,275	120	(1,662)	157,993	231,522	–	231,522
– effect of changes in accounting policies *(note 3)*	–	–	–	–	(120)	–	237	117	7,216	7,333
– as restated	26,810	47,986	(1,000)	1,275	–	(1,662)	158,230	231,639	7,216	238,855
Issue of shares during the year	27	93	–	–	–	–	–	120	–	120
Deficit on revaluation of investment properties, net of taxation	–	–	–	–	(120)	–	–	(120)	–	(120)
Loss for the year										
– as originally stated	–	–	–	–	–	–	(29,509)	(29,509)	609	(28,900)
– effect of changes in accounting policies *(note 3)*	–	–	–	–	120	–	(116)	4	–	4
– as restated	–	–	–	–	120	–	(29,625)	(29,505)	609	(28,896)
Exchange difference directly recognised in equity	–	–	–	–	–	(197)	–	(197)	–	(197)
At 31st December 2004 and 1st January 2005	26,837	48,079	(1,000)	1,275	–	(1,859)	128,605	201,937	7,825	209,762
– effect of changes in accounting policy *(note 3)*	–	–	–	–	–	–	(411)	(411)	–	(411)
– as restated	26,837	48,079	(1,000)	1,275	–	(1,859)	128,194	201,526	7,825	209,351
Impairment loss recognised on goodwill	–	–	1,000	–	–	–	(1,000)	–	–	–
Loss for the year	–	–	–	–	–	–	(51,974)	(51,974)	(412)	(52,386)
Exchange difference directly recognised in equity	–	–	–	–	–	(7,609)	–	(7,609)	–	(7,609)
At 31st December 2005	**26,837**	**48,079**	**–**	**1,275**	**–**	**(9,468)**	**75,220**	**141,943**	**7,413**	**149,356**

Note:

(a) The capital reserve of the Group represents the excess of the nominal value of the shares issued by the Company over the nominal value of the issued share of subsidiaries acquired pursuant to a group reorganisation which took place in 1993.

(b) The working capital reserve is a special reserve which represents the portion of the accumulated profits of the Taiwan branch of a subsidiary reserve for working capital of the branch in accordance with local statutory requirements. The working capital reserve is not distributable to shareholders.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December 2005

	2005	2004
	HK$'000	HK$'000
		(restated)
Operating activities		
Loss before taxation	(59,064)	(30,303)
Adjustments for:–		
Finance costs	110	9
Interest income	(290)	(78)
(Increase)/decrease in fair value of investment properties	(58)	640
Depreciation on property, plant and equipment	12,633	14,103
Amortisation of prepaid lease payments on land use rights	326	326
Loss on written off of property, plant and equipment	32	33
Gain on disposal of property, plant and equipment	(11)	(1,115)
Impairment loss recognised on investment securities	–	25
Unrealised loss on other investments	–	132
Allowance for inventories	2,067	2,364
Increase/(decrease) in allowance for bad and doubtful debts	533	(514)
Loss on disposal of available-for-sale investments	177	–
Impairment loss recognised on freehold land and buildings in Taiwan	20,593	–
Impairment loss recognised on available-for-sales investments	1,460	–
Impairment loss recognised on financial assets at fair value through profit and loss	143	–
Operating cash flows before movements in working capital	(21,349)	(14,378)
Decrease/(increase) in inventories	10,794	(637)
Decrease/(increase) in trade and bill receivables	15,544	(3,586)
Decrease/(increase) in deposits, prepayments and other receivables	489	(1,160)
(Decrease)/increase in trade and bill payables	(3,170)	20,230
Increase/(decrease) in accruals and other payables	6,767	(16,622)
Decrease in retirement benefit obligations	(749)	(1,721)
Cash generated from/(used in) operations	8,326	(17,874)
Hong Kong profits tax paid	–	(629)
Overseas tax refunded/(paid)	33	(2)
Net cash generated from/(used in) operating activities	8,359	(18,505)

Year ended 31st December 2005

	2005 *HK$'000*	2004 *HK$'000* (restated)
Investing activities		
Purchase of property, plant and equipment and expenditure on construction-in-progress	**(12,839)**	(9,109)
Sales proceeds from disposal of property, plant and equipment	**1,918**	2,249
Sales proceeds from disposal of available-for-sale investments	**266**	–
Interest received	**274**	78
Net cash used in investing activities	**(10,381)**	(6,782)
Financing activities		
Proceeds from issue of shares	**–**	120
Repayment of bank loan and overdraft	**(849)**	(6,023)
Interest paid	**(110)**	(9)
Net cash used in financing activities	**(959)**	(5,912)
Net decrease in cash and cash equivalents	**(2,981)**	(31,199)
Cash and cash equivalents at 1st January	**27,038**	57,585
Effect of changes in exchange rate	**(83)**	(197)
Cash and cash equivalents at 31st December	**23,974**	26,189
Analysis of the balances of cash and cash equivalents		
Frozen bank balances	**3,128**	–
Cash and bank balances	**20,846**	27,038
Bank overdraft	**–**	(849)
	23,974	26,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

1. GENERAL

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

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

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

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

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

Business combinations

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

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

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

Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Financial instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

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

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

Derecognition

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

Investment properties

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

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

Owner-occupied leasehold interest in land

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

(Continued)

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

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

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

(Continued)

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

4. PRINCIPAL ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

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

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

Investment properties

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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

Property, plant and equipment

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

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

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

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

Construction-in-progress

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

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

Land use rights

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

Inventories

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

(i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.

(ii) Work-in-progress and finished manufactured goods – cost of direct materials and an appropriate proportion of direct labour and production overheads including depreciation.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

Employee benefits

Employee leave entitlements

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

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

Retirement benefit obligations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

Employee benefits *(Continued)*

Equity compensation benefits

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

Provisions

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

Financial instruments *(Continued)*

Financial assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

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

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

Loans and receivables

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

Financial liabilities and equity

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

Revenue recognition

Sales of goods

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

Interest income

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

Subcontracting fee income

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

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

Revenue recognition *(Continued)*

Rental income

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

Dividend income

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

Borrowing costs

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

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

Taxation

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Contingent liabilities and contingent assets

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

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

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

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

Segment reporting

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation of property, plant and equipment

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

Allowances for bad and doubtful debts

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

Allowances for inventories

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

Estimate of fair value of investment properties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

6. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

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

Currency risk

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

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

Interest rate risk

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

7. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Turnover and revenue

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

(b) Segment information

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

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

Other Segment information

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

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

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

(b) Segment information *(Continued)*

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

8. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on bank loan and overdraft	**110**	9

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

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9. LOSS BEFORE TAXATION

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

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

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

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

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

(b) Directors' emoluments

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

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

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

(b) Directors' emoluments *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

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

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**451**	1,599
Retirement benefit costs		
– defined contribution retirement plans	**12**	24
– defined benefit retirement plans	**33**	37
	496	1,660

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

12. TAXATION

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

12. TAXATION *(Continued)*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

13. DIVIDENDS

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

14. BASIC LOSS PER SHARE

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

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

15. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2005	2004
	HK$'000	*HK$'000*
		(restated)
The Group's prepaid lease payments comprise:		
Medium term leasehold land in Hong Kong	**3,220**	3,320
Medium term leasehold land in Mainland China	**8,674**	8,900
	11,894	12,220
Analysed for reporting purposes as:		
Current asset	**326**	326
Non-current asset	**11,568**	11,894
	11,894	12,220

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

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

(Continued)

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

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

(Continued)

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

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

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

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

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

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

17. INVESTMENT PROPERTIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

17. INVESTMENT PROPERTIES *(Continued)*

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

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

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

18. INVESTMENT SECURITIES

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

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

19. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

20. HELD-TO-MATURITY INVESTMENTS

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

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

21. LOANS AND RECEIVABLES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

22. INVENTORIES

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

23. TRADE AND BILLS RECEIVABLES

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

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

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

24. OTHER INVESTMENTS

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

	2004 HK$'000
Equity securities, listed outside Hong Kong, at open market value	545

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	HK$'000
Equity securities, listed outside Hong Kong, at open market value	396

26. FROZEN BANK BALANCES

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

27. TRADE AND BILLS PAYABLES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

28. RETIREMENT BENEFIT OBLIGATIONS

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

(a) Defined contribution retirement plans

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

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

(b) Defined benefit retirement plan

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

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

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

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

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

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

28. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

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

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

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

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

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

The principal actuarial assumptions used were as follows:–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

29. DEFERRED TAXATION

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

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

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

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

29. DEFERRED TAXATION *(Continued)*

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

Deferred tax assets

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

Deferred tax liabilities

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

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Year ended 31st December 2005

29. DEFERRED TAXATION *(Continued)*

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

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Deferred tax assets	**10,879**	5,073
Deferred tax liabilities	**(223)**	–
	10,656	5,073

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

30. SHARE CAPITAL

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

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

31. PLEDGE OF ASSETS AND GUARANTEES

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

(a) legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with an aggregate net book value of HK$14,884,000 (2004 as restated: HK$42,507,000);

(b) a corporate guarantee from the Company;

(c) joint and several guarantees from two directors of the Company, Ms. Fang Hsiao Ping, the spouse of Mr. Feng Shen Chuan; and

(d) a general letter of indemnity from a subsidiary of the Company.

32. COMMITMENTS

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

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

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for	**1,607**	2,653

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

	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,353**	1,251
In the second to fifth year inclusive	**5,345**	5,471
After five years	**5,136**	–
	11,834	6,722

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

32. COMMITMENTS *(Continued)*

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

	2005	2004
	HK$'000	*HK$'000*
Within one year	**195**	437
In the second to fifth year inclusive	**–**	85
	195	522

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

33. SHARE OPTION SCHEME

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

	Number of share issuable	
	2005	2004
Balance at 1st January	**–**	–
Granted during the year	**–**	268,104
Exercised during the year	**–**	(268,104)
Balance at 31st December	**–**	–

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

34. CONTINGENT LIABILITIES

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

35. POST BALANCE SHEET EVENTS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31st December 2005

36. PRINCIPAL SUBSIDIARIES

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

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

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

Year ended 31st December 2005

36. PRINCIPAL SUBSIDIARIES *(Continued)*

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

(b) The rights and restrictions of the non-voting class "B" shares of Nority Limited and Wilken Footwear Limited are as follow:–

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

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

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

FIVE YEARS FINANCIAL SUMMARY

Results

	Year ended 31st December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(restated)	*(restated)*	*(restated)*	*(restated)*	*(restated)*
Turnover	**297,638**	259,472	420,939	325,764	421,178
(Loss)/profit before taxation	**(59,064)**	(30,303)	(24,337)	(1,266)	18,863
Taxation	**6,678**	1,287	3,471	9,735	1,940
(Loss)/profit before taxation	**(52,386)**	(29,016)	(20,866)	8,469	20,803
Minority interests	**412**	(609)	(1,719)	(1,870)	(2,438)
(Loss)/profit for the year attributable to equity holders	**(51,974)**	(29,625)	(22,585)	6,599	18,365

Assets and Liabilities

	As at 31st December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(restated)	*(restated)*	*(restated)*	*(restated)*	*(restated)*
Total assets	**221,993**	281,453	315,283	352,496	360,000
Total liabitilies	**(72,577)**	(71,691)	(76,428)	(86,638)	(96,062)
	149,356	209,762	238,855	265,858	263,938
Minority interests	**(7,413)**	(7,825)	(7,216)	(6,747)	(6,127)
	141,943	201,937	231,639	259,111	257,811