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ANNUAL REPORT **2006**

    

Nority International Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 0660)

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

He Xuechu *(Chairman)*
Yue Qian *(CEO)*
Guo Bo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Cheuk Yin, Dannis
Lu Yun Gang
Shaw Lut, Leonardo

CHIEF EXECUTIVE OFFICER

Yue Qian

COMPANY SECRETARY

Wang Yuan Heng

REGISTERED OFFICE

Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301
13/F, Admiralty Centre
Tower 2
18 Harcourt Road
Admiralty
Hong Kong

AUDITORS

SHINEWING (HK), *Certified Public Accountants*

REGISTRAR IN HONG KONG

Union Registrars Limited
Room 1803
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

PRINCIPAL BANKER

Credit Suisse
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISERS

Sidley Austin

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

I am pleased to report the activities of Nority International Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December 2006.

BUSINESS REVIEW

For the year ended 31st December 2006, the Group recorded turnover of HK$132.4 million, representing a decrease of approximately 56% from the last year's turnover of HK$297.6 million. Taking into the account of the impairment loss reversed on freehold land and buildings in Taiwan of HK$7.9 million (2005: impairment loss recognised of HK$20.6 million) and a tax charge of HK$9.6 million (2005: tax credit of HK$6.7 million), the loss attributable to equity holders of the Company remained stable at HK$50.8 million, at similar level as last year.

The drop in turnover in 2006 was mainly attributed to the change in product and client mix during management change compounded by intense competition. In addition to the drop in turnover, the loss for the year was to certain extent affected by rising material cost, increasing labour cost and appreciation of Renminbi.

LIQUIDITY AND FINANCIAL RESOURCES

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 2006, the Group had available cash and bank balances of HK$4,685,000 (2005: HK$20,846,000). The banking facilities available to the Group is HK$8,000,000 (2005: HK$49,000,000). The banking facilities are secured by legal charges over certain land and buildings of the Group with net book value of HK$5,235,000 (2005: HK$14,884,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31st December 2006, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

On 27th February 2007, the Company issued a convertible note to an independent third party in the principal amount of HK$28,836,800 at the initial conversion price of HK$0.538 per share.

Save as disclosed above, the Group had no debt securities or capital instruments as at 31st December 2006 and up to the date of this annual report.

MATERIAL ACQUISITIONS AND DISPOSALS

Details of the material disposals of the Group are set out in note 34 of the Financial Statements.

Save as disclosed above, there were no material acquisitions and disposals during the year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Details of the Group's pledge of assets and contingent liabilities are set out in notes 29 and 31 to the financial statements respectively.

EMPLOYEES

As at 31st December 2006, the Group had a total of approximately 15 employees in its Hong Kong and Taiwan offices and approximately 1,550 workers in its processing bases in Mainland China. Employees' cost (including directors' emoluments) amounted to approximately HK$38.7 million for the year. Besides offering competitive remuneration packages to the employees, discretionary bonuses may also be granted to the eligible employees based on the Group's and the individual's merits. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme which came into effect on 10th June 2003.

PROSPECTS

With the disposal of non-core business in January 2007, the Group's main business was the holding of 65% equity interest in Nority Limited, a manufacturer of athletic and athletic-style leisure footwear and golf shoes. The existing shoe business of the Group is facing severe competition and the competition is expected to remain fierce in the future. Whilst the management is considering to adjust operations to fit a new, more efficient model, resulting in the scaling down of some internal operations for footwear manufacturing, the directors of the board are expecting to explore other potential business opportunities that eventually become the new profit centres which benefit all the shareholders.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

He Xuechu
Chairman

Hong Kong, 20 April 2007

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasizes accountability and transparency and are adopted in the best interests of the Company and its shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors (the "Board") of the Company is composed of 6 Directors, including 3 Executive Directors and 3 Independent Non-executive Directors, over one-third of the Board is Independent Non-executive Directors and a majority of them have appropriate professional qualifications, or accounting or related financial management expertise. Their biographies and relevant relationships amongst them are set out in the Biographical Details of Directors Section on pages 11 to 12 of this Annual Report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Company and its subsidiaries (the "Group"). Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to chair the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines pursuant to Appendix 16 (12B) of the Listing Rules.

Formal written procedure and policy have been adopted by the Board for the appointment of new directors. When selecting potential candidates for directors, his skill, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. Nomination Committee meets at least once a year in discussing whether the composition, size, structure of the Board is adequate with a majority of Directors present. According to the Articles of Association of the Company, one-third, but not exceeding one-third of Directors are subject to re-election.

Being as the Executive Chairman, Mr. He is now in charge of the Group's strategic planning and vision defining as well as the financial management.

Ms. Yue Qian is now acting the role of Chief Executive Officer and executes her power for the daily operations of the Group and its subsidiaries, particularly on those China related projects under the full guidance of the Board.

The roles of the Chairman and the Chief Executive Officer are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions shall be fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.

The Board meets regularly and held 4 meetings in 2006:

	Attendance
Executive Directors	
Ms. Cheung Choi Ngor *	3/3
Mr. Richard Howard Gorges *	2/3
Mr. Ng Yuk Fung, Peter *	1/3
Ms. Cheung Lai Lin, Pealin *	3/3
Mr. Lo Chak Wa **	2/2
Mr. Feng Shen Chuan ***	1/1
Ms. Kuo Shu Chen ***	1/1
Mr. Feng Yung Chuan ***	1/1
Ms. Wu Xiaoqin ***	1/1
Independent Non-executive Directors	
Mr. Chiu Sin Chun *	3/3
Ms. Wong Siu Yin, Elizabeth *	3/3
Ms. Li Yuen Yu, Alice *	3/3
Mr. Lo Kwok Kwei, David #	1/1
Mr. Au Wing Kit ***	1/1
Ms. Eugenia Yang ***	1/1

* Appointed on 2 May 2006 and resigned on 3 February 2007

** Appointed on 2 May 2006 and resigned on 16 October 2006

*** Resigned on 25 May 2006

\# Retired on 30 June 2006

Notice of at least fourteen days is given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedures and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Director.

Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2006.

INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledged that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, a team, comprising qualified accountant, has been organized to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. The scopes and timing of audit review is usually determined according to risk assessment. Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA team and the Audit Committee members.

IA Team monitors the internal control procedures and systems of the Group and reports its findings and recommendations, if any, to Audit Committee on a regular interval. During the year, the enterprises resources management and cash control of the Group were reviewed, recommended remedial actions, distinguishing specific incidents from control weakness that require procedural changes or enhancements to prevent recurrence were proposed and addressed in the internal control report which was presented by the IA Team for review by Audit Committee and the Board.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 22 to 23 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the Auditors of the Company will receive approximately HK$600,000 for audit service. Non-audit service provided by the Auditors were approximately HK$60,000 in 2006.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 5 December 2006, and re-elected on 3 February 2007 and comprises 1 executive director and 3 Independent Non-executive Directors. The Remuneration Committee members are Mr. He Xuechu, Dr. Lu Yungang (Chairman of the Committee), Mr. Shaw Lut, Leonard and Mr. Lee Cheuk Yin, Dannis. The Remuneration Committee met once in 2007 and was attended by all Committee members. The policies for the remuneration of Executive Directors and the Senior Management were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors and Senior Management is based on skill, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term motivation and incentive to and for retaining staff.

Remuneration, comprising directors' fees, of Non-executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee members meets regularly and held 4 meeting during 2006. The Audit Committee was re-elected on 3 February, 2007 and it comprises 3 Independent Non-executive Directors, namely Dr. Lu Yungang (Chairman of the Committee), Mr. Shaw Lut, Leonard and Mr. Lee Cheuk Yin, Dannis. The Audit Committee met once in 2007, out of which was attended by all Committee members. The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the review of the independence of Auditors and the Group's financial statements in accordance with its terms of reference, which is substantially the same as the CG Code.

The Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board their re-appointment in 2007 at the forthcoming Annual General Meeting.

The Group's annual results for the year ended 31 December 2006 were reviewed by the Audit Committee.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their report and the audited consolidated financial statements of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the activities of the principal subsidiaries are set out in note 36 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the financial statements on page 24 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

In January 2007, the Board declared and paid a special dividend of HK$0.207 per share totaling HK$55,553,131.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 71 of this Annual Report.

PROPERTY, PLANT, EQUIPMENT AND CONSTRUCTION-IN-PROGRESS AND INVESTMENT PROPERTIES

Details of movements in the property, plant, equipment and construction-in-progress and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 72 of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity set out on page 27 of this Annual Report.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$105,736,391 (2005: 108,319,422), of which HK$55,553,131 was proposed and paid as special dividend in January 2007.

DIRECTORS

The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors:

Mr. He Xuechu *(Chairman)*	(appointed on 3 February 2007)
Ms. Yue Qian *(CEO)*	(appointed on 4 April 2007)
Mr. Guo Bo	(appointed on 3 February 2007)
Ms. Cheung Choi Ngor	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Richard Howard Gorges	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Ng Yuk Fung, Peter	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Cheung Lai Lin, Pealin	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Lo Chak Wa	(appointed on 2 May 2006 and resigned on 16 October 2006)
Mr. Feng Shen Chuan	(resigned on 25 May 2006)
Ms. Kuo Shu Chen	(resigned on 25 May 2006)
Mr. Feng Yung Chuan	(resigned on 25 May 2006)
Ms. Wu Xiaoqin	(resigned on 25 May 2006)

Independent Non-executive Directors:

Dr. Lu Yungang	(appointed on 3 February 2007)
Mr. Shaw Lut, Leonardo	(appointed on 3 February 2007)
Mr. Lee Cheuk Yin, Dannis	(appointed on 3 February 2007)
Mr. Chiu Sin Chun	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Wong Siu Yin, Elizabeth	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Li Yuen Yu, Alice	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Lo Kwok Kwei, David	(retired on 30 June 2006)
Mr. Au Wing Kit	(resigned on 25 May 2006)
Ms. Eugenia Yang	(resigned on 25 May 2006)

In accordance with Article 91 of the Articles of Association of the Company, Mr. He Xuechu, Ms. Yue Qian, Mr. Guo Bo, Mr. Lu Yungang, Mr. Lee Cheuk Yin, Dannis and Mr. Shaw Lut Leonardo will retire from office at the forthcoming Annual General Meeting and, being eligible, Mr. He Xuechu, Ms. Yue Qian, Mr. Guo Bo, Mr. Shaw Lut, Leonardo offer themselves for re-election.

The Independent Non-executive Directors have fixed term of office and will be subject to retirement by rotation and re-election at the forthcoming Annual General Meeting of the Company according to the Articles of Association of the Company.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the former Independent Non-executive Directors, Mr. Chiu Sin Chun, Ms. Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2006. As at the date of this Annual Report, the Company considers the present Independent Non-executive Directors to be independent who have confirmed their independence to the Stock Exchange of Hong Kong Limited after their appointment.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Executive Directors:

Mr. He Xuechu, aged 44, has extensive experience in financial management and investment field and is now in charge of Group's strategic planning and vision defining as well as the financial management. Mr. He graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 1983 and 1985, Mr. He was employed by the Domestic Trade Ministry of the PRC. Soon thereafter, he joined China Resources Co., Ltd. in Beijing as a deputy manager in the finance department. In 1989, Mr. He was transferred to China Resources (Holdings) Co., Ltd. in Hong Kong as a deputy general manager in finance department, responsible for financial management of the whole group. In 1997, Mr. He set up his own business, principally engaged in general trading, property development and other strategic investments in the PRC. During the period from 2002 to June 2005, Mr. He has successfully restructured several Hong Kong listed companies through merger and acquisition and was nominated as the respective Executive Chairman. Mr. He is now the Chairman of ChinaGrowth South Acquisition Corporation (USOTCBB Symbol: CGSUF) and a director of ChinaGrowth North Acquisition Corporation (USOTCBB Symbol: CGNUF).

Ms. Yue Qian, aged 35, is currently a director of Nority Ltd., a wholly own subsidiary of Nority International Group Ltd. and has over 10 years of sales and marketing and administrative management. In 1995, she graduated from the Department of Electrical Engineering and Optics of Nanjing University of Science and Technology and got her MBA degree from the University of East London in 2001. During the period of 1995 to 2006, Ms. Yue was once the marketing director of Beijing Aerospace Fudao High-Tech Co., Ltd., the permanent deputy general manager of Beijing Asia Pacific East Telecommunication Network Co., Ltd. and the deputy general manager of Aerospace New World (China) Technology Co., Ltd Ms. Yue has been the deputy managing director of Waichun Technology (China) Corporation Ltd since 2006.

Mr. Guo Bo, aged 38, holds a bachelor degree of art in English and Literature. Mr. Guo is now responsible for the daily operation of the Group especially on the investment activities of the whole Group. He is currently a director of Wai Chun Investment Fund. Mr. Guo was a lecturer at Huazhong University of Science and Technology in Wuhan, the PRC during 1992 to 1998. Mr. Guo was a vice president at Beijing Jian-Tech Co. Ltd. and an assistant to chairman at Beijing Jian Enterprise (Group) Co. Ltd. respectively during 1998 to 2002. During 2002 to 2003, Mr. Guo was a special assistant to chief executive officer at Purple Telecomm. Inc., 21vianet (Hong Kong) Co. Ltd., and 21vianet China Inc. During 2003 to 2005, Mr. Guo was a director and an executive vice president at Angels Telecom Technology Co. Ltd. and a director at Smart Mover ITS Technology Co. Ltd. and Beijing Asia pacific East Communication Network Limited respectively. Mr. Guo has extensive experience in corporate governance, performance management, risk control and feasibility valuation.

Independent Non-executive Directors:

Dr. Lu Yungang, aged 43, is the founder and managing director of APAC Capital Advisors Limited, an investment management company focusing on the Greater China markets. Prior to founding APAC Capital Advisors Limited, Dr. Lu worked as a research analyst at a number of leading investment banks including JP Morgan Securities Asia Inc. and Credit Suisse First Boston ("CSFB"). He served as the Head of China Research at CSFB from October 2001 to May 2004, managing a team of over 10 research analysts and directing CSFB's overall China research products. Dr. Lu holds a Bachelor of Science degree from the Beijing University, a Master of Science degree from the Brigham Young University, Provo, Utah and a Ph. D. degree in finance from the University of California (Los Angeles). Dr. Lu is also the independent non-executive director of Enerchina Holdings Limited (stock code: 622) and Kasen International Holdings Limited (stock code: 496) respectively.

Mr. Shaw Lut, Leonardo, aged 41, is the deputy head of 華頓綜合經濟研究所 (Huadun Economic Institute), the director of 行政及公務人員研修基金 (Administrator and Official Study Fund), the vice director of 國務院發展研究中心東方公共管理綜合研究所專家委員會 (the Expert Committee of the Eastern Public Management Institute of the Development Research Centre of State Council). Mr. Shaw graduated from Shanghai Fudan University and was a teacher and researcher at Fudan University. Mr. Shaw is currently a committee member of All-China Youth Federation, the deputy chairman of Beijing United Youth Association and the deputy chairman of Internet Professional Association, Hong Kong.

Mr. Lee Cheuk Yin, Dannis, aged 36, possesses over 10 years of experience in accounting and auditing field. He graduated from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lee is the Executive Director of both Vision Grande Group Holdings Limited (stock code: 2300) and Norstar Founders Group Limited (stock code: 2339), and is also the Independent Non-executive director of Geely Automobile Holdings Limited (stock code: 175) and Dawnrays Pharmaceutical (Holdings) Limited (stock code: 2348).

Senior Management:

Mr. William Wei, Liu is now the Vice President of the company and is responsible for external affairs, specifically on the sphere of company investor relations and corporate communication and corporate image set-up and etc. Prior to joining Nority, Mr. Liu was a director of Hans Energy Company Ltd, a listed company in HKEx (Stock Code: 554). Mr. Liu was also once the director of China Metal & Technologies (H.K.) Limited, and the regional head of an American investment firm engaged in hi-tech and media business in China and Hong Kong. Mr. Liu holds a master degree in business administration from the University of San Francisco. Mr. Liu has over 10 years of experience in corporate banking and corporate finance activities working with The Hongkong Chinese Bank Ltd and Lippo Group.

Mr. Wang Yuanheng, is a qualified lawyer admitted in HK as well as England and Wales. He is a senior consultant at Livasiri & Co. in HK. He has developed expertise in mergers and acquisitions, corporate finance, international investments, commercial and corporate law for more than 10 years. He obtained a bachelor's degree in Laws from the University of Wales and a postgraduate certificate in Laws from the University of Hong Kong. Mr. Wang is now acting as the Company Secretary of Nority International Group Ltd.

DIRECTORS' SERVICE CONTRACTS

All Directors (including non-executive independent directors) have entered into service contracts with the Company for a term of 2 years commencing from 3rd February 2007.

As at 31 December 2006, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

There are no directors fee payable for Mr. He, Ms. Yue and Mr. Guo under service agreements, but will be entitled to a discretionary year-end bonus and may be granted share options from time to time.

All non-executive directors i.e. Mr. Lu Yungang, Mr. Lee Cheuk Yin, Dannis and Mr. Shaw Lut Leonardo will be entitled to HK$120,000 per annum as directors' fee (without any bonus payment).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of, its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(A) Long positions in ordinary shares of associated corporations:

(i) South China Holdings Limited ("South China Holdings")

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ms. Cheung Choi Ngor (Ms. Cheung)	(a)	487,949,760	Interests of controlled corporations	26.76%
Mr. Richard Howard Gorges (Mr. Gorges)	(a)	487,949,760	Interests of controlled corporations	26.76%

(ii) South China Financial Holdings Limited ("SCFH") (Note b)

(formerly known as South China Brokerage Company Limited)

Name of Director	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Gorges	12,174,000	Beneficial owner	0.24%

(iii) South China Financial Credits Limited ("SCFC") (Note c)

Name of Director	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng Yuk Fung, Peter ("Mr. Peter Ng")	250,000	Beneficial owner	0.59%

(B) Long positions in underlying shares of SCFH

Name of director	Capacity	Number of underlying shares*	Approximately percentage of shareholding
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Mr. Peter Ng	Beneficial owner	50,000,000	1.00%

* Represents underlying shares granted to the Directors of SCFH under the share option scheme of SCFH as follows:–

Name of Director	Date of grant (DD/MM/YY)	Subscription price HK$	Number of share options granted	Exercise period (DD/MM/YY)
Ms. Cheung	16/03/2006	HK$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Gorges	16/03/2006	HK$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Peter Ng	16/03/2006	HK$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	HK$0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

(a) Ms. Cheung and Mr. Gorges are considered as parties to an agreement with Mr. Ng Hung Sang to which section 317 of the SFO applies. Ms. Cheung, Mr. Gorges and Mr. Ng Hung Sang (acting through a controlled corporation which is owned as to 60% by Mr. Ng Hung Sang, 20% by Ms. Cheung and 20% by Mr. Gorges) are deemed to have an interest in 487,949,760 issued ordinary shares of South China Holdings.

(b) South China Holdings owns an interest of 72.75% in the issued share capital of SCFH.

(c) SCFC is a 98.36% owned subsidiary of SCFH.

(d) All interests disclosed above represent long positions.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2006, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, other than the interests and short positions of the Directors and chief executives of the Company, the following persons had the following interests and short positions in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO")):

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Interests of controlled corporations	255,885,561	95.35%
South China Holdings	Interests of controlled corporations	255,885,561	95.35%
South China Industries ("South China Industries")	Interests of controlled corporations	255,885,561	95.35%
Chinese Success Ltd. ("Chinese Success")	Beneficial owner	255,885,561	95.35%
Mr. Lam Ching Kui	Interests of controlled corporations	255,885,561	95.35%
Wai Chun Investment Fund	Interests of controlled corporations	255,885,561	95.35%

Notes:

1. Mr. Ng Hung Sang, through corporations controlled by him, has an interest of 73.72% in the issued share capital of South China Holdings. South China Holdings, through its controlled corporations, owns an interest of 74.79% in the issued share capital of South China Industries. South China Industries through Micon Limited ("Micon"), its wholly owned subsidiary, owns an interest of 95.35% in the issued share capital of the Company, i.e. 255,885,561 ordinary shares of the Company. By virtue of the said interests of Mr. Ng in South China Holdings, the said interest of South China Holdings in South China Industries and the said interest of South China Industries in the Company, each of Mr. Ng, South China Holdings and South China Industries is deemed to be interested in the 255,885,561 ordinary shares of the Company and is taken to have a duty of disclosure under the SFO.

2. In November 2006, Chinese Success entered into the Agreement with Micon and South China Industries pursuant to which Chinese Success agreed to acquire 255,885,561 ordinary shares of the Company from Micon. Chinese Success is wholly owned by Wai Chun Investment Fund which is in turn wholly owned by Mr. Lam Ching Kui.

3. All interests disclosed above represent long positions.

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors of the chief executives, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SHARE OPTION SCHEME

Share option scheme ("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.

Purpose of the share option scheme

The purpose of the Scheme is to enable the Company to grant options to certain members of the Company and the subsidiaries and any suppliers, consultants, agents and advisers in recognition of their contribution to the Company and the subsidiaries.

Participants of the share option scheme

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.

Total number of shares available for issue under the share option scheme

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.

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 31 December 2005 and 2006.

On 15 March 2007, 26,800,000 Shares options were granted to three directors of the Company in respect of their service to the Group in the forthcoming year. The price of the Company's share at the date of grant was HK$2.36.

As at the date of this Annual Report, a total of 37,261 shares of the Company are available for issue under Company's Share Option Scheme, which represents 0.01% of the issued share capital of the Company.

Maximum entitlement of each participant

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 must not exceed 1% of the shares in issue unless such grant is approved by the shareholders in a general meeting.

Period within which the shares must be taken up under an option

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.

Amount payable upon acceptance of the option and the period within the payment must be made

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.

Basis of determining the exercise price of the option

The subscription price for the shares shall be determined by the directors at their discretion provided that it 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.

Remaining life of the share option scheme

Subject to the early termination of the Scheme, the scheme shall be valid and effective until the close of business of the Company on the which falls ten (10) years after the adoption date on 10 June 2003.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts 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 until now.

SUFFICIENCY OF PUBLIC FLOAT

The trading of shares of the Company was resumed on 9 March 2007 after placement of 54,700,000 existing shares to public by Chinese Success. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float as required under the Listing Rules as at the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. Cheung and Mr. Gorges jointly with Mr. Ng, a controlling shareholder and the Chairman of each of South China Industries and South China Holdings, hold shares in South China Holdings. South China Industries through its wholly-owned subsidiary, Micon Limited, owns 95.35% in the Company and South China Holdings indirectly owns 74.79% in South China Industries. Both Ms.Cheung and Mr. Gorges are directors of various subsidiaries of South China Industries and South China Holdings.

Certain subsidiaries of South China Industries are principally engaged in the manufacturing and trading of footwear products. As such, Ms. Cheung and Mr. Gorges were regarded to be interested in competing business of the Group. Likewise, Mr. Peter Ng is also an executive director of South China Industries and South China Holdings and a director of their various respective subsidiaries. He was regarded to be interested such competing business of the Group.

Ms. Wong Siu Yin, Elizabeth, Ms. Li Yuen Yu, Alice and Mr. Chiu Sin Chun are also independent non-executive directors of South China Industries and South China Holdings. They were not regarded to have any businesses competing with the business of the Group since they were not involved in the day-today running of the business of the Company, South China Industries and South China Holdings.

The Directors consider that the Group is capable of carrying on its business independently of and at arm's length from the business of South China Holdings and South China Industries as the Group has its own client base, product mix and production facilities, which are different from those of South China Holdings and South China Industries.

Subsequent to the balance sheet date, Ms. Cheung, Mr. Gorges, Mr. Peter Ng, Ms. Wong Siu Yin, Elizabeth, Ms. Li Yuen Yu, Alice and Mr. Chiu Sin Chun resigned as directors of the Company.

Save as disclosed above, all the directors including non-executive directors have no interests in the competing business of the Company.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out under section headed the Corporate Governance Report on pages 5 to 8 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out under section headed the Corporate Governance Report on page 7 of this annual report.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

(a) On 6 November 2006, the Company entered into the Disposal Agreement with Micon and South China Industries to dispose of the Nority (BVI) Sale Shares and Nority (BVI) Sale Loan to Micon at a total consideration of HK$75,555,000.

(b) On 6 November 2006, the Company, Micon and Nority Limited ("Nority") entered into the Nority Subscription Agreement pursuant to which the Subscription Shares were allotted and issued to Micon at a consideration of HK$3,520,000 (the "Subscription") and upon completion of the Subscription, Nority was converted from a wholly-owned subsidiary to a non-wholly-owned subsidiary of the Company, in which the Company and Micon were interested in 65% and 35% of the issued A Shares respectively.

Details of the above are included in the circular of the Company dated 18 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the sales to the Group's five largest customers accounted for 76% of the total sales and sales to the largest customers included therein amounted to 34%. Purchases from the Group's five largest suppliers accounted for less than 26% of the total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, namely Dr. Lu Yungang, Mr. Shaw Lut, Leonardo and Mr. Lee Cheuk Yin, Dannis (Chairman). The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the independence of Auditors and the Group's financial statements and system of internal control in accordance with its terms of reference, which is substantially the same as the CG Code.

The Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of Auditors in 2007 at the forthcoming Annual General Meeting.

The Group's annual results for the year ended 31 December 2006 were reviewed by the Audit Committee.

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

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDITORS

Messrs. Ho and Ho & Company who acted as auditors of the Company for the years ended 31st December 2004 and 2005, have been removed and Messrs. Ernst & Young were appointed as auditors of the Company on 7th August 2006. Messrs. Ernst & Young resigned on 4th December 2006 and Messrs. SHINEWING (HK) CPA Limited were appointed on 5th December 2006 as auditors of the Company.

The consolidated financial statements for the year have been audited by Messrs. SHINEWING (HK) CPA Limited. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf Of The Board

He Xuechu
Chairman

Hong Kong, 20 April 2007

REPORT OF THE AUDITORS

信永中和 ShineWing

SHINEWING (HK) CPA Limited
Suites 09-18, 20/F.,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong.

INDEPENDENT AUDITOR'S REPORT
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 (collectively referred as the "Group") set out on pages 24 to 70, which comprise the consolidated balance sheet as at 31st December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practicing Certificate Number: P03224

Hong Kong
20th April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Turnover	6	**132,418**	297,638
Cost of sales		**(150,471)**	(295,066)
Gross (loss)/profit		**(18,053)**	2,572
Other revenue	6	**1,232**	1,920
Selling expenses		**(13,328)**	(16,338)
Administrative expenses		**(24,467)**	(27,284)
Impairment loss reversed/(recognised) on freehold land and buildings in Taiwan		**7,904**	(20,593)
Other operating income, net		**2,490**	769
Finance costs	7	**(46)**	(110)
Loss before taxation	8	**(44,268)**	(59,064)
Taxation	11	**(9,645)**	6,678
Loss for the year		**(53,913)**	(52,386)
Attributable to:			
Equity holders of the Company		**(50,791)**	(51,974)
Minority interests		**(3,122)**	(412)
		(53,913)	(52,386)
Final dividends	12	**–**	–
Special dividends	12	**55,553**	–
Basic loss per share	13	**HK(18.93) cents**	HK(19.37) cents

CONSOLIDATED BALANCE SHEET

As at 31st December 2006

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Prepaid lease payments on land use rights	14	**3,018**	11,568
Property, plant and equipment and construction-in-progress	15	**20,567**	82,711
Investment properties	16	**–**	4,197
Available-for-sale investments	17	**–**	1,314
Held-to-maturity investments	18	**246**	227
Loans and receivables	19	**–**	1,646
Deferred tax assets	27	**–**	10,656
		23,831	112,319
CURRENT ASSETS			
Inventories	20	**28,916**	40,283
Trade and bills receivables	21	**13,609**	41,751
Deposits, prepayments and other receivables		**1,378**	2,475
Prepaid lease payments on land use rights	14	**101**	326
Financial assets at fair value through profit or loss	22	**–**	396
Tax recoverable		**–**	409
Frozen bank balances	23	**–**	3,128
Cash and bank balances		**4,685**	20,846
		48,689	109,614
Assets classified as held for sale	24	**74,176**	–
		122,865	109,614
CURRENT LIABILITIES			
Trade and bills payables	25	**25,568**	42,135
Accruals and other payables		**11,957**	21,929
Tax payable		**1,006**	2,017
Retirement benefit obligations – current portion	26	**2,998**	54
Amount due to an intermediate holding company	33	**10,000**	–
		51,529	66,135
Liabilities associated with assets classified as held for sale	24	**1,500**	–
		53,029	66,135

CONSOLIDATED BALANCE SHEET

As at 31st December 2006

	NOTES	2006 HK$'000	2005 HK$'000
NET CURRENT ASSETS		**69,836**	43,479
TOTAL ASSETS LESS CURRENT LIABILITIES		**93,667**	155,798
NON-CURRENT LIABILITIES			
Retirement benefit obligations – non-current portion	*26*	**–**	6,442
		93,667	149,356
CAPITAL AND RESERVES			
Share capital	*28*	**26,837**	26,837
Reserves		**65,039**	115,106
Equity attributable to equity holders of the Company		**91,876**	141,943
Minority interests		**1,791**	7,413
		93,667	149,356

The consolidated financial statements on pages 24 to 70 were approved and authorised for issue by the Board of Directors on 20th April 2007 and are signed on its behalf by:–

He Xuechu
Director

Yue Qian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve *(note (a))*	Working capital reserve *(note (b))*	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
At 1st January 2005	26,837	48,079	(1,000)	1,275	(1,859)	128,194	201,526	7,825	209,351
Impairment loss recognised on goodwill	–	–	1,000	–	–	(1,000)	–	–	–
Loss for the year	–	–	–	–	–	(51,974)	(51,974)	(412)	(52,386)
Exchange difference arising on translation of foreign operations directly recognised in equity	–	–	–	–	(7,609)	–	(7,609)	–	(7,609)
At 31st December 2005 and 1st January 2006	26,837	48,079	–	1,275	(9,468)	75,220	141,943	7,413	149,356
Loss for the year	–	–	–	–	–	(50,791)	(50,791)	(3,122)	(53,913)
Exchange difference arising on translation of foreign operations directly recognised in equity	–	–	–	–	724	–	724	–	724
Dividends paid to minority shareholders	–	–	–	–	–	–	–	(2,500)	(2,500)
At 31st December 2006	26,837	48,079	–	1,275	(8,744)	24,429	91,876	1,791	93,667

(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 shares 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

For the year ended 31st December 2006

	2006	2005
	HK$'000	HK$'000
Operating activities		
Loss before taxation	(44,268)	(59,064)
Adjustments for:–		
Finance costs	46	110
Interest income	(269)	(290)
Decrease/(increase) in fair value of investment properties	685	(58)
Depreciation on property, plant and equipment	11,277	12,633
Amortisation of prepaid lease payments on land use rights	326	326
Loss on disposal of/written off of property, plant and equipment	2,414	21
Impairment loss recognised on loans and receivables	711	–
Allowance for inventories	7,750	2,067
(Recovery of)/allowance for bad and doubtful debts	(954)	533
(Gain)/loss on disposal of available-for-sale investments	(41)	177
Impairment loss recognised on available-for-sale investments	751	1,460
Impairment loss (reversed)/recognised on freehold and land buildings in Taiwan	(7,904)	20,593
Gain on disposal of financial assets at fair value through profit or loss	(1)	–
Impairment loss recognised on financial assets at fair value through profit or loss	406	143
Operating cash flows before movements in working capital	(29,071)	(21,349)
Decrease in inventories	3,617	10,794
Decrease in trade and bills receivables	29,096	15,544
Decrease in deposits, prepayments and other receivables	969	489
Decrease in trade and bills payables	(16,275)	(3,170)
(Decrease)/increase in accruals and other payables	(8,764)	6,767
Decrease in retirement benefit obligations	(3,633)	(749)
Net cash (used in)/generated from operations	(24,061)	8,326
Hong Kong profits tax refunded	409	–
Overseas tax refunded	–	33
Net cash (used in)/from operating activities	(23,652)	8,359

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	2006 HK$'000	2005 HK$'000
Investing activities		
Sales proceeds from loans and receivables	**980**	–
Sales proceeds from disposal of available-for-sale of investments	**640**	266
Purchase of property, plant and equipment and expenditure on construction-in-progress	**(3,766)**	(12,839)
Sales proceeds from disposal of property, plant and equipment	**950**	1,918
Sales proceeds from disposal of financial assets at fair value through profit or loss	**1**	–
Decrease/(increase) in frozen bank balances	**1,049**	(3,128)
Interest received	**251**	274
Net cash from/(used in) investing activities	**105**	(13,509)
Financing activities		
Interest paid	**(46)**	(110)
Repayment of bank overdraft	**–**	(849)
Advance from an intermediate holding company	**10,000**	–
Dividends paid to minority shareholders	**(2,500)**	–
Net cash from/(used in) financing activities	**7,454**	(959)
Net decrease in cash and cash equivalents	**(16,093)**	(6,109)
Cash and cash equivalents at beginning of the year	**20,846**	27,038
Effect of changes in foreign exchange rate	**(68)**	(83)
Cash and cash equivalents at end of the year	**4,685**	20,846
Analysis of the balances of cash and cash equivalents, represented by		
Cash and bank balances	**4,685**	20,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

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 section to the annual report.

Its immediate holding company is Micon Limited, a company incorporated in Hong Kong with limited liability. Its intermediate and ultimate holding companies are South China Industries Limited and South China Holdings Limited, companies incorporated in the Cayman Islands and the issued shares of which are listed on the Stock Exchange respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard "HKAS" 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK (IFRIC) – Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC) – Int 8	Scope of HKFRS 2[4]
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK (IFRIC) – Int 12	Service Concession Arrangements[8]

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

[2] Effective for annual periods beginning on or after 1st January 2009.

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

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

[5] Effective for annual periods beginning on or after 1st June 2006.

[6] Effective for annual periods beginning on or after 1st November 2006.

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

[8] Effective for annual periods beginning on or after 1st January 2008.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, 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 include 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Property, plant and equipment

Property, plant and equipment other than freehold land and contruction-in-progress are stated at cost less accumulated depreciation and impairment losses.

Freehold land is stated at cost less accumulated impairment losses.

Depreciation is provided to write off the cost 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.

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 consolidated 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 depreciation is provided on construction-in-progress until the asset is completed and put into use.

Prepaid lease payments on land use rights

Prepaid lease payments on land use rights are stated at cost less accumulated amortisation and impairment losses. Land use rights are amortised on a straight-line basis 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered 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 payments to the defined contribution retirement benefit plan/stated-managed retirement benefit schemes are expensed when employees have rendered service entitling them to the contributions.

For defined retirement benefit plan, retirement benefit costs are assessed using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Under this method, the costs of providing benefit are charged to the consolidated 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 consolidated 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 consolidated income statement in the period to which the obligation of the contribution is established.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("Equity-settled Transactions").

The cost of Equity -settled Transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing Equity-settled Transactions, no account is taken of any performance conditions, other than conditions, linked to the price of the shares of the Company ("Market Conditions"), if applicable.

The cost of Equity-settled Transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "Vesting Date"). The cumulative expense recognised for Equity-settled Transactions at each balance sheet date until the Vesting Date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for the year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a Market Condition, which are treated as vesting irrespective of whether or not the Market Condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 consolidated income statement on a straight-line basis over the term 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.

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, 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 financial 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 year, 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

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 year in which they arise.

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 bills receivables and other receivables) 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 years 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

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.

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.

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

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(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 year in which they arise.

Other financial liabilities

Other financial liabilities including trade and bills payables, accruals and other payables, retirement benefit obligations and amount due to an intermediate holding company 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 and received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of returns and discounts.

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.

Rental income

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Segment reporting

As the entire revenues, expenses, assets, liabilities and capital expenditure of the Group are derived from the manufacture and export of athletic, athletic-style leisure footwear and golf shoes, an analysis of the 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 the People's Republic of China (the "PRC"), Hong Kong and Taiwan. 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 based 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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value costs to sell.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3 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 2006 was approximately HK$20,567,000. 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 or put into use. The estimated useful lives and dates 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.

Allowance 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.

Allowance 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 sales. 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 and slow-moving items.

Estimate of fair value of investment properties

As described in notes 16 and 24, 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables and, other receivables, trade and bills payables, accruals and other payables, amount due to an intermediate holding company. 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.

Foreign currency risk

The Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in PRC operations. 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 be need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations 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.

Concentration risk

During the year ended 31st December 2006, the Group's sales to top 5 customers accounted for approximately by 76% (2005: 82%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

Liquidity risk

The Group's objective is to maintain a balance between continuing funding through its holding company. The Group's exposure to liquidity risk is minimal.

Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity. The fair values of non-current liabilities were not disclosed because their carrying values are not materially different from their fair values.

6. 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:

	2006 HK$'000	2005 HK$'000
Turnover – sales of goods	**132,418**	297,638
Other revenue		
Interest income	**269**	290
Subcontracting fee income	**513**	1,101
Rental income	**447**	526
Dividend income	**3**	3
	1,232	1,920
Total revenue	**133,650**	299,558

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

(b) Segment information

An analysis of the Group's turnover, revenue and results for the years ended 31st December 2006 and 2005 by geographical market is as follows:–

For the year ended 31st December:

	North America		Europe		Other countries		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue								
External Sales	**62,868**	94,115	**46,409**	157,917	**23,141**	45,606	**132,418**	297,638
Results								
Segment results	**(11,497)**	(6,522)	**(13,100)**	(14,821)	**(6,784)**	7,577	**(31,381)**	(13,766)
Unallocated revenue							**1,232**	1,920
Other operating income, net							**2,490**	769
Unallocated expenses							**(24,467)**	(27,284)
Impairment loss reversed/ (recognised) on freehold land and buildings in Taiwan							**7,904**	(20,593)
Finance costs							**(46)**	(110)
Loss before taxation							**(44,268)**	(59,064)
Taxation							**(9,645)**	6,678
Loss for the year							**(53,913)**	(52,386)

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

(b) Segment information *(Continued)*

Other Segment information

For the year ended 31st December:

	PRC and Hong Kong		Taiwan		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditure	**3,748**	12,839	**18**	–	**3,766**	12,839
Amortisation of prepaid lease payments on land use rights	**326**	326	**–**	–	**326**	326
Depreciation on property, plant and equipment	**11,160**	12,108	**117**	525	**11,277**	12,633
Impairment loss (reversed)/ recognised on freehold land and buildings in Taiwan	**–**	–	**(7,904)**	20,593	**(7,904)**	20,593
Decrease/(increase) in fair value of investment properties	**–**	–	**685**	(58)	**685**	(58)
(Recovery of)/allowance for bad and doubtful debts	**(954)**	533	**–**	–	**(954)**	533
Allowance for inventories	**7,740**	2,067	**10**	–	**7,750**	2,067
Impairment loss recognised on available-for-sale investments	**–**	–	**751**	1,460	**751**	1,460
Impairment loss recognised on financial assets at fair value through profit or loss	**–**	–	**406**	143	**406**	143
Gain on disposal of financial assets at fair value through profit or loss	**–**	–	**(1)**	–	**(1)**	–
Impairment loss recognised on loans and receivables	**–**	–	**711**	–	**711**	–
(Gain)/loss on disposal/written off of property, plant and equipment	**2,594**	292	**(180)**	(271)	**2,414**	21
(Gain)/loss on disposal of available-for-sale investments	**–**	–	**(41)**	177	**(41)**	177

There are no sales between the geographical segments during the years ended 31st December 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

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

(b) Segment information *(Continued)*

Other Segment information *(Continued)*

	PRC and Hong Kong As at 31 December		Taiwan As at 31 December		Total As at 31 December	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Total assets	**122,839**	201,103	**23,857**	20,830	**146,696**	221,933
Total liabilities	**52,843**	59,667	**186**	12,910	**53,029**	72,577
Minority interests	**1,791**	7,413	**–**	–	**1,791**	7,413

7. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank overdraft	**46**	110

No interest was capitalised in construction-in-progress during the year (2005: Nil).

8. LOSS BEFORE TAXATION

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

	2006	2005
	HK$'000	HK$'000
Auditors' remuneration	649	547
Cost of inventories recognised as an expenses	90,773	209,782
Staff costs, including directors' emoluments and retirement benefit costs *(note 9)*	38,653	67,651
Net exchange loss	879	1,314
Operating lease payments in respect of rented premises	992	1,473
Amortisation of prepaid lease payments on land use rights	326	326
Depreciation on property, plant and equipment	11,277	12,633
Loss disposal/written off of property, plant and equipment	2,414	21
Impairment loss recognised on available-for-sale investments	751	1,460
Impairment loss recognised on financial assets at fair value through profit or loss	406	143
Impairment loss recognised on loans and receivables	711	–
Allowance for inventories	7,750	2,067
(Recovery of)/allowance for bad and doubtful debts	(954)	533
Decrease/(increase) in fair value of investment properties	685	(58)
(Gain)/loss on disposal of available-for-sale investments	(41)	177
Gain on disposal of financial assets at fair value through profit or loss	(1)	–

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS AND RETIREMENT BENEFIT COSTS *(NOTE 10a)*)

	2006	2005
	HK$'000	HK$'000
Wages and salaries	37,003	62,368
Unutilised annual leave	20	43
Termination benefits	158	105
Retirement benefit costs		
– defined contribution retirement benefit plans *(note 26a)*	1,510	2,170
– defined retirement benefit plan *(note 26b)*	(1,652)	459
Other employee benefits	1,614	2,506
	38,653	67,651

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2006	2005
	HK$'000	HK$'000
Fees	**355**	618
Other emoluments:–		
Basic salaries, other allowance and benefits in kind	**743**	2,165
Retirement benefit costs		
– defined contribution retirement benefit plans	**11**	52
– defined retirement benefit plan	**35**	153
	789	2,370
Total emoluments	**1,144**	2,988

Directors' fees disclosed above include approximately HK$236,000 (2005: HK$348,000) paid to the independent non-executive directors.

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

(b) Directors' emoluments

The emoluments paid or payable to each of the fourteen (2005: nine) directors were as follows:–

	Directors' fees	Other emoluments: Basic salaries, other allowance and benefits in kind	Other emoluments: Defined contribution retirement benefits plans	Other emoluments: Defined retirement benefit plan	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cheung Choi Ngor[1]	7	–	–	–	7
Richard Howard Gorges[1]	7	–	–	–	7
Ng Yuk Fung, Peter[1]	7	–	–	–	7
Cheung Lai Lin, Pealin[1]	7	–	–	–	7
Chiu Sin Chun[1]	33	–	–	–	33
Li Yuen Yu, Alice[1]	33	–	–	–	33
Wong Siu Yin, Elizabeth[1]	33	–	–	–	33
Feng Yung Chuan[2]	24	–	2	–	26
Kuo Shu Chen[2]	24	100	1	12	137
Wu Xiaoqin[2]	24	90	1	–	115
Feng Shen Chuan[2]	24	553	2	23	602
Au Wing Kit[2]	48	–	–	–	48
Eugenia Yang[2]	24	–	1	–	25
Lo Kwok Kwei, David[3]	60	–	4	–	64
Total for 2006	355	743	11	35	1,144

1. Appointed on 2nd May 2006.
2. Resigned on 25th May 2006.
3. Resigned on 30th June 2006.

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

(b) Directors' emoluments *(Continued)*

		Other emoluments			
	Directors' fees	**Basic salaries, other allowance and benefits in kind**	**Defined contribution retirement benefit plans**	**Defined retirement benefit plan**	**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

No director waived or agreed to waive any emoluments during the two years ended 31st December 2006 and 2005.

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

(c) During the year, of the five highest paid individuals in the Group, one (2005: four) were executive directors of the Company whose emoluments are set out above. The emoluments of the remaining four (2005: one) highest paid individuals were as follows:–

	2006	2005
	HK$'000	HK$'000
Basic salaries, other allowance and benefits in kind	**870**	451
Retirement benefit costs		
– defined contribution retirement benefit plans	**23**	12
– defined retirement benefit plan	**–**	33
	893	496

The emoluments of the aforementioned four (2005: one) highest paid individuals were within the band of nil to HK$1,000,000 for both years.

No emoluments were paid to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31st December 2006 and 2005.

11. TAXATION

	2006 HK$'000	2005 HK$'000
Current taxation		
– Hong Kong profits tax	**–**	–
– Overseas taxation	**–**	18
– Over-provision in previous years	**(1,011)**	(1,113)
	(1,011)	(1,095)
Deferred tax *(note 27)*		
– relating to origination and reversal of temporary differences	**10,656**	(5,583)
Tax charge/(credit) for the year	**9,645**	(6,678)

Hong Kong profits tax has not been provided as the Group's income neither arises in nor is derived from Hong Kong for both years.

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

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 subsidiaries operate.

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

	2006 HK$'000	2005 HK$'000
Loss before taxation	**(44,268)**	(59,064)
Tax at the domestic income tax rate of 17.5%	**(7,746)**	(10,336)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**823**	(1,414)
Tax effect of expenses not deductible for tax purpose	**49,330**	52,837
Tax effect of income not taxable for tax purpose	**(32,366)**	(46,652)
Over-provision in previous years	**(1,011)**	(1,113)
Tax effect of unrecognised tax losses	**615**	–
Taxation for the year	**9,645**	(6,678)

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12. DIVIDENDS

No final dividends was paid or proposed during the years ended 31st December 2006 and 2005.

Subsequent to the balance sheet date, the board of directors announced that, subject to the completion of the disposal of the entire interest in Nority (BVI) Limited and its subsidiaries as detailed in note 24, a special dividend of HK$0.207 per share totalling approximately HK$55,553,000 has been declared on 3rd January 2007 and paid on 9th January 2007.

13. 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$50,791,000 (2005: HK$51,974,000) and the number of ordinary shares of 268,372,612 (2005: 268,372,612) in issue during the year.

No diluted loss per share has been presented for the two years ended 31st December 2006 and 2005 as there were no dilutive potential ordinary shares for both years.

14. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**11,894**	12,220
Amortisation charge for the year	**(326)**	(326)
Classified as held for sale *(Note 24)*	**(8,449)**	–
Carrying amount at 31 December	**3,119**	11,894

The Group's carrying value of prepaid lease payments shown above comprises:

Medium term leasehold land in Hong Kong	**3,119**	3,220
Medium term leasehold land in the PRC	**–**	8,674
	3,119	11,894

Analysed for reporting purposes as:

Current asset	**101**	326
Non-current asset	**3,018**	11,568
	3,119	11,894

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

	Freehold land and buildings in Taiwan	Leasehold buildings in the PRC	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 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 and 1st January 2006	37,397	38,892	3,352	37,075	206,373	4,132	10,410	337,631
Transfer to investment properties	(34,834)	–	–	–	–	–	–	(34,834)
Additions	–	–	–	478	2,038	–	1,250	3,766
Disposals/written off	(48)	–	–	(3,529)	(7,218)	(1,565)	–	(12,360)
Reclassified as held for sale *(note 24)*	(3,258)	(38,892)	–	(149)	–	(136)	(12,016)	(54,451)
Exchange difference	743	–	–	25	–	46	356	1,170
At 31st December 2006	–	–	3,352	33,900	201,193	2,477	–	240,922
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES								
At 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
Eliminated 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 and 1st January 2006	24,712	10,970	1,153	32,193	182,198	3,694	–	254,920
Transfer to investment properties	(15,089)	–	–	–	–	–	–	(15,089)
Charge for the year	35	972	83	1,173	8,831	183		11,277
Eliminated on disposals/written off	(48)	–	–	(1,354)	(6,215)	(1,379)	–	(8,996)
Impairment loss reversed	(7,904)	–	–	–	–	–		(7,904)
Reclassified as held for sale *(note 24)*	(2,098)	(11,942)	–	(133)	–	(134)	–	(14,307)
Exchange difference	392	–	–	23	–	39	–	454
At 31st December 2006	–	–	1,236	31,902	184,814	2,403	–	220,355
NET CARRYING VALUES								
At 31st December 2006	–	–	2,116	1,998	16,379	74	–	20,567
At 31st December 2005	12,685	27,922	2,199	4,882	24,175	438	10,410	82,711

15. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS *(Continued)*

In 2006, impairment test on freehold land and buildings in Taiwan was assessed on the basis of their open market value by an independent firm of valuers in Hong Kong. Reversal of impairment loss of approximately HK$7,904,000 had been dealt with in the consolidated income statement.

In 2005, impairment test on freehold land and buildings in Taiwan was assessed on the basis of their open market value by an independent firm of valuers in Taiwan. Impairment loss of approximately HK$20,593,000 had been dealt with in the consolidated income statement.

At 31st December 2006, freehold land and buildings in Taiwan and leasehold buildings in Hong Kong with an aggregate net book value of approximately HK$5,235,000 (2005: HK$14,884,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company (note 29).

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

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

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

16. INVESTMENT PROPERTIES

	Taiwan	PRC	Total
	HK$'000	HK$'000	HK$'000
FAIR VALUE			
At 1st January 2005	2,601	–	2,601
Reallocation of land use rights with undetermined use from leasehold buildings in the PRC	–	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 and 1st January 2006	2,861	1,336	4,197
Reallocation from freehold land and buildings in Taiwan	19,745	–	19,745
Net decrease in fair value recognised in the consolidated income statement	(685)	–	(685)
Exchange difference	119	–	119
Classified as held for sale *(Note 24)*	(22,040)	(1,336)	(23,376)
At 31st December 2006	–	–	–

In 2006, investment properties were revalued on the basis of their open market value by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties. This valuation gave rise to a decrease in fair value of approximately HK$566,000 of which approximately HK$685,000 has been dealt with in the consolidated income statement and approximately HK$119,000 has been dealt within the exchange translation reserve.

In 2005, investment properties were revalued 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 increase in fair value of approximately HK$260,000 of which approximately HK$58,000 had been dealt with in the consolidated income statement and approximately HK$202,000 had been dealt within the exchange translation reserve.

At 31st December 2006, the carrying amount of investment properties would have been nil (2005: HK$4,457,000) 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.

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17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006 HK$'000	2005 HK$'000
Unlisted securities:		
– equity securities unlisted outside Hong Kong	–	628
Listed securities:		
– equity securities listed outside Hong Kong	–	11
Shares in golf club, at valuation	–	1,419
Less: Impairment loss recognised	–	(744)
Total	–	1,314
Analysed for reporting purposes as:		
Non-current asset	–	1,314

As at 31st December 2005, all available-for-sale investments were stated at fair values, except for those unlisted equity investments of which their fair values could not 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.

In the current year, the Group disposed of all available-for-sale investments. Unlisted equity securities with carrying amount of approximately HK$599,000 had been carried at cost less impairment before the disposal. A gain on disposal of approximately HK$41,000 was recognised in the consolidated income statement.

18. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments as at 31st December 2006 represent golf clubs debentures and are carried at amortised cost using effective interest method.

The directors consider that the carrying amounts of held-to-maturity investments approximate their fair values.

19. LOANS AND RECEIVABLES

During the year, all loans and receivables were disposed of to an independent third party. Loans and receivables as at 31st December 2005 represented refundable deposits placed with golf clubs and were carried at amortised cost using effective interest method.

The directors consider that the carrying amounts of loans and receivables approximate their fair values.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
At cost		
Raw materials	**13,842**	18,333
Work-in-progress	**7,122**	8,878
Finished goods	**7,952**	13,072
	28,916	40,283

21. TRADE AND BILLS RECEIVABLES

At the balance sheet date, trade and bills receivables comprise:

	2006	2005
	HK$'000	HK$'000
Trade and bills receivable	**14,528**	43,624
Less: Allowance for bad and doubtful debts	**(919)**	(1,873)
	13,609	41,751

21. TRADE AND BILLS RECEIVABLES *(Continued)*

The ageing analysis of the trade and bills receivables net of allowance for bad and doubtful debts at the balance sheet date was as follows:

	2006	2005
	HK$'000	HK$'000
0-30 days	**9,467**	30,136
31 to 60 days	**1,419**	8,901
61 to 90 days	**2,720**	1,366
Over 90 days	**3**	1,348
	13,609	41,751

The fair values of the Group's trade and bills receivables at 31st December 2006 approximate to the corresponding carrying amounts.

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	2006	2005
	HK$'000	HK$'000
Equity securities, listed outside Hong Kong, at open market value	**–**	396

23. FROZEN BANK BALANCES

Frozen bank balances represent bank balances of a wholly-owned subsidiary incorporated in the PRC 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. Subsequent to the balance sheet date, the frozen bank balances, which had been included as held for sale (note 24), were disposed of to Micon Limited ("Micon").

24. ASSETS CLASSIFIED AS HELD FOR SALE

On 6th November 2006, the Group entered into a disposal agreement with Micon and South China Industries Limited ("South China Industries") to dispose of the entire interest in Nority (BVI) Limited and its subsidiaries to Micon at a total consideration of approximately HK$75,555,000 in cash. The disposal has been completed on 5th January 2007. The net proceeds of the disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

24. ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

The major classes of assets and liabilities which have been presented separately in the consolidated balance sheet are as follows:–

	2006	2005
	HK$'000	HK$'000
Property, plant and equipment and construction-in-progress	**40,144**	–
Investment properties	**23,376**	–
Prepaid lease payments on land use rights	**8,449**	–
Deposits, prepayments and other receivables	**128**	–
Frozen bank balances *(Note 23)*	**2,079**	–
Assets classified as held for sale	**74,176**	–
Trade and bills payables	**292**	–
Accruals and other payables	**1,208**	–
Liabilities associated with assets classified as held for sale	**1,500**	–

25. TRADE AND BILLS PAYABLES

The aging analysis of the trade and bills payables at the balance sheet date was as follows:–

	2006	2005
	HK$'000	HK$'000
0-30 days	**14,193**	33,797
31 to 60 days	**8,433**	3,826
61 to 90 days	**1,223**	944
Over 90 days	**1,719**	3,568
	25,568	42,135

The fair values of the Group's trade and bills payables at 31st December 2006 approximate to the corresponding carrying amounts.

The trade payables are non-interest bearing and normally settled on 30 to 90 day terms.

26. RETIREMENT BENEFIT OBLIGATIONS

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

(a) Defined contribution retirement benefit plans

The subsidiaries in Hong Kong make contributions to defined contribution retirement benefit plan 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 the PRC are required to participate in defined contribution retirement plans organised by the relevant government authorities. The subsidiaries are required to make contributions to the retirement plans at a fixed amount for each PRC employee of the Group.

(b) Defined retirement benefit plan

No further provision for defined retirement benefit plan was made for the subsidiaries in Hong Kong for the year ended 31st December 2006 as all the retirement benefit is covered by defined contribution retirement benefit plan.

A subsidiary in Taiwan has applied voluntarily winding up as at 30th November 2006, the subsidiary has an unfunded defined benefit retirement plan providing benefits to all eligible employees based on final pay. The obligation for the unfunded defined retirement benefit plan is provided with reference to expected final settlement as at 31st December 2006 and to the actuarial valuation as at 31st December 2005.

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

During the year, the crediting recognised in the consolidated income statement under current service cost and interest cost was approximately HK$1,652,000 (2005: charged of approximately HK$459,000).

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 other operating income, net for the year ended 31st December 2006 and charged to administrative expenses for the year ended 31st December 2005.

26. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

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

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

	2006	2005
	HK$'000	HK$'000
Present value of unfunded obligations	**2,998**	5,846
Fair value of retirement benefit obligations	**–**	(71)
Unrecognised actuarial losses	**–**	721
Liability as at 31st December	**2,998**	6,496
Current portion	**(2,998)**	(54)
Non-current portion	**–**	6,442

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

	2006	2005
	HK$'000	HK$'000
At 1st January	**6,496**	7,245
Exchange differences	**135**	(96)
Total (income)/expense – as shown above	**(1,652)**	459
Amounts paid to employees	**(1,981)**	(1,112)
At 31st December	**2,998**	6,496

The principal actuarial assumptions used were as follows:–

	2006	2005
	%	%
Discount rate	**N/A**	3.50
Expected rate of future salary increases	**N/A**	4.00

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27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%)

The movement on the deferred tax assets was as follows:

	2006	2005
	HK$'000	HK$'000
At 1st January	**10,656**	5,073
(Charged)/credited to the consolidated income statement *(note 11)*	**(10,656)**	5,583
At 31st December	**–**	10,656

Deferred 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. The Group has unrecognised tax losses approximately amounted to HK$3,519,000 carry forward against future taxable income at 31st December 2006 (2005: Nil). At 31st December 2006, the Group has unrecognised deferred tax assets amounted to approximately HK$1,690,000 (2005: HK$1,075,000) in respect of unrecognised tax loss.

The movement in deferred tax assets and liabilities recognised (prior to offsetting of balances within the same taxation jurisdiction) during the current and prior 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 2005	1,355	1,450	1,811	–	457	5,073
Credited/(charged) to the consolidated income statement	(9)	5,936	(187)	384	(318)	5,806
At 31st December 2005 and 1st January 2006	1,346	7,386	1,624	384	139	10,879
Credited/(charged) to the consolidated income statement	(1,346)	(7,386)	(1,624)	(384)	(139)	(10,879)
At 31st December 2006	–	–	–	–	–	–

27. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities

	Amortisation and depreciation	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1st January 2005	–	–	–
Credited to the consolidated income statement	(223)	–	(223)
At 31st December 2005 and 1st January 2006	(223)	–	(223)
Credited to the consolidated income statement	223	–	223
At 31st December 2006	–	–	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:–

	2006	2005
	HK$'000	HK$'000
Deferred tax assets	**–**	10,879
Deferred tax liabilities	**–**	(223)
	–	10,656

The directors are of the opinion that the realisation of deferred tax assets and liabilities is remote and the amounts have been reversed since the Group entered into the disposal agreement as detailed in note 24.

At the balance sheet date, no deferred tax assets have been recognised in respect of tax losses due to the unpredictability of future profit streams and no deferred tax liabilities have been recognised in the consolidated financial statements as there are no temporary differences.

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28. SHARE CAPITAL

	Number of shares	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:–		
At 1st January 2005, 31st December 2005 and 2006	1,000,000,000	100,000
Issued and fully paid:–		
At 1st January 2005, 31st December 2005 and 2006	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.

29. PLEDGE OF ASSETS AND GUARANTEES

At 31st December 2006, the Group's banking facilities, including bank overdraft and import facilities, were secured by the followings:–

(a) Legal charges over certain land and buildings of the Group with an aggregate net book value of approximately HK$5,235,000 (2005: HK$14,884,000);

(b) a corporate guarantee from the Company;

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

30. COMMITMENTS

At 31st December 2006, the Group had the following commitments so far as not provided for in the consolidated financial statements, in respect of:–

(a) Capital commitment in respect of construction of a factory in the PRC

	2006 **HK$'000**	2005 HK$'000
Contracted for but not provided in	**373**	1,607

30. COMMITMENTS *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
Within one year	**38**	1,353
In the second to fifth year inclusive	**32**	5,345
After five years	**–**	5,136
	70	11,834

Leases are negotiated for an average term of 5 years (2005: 10 years) and rentals are fixed for an average of 2 years (2005: 5 years).

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

	2006	2005
	HK$'000	HK$'000
Within one year	**–**	195

Property rental income earned during the year was HK$410,000 (2005: HK$392,000).

31. CONTINGENT LIABILITIES

At the balance sheet date, one of the Group's subsidiaries was engaged in a litigation in which an amount of approximately HK$1,850,000 (2005: HK$2,139,000) has been claimed by a contractor in respect of a construction project in Kunshan, the PRC. Subsequent to the balance sheet date, the frozen bank balances as explained in note 23 had been disposed of to Micon through the disposal of Nority (BVI) Limited.

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For the year ended 31st December 2006

32. 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 exercised 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 during the years ended 31st December 2006 and 2005 and outstanding as at 31st December 2006 and 2005.

33. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and repayable on demand.

34. POST BALANCE SHEET EVENTS

(a) As detailed in note 24, the disposal of Nority (BVI) Limited and its subsidiaries has been completed on 5th January 2007 giving rise to a gain of approximately HK$2.9 million.

(b) Subsequent to the balance sheet date, approximately 95.35% of the total issued share capital of the Company has been transferred from Micon to Chinese Success Limited at an aggregate consideration of approximately HK$105.4 million.

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

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

(d) Subsequent to the balance sheet date, South China Strategic Limited ("South China Strategic") has been appointed by Nority Limited, according to a management agreement with effect from 5th January 2007, as its manager for a term of 3 years, during which South China Strategic has taken overall management and supervision responsibilities of Nority Limited and provide guidance and advice on enhancement of business operations and internal control systems under monitoring of its performance by the directors.

In addition, Nority Development Limited has leased back the rented premises to Nority Limited for its business operation according to a rental agreement entered into subsequent to the balance sheet date.

34. POST BALANCE SHEET EVENTS *(Continued)*

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

(f) On 27th February 2007, Spring Garden Investments Limited (the "Subscriber") and the Company have entered into the subscription agreement, pursuant to which the Subscriber will subscribe the convertible note (the "Note") from the Company in the principal amount of HK$28,836,800 upon full conversion of the Note at the initial conversion price, the Subscriber will be interested in a total of 53,600,000 shares, representing approximately 16.65% of the issued share capital of the Company as enlarged by the issue of the conversion shares.

(g) According to the announcement dated 16th March 2007, it is proposed that, subject to the approval of the independent shareholders, an aggregate of 26,800,000 options will be granted to the grantees on 15th March 2007 to subscribe an aggregate of 26,800,000 shares at a subscription price of HK$2.36 per share, representing approximately 9.99% of the existing issued share capital of the Company as at the date of the announcement and approximately 9.08% of the enlarged issued share capital of the Company, assuming that all options are fully exercised. The independent non-executive directors of the Company have approved the grant of the options to the grantees.

(h) According to the announcement dated 17th April 2007, the board of directors proposed that each of the existing issued and unissued shares of HK$0.10 each in the share capital of the Company be subdivided into 10 shares of HK$0.01 each. The shares are currently traded in board lots of 2,000 shares. Upon the share subdivision becoming effective, the subdivided shares will be trade in board lots of 10,000 subdivided shares.

35. BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'000
Non-current asset		
Investments in subsidiaries	**107,083**	135,410
	107,083	135,410
Current assets		
Amounts due from subsidiaries	**25,461**	–
Prepayment	**–**	3
Cash and bank balances	**30**	57
	25,491	60
Current liability		
Accruals	**–**	(313)
Net current assets	**25,491**	(253)
	132,574	135,157
Capital and reserves		
Share capital	**26,837**	26,837
Share premium	**48,079**	48,079
Capital reserve	**61,083**	61,083
Accumulated losses	**(3,425)**	(842)
	132,574	135,157

36. SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December 2006 are as follows:–

Name of company	Place of incorporation or registration/ operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest held		Principal activities
			Directly %	Indirectly %	
Nority (BVI) Limited (a)	British Virgin Islands ("BVI")	Ordinary HK$12,000,000	100	–	Investment holding
Chung Been Footwear Limited	Hong Kong	Ordinary HK$10,000,000	–	75	Manufacture and export of footwear in the PRC (c)
Nority Capital Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding
Nority Development Limited (a)	BVI	Ordinary US$2	–	100	Property holding in the PRC
Nority Investment Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding and provision of financing services
Nority Limited	Hong Kong/ PRC	Voting class "A" HK$65 (d) Non-voting class "B" HK$12,000,000 (b)	100	–	Manufacture and export of footwear in the PRC
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	Property Investment
Wilken Investment Limited (a)	Taiwan	Ordinary NTD40,000,000	–	100	In liquidation
Kunshan Wilken Footwear Co., Ltd (a)	PRC	Registered US$2,100,000	–	100	Manufacture and sales of footwear in the PRC (c)

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

36. SUBSIDIARIES *(Continued)*

(a) Companies are not audited by SHINEWING (HK) CPA Limited

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

(i) The 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.

(c) The subsidiaries were inactive during the year.

(d) On 27th September 2006, all shares of Nority Limited were transferred from Nority (BVI) Limited to the Company. On 28th September 2006, Nority Limited allotted an additional 55 voting class "A" share at HK$1.00 each to an existing shareholder.

FIVE YEARS FINANCIAL SUMMARY

Results

	2006	2005	2004	2003	2002
	Year ended 31st December				
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)	HK$'000 (restated)
Turnover	**132,418**	297,638	259,472	420,939	325,764
(Loss)/profit before taxation	**(44,268)**	(59,064)	(30,303)	(24,337)	(1,266)
Taxation	**(9,645)**	6,678	1,287	3,471	9,735
(Loss)/profit before taxation	**(53,913)**	(52,386)	(29,016)	(20,866)	8,469
Minority interests	**3,122**	412	(609)	(1,719)	(1,870)
(Loss)/profit for the year attributable to equity holders	**(50,791)**	(51,974)	(29,625)	(22,585)	6,599

Assets and Liabilities

	2006	2005	2004	2003	2002
	As at 31st December				
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)	HK$'000 (restated)
Total assets	**146,696**	221,933	281,453	315,283	352,496
Total liabilities	**(53,029)**	(72,577)	(71,691)	(76,428)	(86,638)
	93,667	149,356	209,762	238,855	265,858
Minority interests	**(1,791)**	(7,413)	(7,825)	(7,216)	(6,747)
	91,876	141,943	201,937	231,639	259,111

LIST OF PROPERTIES

INVESTMENT PROPERTIES

Location	Group's interest	Existing use
Unit 1 on Level 24, No. 303 Zhongming Road South, West District, Taichung City, Taiwan	100%	Commercial
No.1-1 Mokeng Lane, Mingjian Township, Nantou Country, Taiwan	100%	Industrial
Level 1, Unit 2 on Level 2, one carpark space and one motorcycle parking space in Basement 2, No. 28-5, Section 1, Zhiyou Rd, West District, Taichung City, Taiwan	100%	Commercial and carparking