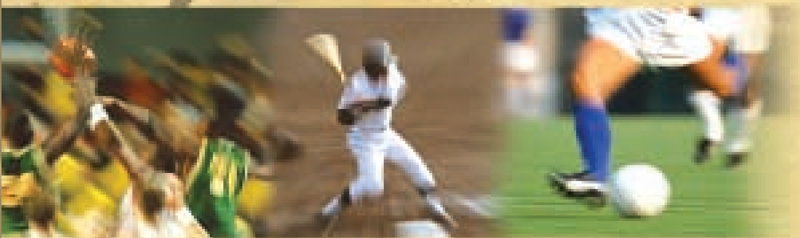
Nority International Group Limited

(Incorporated in the Cayman Islands with limited liability)



Interim Report 2005

INTERIM RESULTS

The Board of Directors of Nority International Group Limited (the "Company") presents the interim report and condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th June 2005, and the consolidated balance sheet of the Group as at 30th June 2005, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 20 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		For the six months ended 30th June	
		2005	2004
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited) (Restated)
Turnover	*(4)*	**147,649**	148,200
Cost of sales		**(135,353)**	(140,493)
Gross profit		**12,296**	7,707
Other revenue		**1,396**	780
Selling expenses		**(7,868)**	(7,136)
Administrative expenses		**(14,254)**	(17,106)
Other operating income, net		**535**	–
Loss from operations	*(5)*	**(7,895)**	(15,755)
Finance costs		**(52)**	(1)
Loss before taxation		**(7,947)**	(15,756)
Taxation	*(7)*	**(76)**	922
Loss for the period		**(8,023)**	(14,834)
Attributable to:			
– Equity holders of the Company		**(7,850)**	(15,351)
– Minority interests		**(173)**	517
		(8,023)	(14,834)
Basic loss per share	*(8)*	**HK(2.93) cents**	HK(5.73) cents

INTERIM RESULTS

The Board of Directors of Nority International Group Limited (the "Company") presents the interim report and condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th June 2005, and the consolidated balance sheet of the Group as at 30th June 2005, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 20 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		For the six months ended 30th June	
		2005	2004
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited) (Restated)
Turnover	*(4)*	**147,649**	148,200
Cost of sales		**(135,353)**	(140,493)
Gross profit		**12,296**	7,707
Other revenue		**1,396**	780
Selling expenses		**(7,868)**	(7,136)
Administrative expenses		**(14,254)**	(17,106)
Other operating income, net		**535**	–
Loss from operations	*(5)*	**(7,895)**	(15,755)
Finance costs		**(52)**	(1)
Loss before taxation		**(7,947)**	(15,756)
Taxation	*(7)*	**(76)**	922
Loss for the period		**(8,023)**	(14,834)
Attributable to:			
– Equity holders of the Company		**(7,850)**	(15,351)
– Minority interests		**(173)**	517
		(8,023)	(14,834)
Basic loss per share	*(8)*	**HK(2.93) cents**	HK(5.73) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2005

	NOTES	30th June 2005 HK$'000 (Unaudited)	31st December 2004 HK$'000 (Audited) (Restated)
Non-current assets			
Prepaid lease payments on land use rights		**11,227**	11,382
Property, plant and equipment and construction-in-progress	(9)	**114,284**	116,997
Investment securities		**–**	5,676
Held-to-maturity financial assets		**1,204**	–
Loans and receivables		**1,684**	–
Available-for-sale financial assets		**2,276**	–
Deferred tax assets	(10)	**4,691**	4,767
		135,366	138,822
Current assets			
Inventories		**67,485**	53,144
Trade and bills receivables	(11)	**51,088**	57,828
Deposits, prepayments and other receivables		**3,893**	2,964
Prepaid lease payments on land use rights		**310**	310
Other investments		**–**	545
Financial assets at fair value through profit or loss		**556**	–
Tax recoverable		**471**	460
Cash and bank balances		**22,543**	27,038
		146,346	142,289

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30TH JUNE 2005

	NOTES	30th June 2005 HK$'000 (Unaudited)	31st December 2004 HK$'000 (Audited) (Restated)
Current liabilities			
Trade payables	(12)	**56,561**	45,305
Accruals and other payables		**14,018**	15,162
Tax payable		**3,130**	3,130
Retirement benefit obligations – current portion		**30**	1,115
Bank overdraft – secured		**–**	849
		73,739	65,561
Net current assets		**72,607**	76,728
Total assets less current liabilities		**207,973**	215,550
Non-current liability			
Retirement benefit obligations – non-current portion		**6,551**	6,130
Net assets		**201,422**	209,420
Capital and reserves			
Share capital	(13)	**26,837**	26,837
Reserves		**166,933**	174,758
Equity attributable to equity holders of the Company		**193,770**	201,595
Minority interests		**7,652**	7,825
Total equity		**201,422**	209,420

The financial statements on pages 1 to 20 were approved and authorised for issue by the Board of Directors on 20th September 2005 and are signed on its behalf by:

Feng Shen Chuan
Director

Kuo Shu Chen
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *(note (i))* *HK$'000*	Working capital reserve *(note (ii))* *HK$'000*	Investment properties revaluation reserve *HK$'000*	Exchange translation reserve *HK$'000*	Accumu-lated profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1st January 2004										
– as originally stated	26,810	47,986	(1,000)	1,275	120	(1,662)	157,993	231,522	7,216	238,738
– Effect of changes in accounting policies *(note 2)*	–	–	–	–	(120)	–	(113)	(233)	–	(233)
– as restated	26,810	47,986	(1,000)	1,275	–	(1,662)	157,880	231,289	7,216	238,505
Loss for the period										
– as originally stated	–	–	–	–	–	–	(15,357)	(15,357)	517	(14,840)
– Effect of changes in accounting policies *(note 2)*	–	–	–	–	–	–	6	6	–	6
– as restated	–	–	–	–	–	–	(15,351)	(15,351)	517	(14,834)
Translation of overseas subsidiaries' financial statements	–	–	–	–	–	(187)	–	(187)	–	(187)
At 30th June 2004 and 1st July 2004	26,810	47,986	(1,000)	1,275	–	(1,849)	142,529	215,751	7,733	223,484
Issue of shares during the period	27	93	–	–	–	–	–	120	–	120
Deficit on revaluation of investment properties, net of taxation	–	–	–	–	(120)	–	–	(120)	–	(120)
Loss for the period										
– as originally stated	–	–	–	–	–	–	(14,152)	(14,152)	92	(14,060)
– Effect of changes in accounting policies *(note 2)*	–	–	–	–	120	–	(114)	6	–	6
– as restated	–	–	–	–	120	–	(14,266)	(14,146)	92	(14,054)
Translation of overseas subsidiaries' financial statements	–	–	–	–	–	(10)	–	(10)	–	(10)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve (note (i)) HK$'000	Working capital reserve (note (ii)) HK$'000	Investment properties revaluation reserve HK$'000	Exchange translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 31st December 2004 and 1st January 2005	26,837	48,079	(1,000)	1,275	–	(1,859)	128,263	201,595	7,825	209,420
Loss for the period	–	–	–	–	–	–	(7,850)	(7,850)	(173)	(8,023)
Translation of overseas subsidiaries' financial statements	–	–	–	–	–	25	–	25	–	25
At 30th June 2005	26,837	48,079	(1,000)	1,275	–	(1,834)	120,413	193,770	7,652	201,422

(i) 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.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	For the six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(261)**	(3,106)
Net cash used in investing activities	**(3,346)**	(6,938)
Net cash used in financing activities	**(52)**	(6,023)
Net decrease in cash and cash equivalents	**(3,659)**	(16,067)
Cash and cash equivalents at 1st January	**26,189**	57,585
Effect of changes in exchange rate	**13**	217
Cash and cash equivalents at 30th June	**22,543**	41,735
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**22,543**	41,735

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2004 except as described below.

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

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application, however, no impact on the presentation and disclosure to the financial statements as a result of adoption of HKAS 32. HKAS 39, which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Classification and measurement of financial assets and financial liabilities

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

On or before 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method (See note 3 for the financial impact).

Owner-occupied leasehold interest in land

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Minority interests

In prior periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. In the consolidated income statement, minority interests in the results of the Group for the period were also separately presented as a deduction before arriving at the profit or loss attributable to equity holders.

With effect from 1st January 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from equity attributable to equity holders of the Company, and the profit or loss attributable to minority interests are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly (See note 3 for the financial impact).

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment properties revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January 2005 onwards (See note 3 for the financial impact).

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

The effect of the changes in the accounting policies described in note 2 above on the results for the current and previous periods is as follows:

	For the six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Arising from adoption of HKAS 17	**6**	6
Decrease in loss for the period	**6**	6

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

	For the six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Decrease in depreciation of property, plant and equipment	**161**	161
Increase in amortisation of prepaid lease payments on land use rights	**(155)**	(155)
	6	6

3. **SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES** *(Continued)*

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

	As at 31st December 2004	Adjustments	As at 31st December 2004	Adjustments	As at 1st January 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)		(Restated)		(Restated)
Prepaid lease payments on land use rights	–	11,692	11,692	–	11,692
Property, plant and equipment and construction-in-progress	128,910	(11,913)	116,997	–	116,997
Investment securities	5,676	–	5,676	(5,676)	–
Held-to-maturity financial assets	–	–	–	1,716	1,716
Loans and receivables	–	–	–	1,684	1,684
Available-for-sale financial assets	–	–	–	2,276	2,276
Other investments	545	–	545	(545)	–
Financial assets at fair value through profit or loss	–	–	–	545	545
Other net assets	74,510	–	74,510	–	74,510
Net assets	209,641	(221)	209,420	–	209,420
Share capital	26,837	–	26,837	–	26,837
Accumulated profits	128,484	(221)	128,263	–	128,263
Other reserves	46,495	–	46,495	–	46,495
Minority interests	–	7,825	7,825	–	7,825
Total equity	201,816	7,604	209,420	–	209,420
Minority interests	7,825	(7,825)	–	–	–
	209,641	(221)	209,420	–	209,420

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

(Continued)

Potential impact of new standards not yet adopted

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining Whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. SEGMENT INFORMATION

The Group has only one single business segment which is the manufacture and export of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes. Accordingly, the commentated figures represent the segment information for this sole business segment for the period.

An analysis of the Group's revenue and results for the period by geographical segment is as follows:

	For the six months ended 30th June			
	2005		2004	
	Turnover	**Segment results**	Turnover	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
				(Restated)
North America	**44,763**	**2,939**	76,437	(5,433)
Europe	**79,116**	**(3,506)**	51,327	4,830
Others	**23,770**	**4,995**	20,436	1,174
	147,649	**4,428**	148,200	571
Other revenue		**1,396**		780
Other operating income, net		**535**		–
Unallocated expenses		**(14,254)**		(17,106)
Loss from operations		**(7,895)**		(15,755)

Sales are based on the country in which the customer is located. There are no sales between geographical segments.

5. LOSS FROM OPERATIONS

	For the six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Loss from operations is stated after crediting and charging the following:		
Crediting		
Net exchange gain	**–**	110
Written-back of overprovision for inventories	**–**	1,772
Gain on disposal of property, plant and equipment	**346**	268
Charging		
Depreciation	**6,773**	7,641
Operating lease charges on land use rights	**155**	–
Operating lease charges on rental premises	**710**	615
Loss on disposal of held-to-maturity financial assets	**180**	–
Provision for inventories	**148**	–
Net exchange loss	**1,104**	–
Staff costs	**33,969**	31,298

6. STAFF COSTS

	For the six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**31,926**	28,084
Retirement benefit costs	**1,063**	1,270
Severance payments	**–**	393
Other staff costs	**980**	1,551
	33,969	31,298

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th June 2004: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	For the six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Current taxation:		
Hong Kong profits tax	**–**	225
Overseas profits tax	**–**	21
Over provision in prior years	**–**	(1,274)
Deferred taxation relating to the origination and reversal of temporary differences	**76**	106
Taxation charge/(credit)	**76**	(922)

8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of approximately HK$7,850,000 (2004 as restated: HK$15,351,000) and the weighted average number of ordinary shares of 268,372,612 (2004: 268,104,508) in issue during the period.

Diluted loss per share has not been presented as there are no dilutive potential ordinary shares.

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

During the period, the Group spent approximately HK$5,475,000 (2004: HK$7,055,000) on additions to property, plant and equipment and construction-in-progress. During the period, items of property, plant and equipment and construction-in-progress with a net book value of approximately HK$1,416,000 were disposed of (2004: HK$486,000). During the period, the Group reclassified the land in the People's Republic of China (the "PRC") held with undetermined future use to investment properties in accordance with HKAS 40 – Investment Property.

10. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (31st December 2004: 17.5%).

The movement on the deferred tax assets was as follows:

	30th June 2005	31st December 2004
	HK$'000	*HK$'000*
At the beginning of the period/year	**4,767**	4,480
Deferred taxation (charged)/credited to the income statement	**(76)**	247
Taxation credited to equity		
– investment properties revaluation reserve	**–**	40
At the end of the period/year	**4,691**	4,767

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

Deferred tax assets

	Depreciation	**General provisions**	**Pensions**	**Estimated tax losses**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	908	1,172	2,230	46	219	4,575
(Charged)/credited to the income statement	141	278	(419)	(46)	238	192
At 31st December 2004 and 1st January 2005	1,049	1,450	1,811	–	457	4,767
(Charged)/credited to the income statement	(2)	(63)	(165)	495	(341)	(76)
At 30th June 2005	1,047	1,387	1,646	495	116	4,691

10. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities

	Depreciation *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
At 1st January 2004	55	40	95
Credited to the income statement	(55)	–	(55)
Credited to investment properties revaluation reserve	–	(40)	(40)
At 31st December 2004 and 30th June 2005	–	–	–

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

	30th June 2005 ***HK$'000***	31st December 2004 *HK$'000*
Deferred tax assets to be recovered after more than 12 months	**4,691**	4,767
Deferred tax liabilities to be settled after more than 12 months	**–**	–
	4,691	4,767

11. TRADE AND BILLS RECEIVABLES

The ageing analysis of trade and bills receivables was as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
0 – 30 days	**33,096**	31,364
31 – 60 days	**12,910**	20,949
61 – 90 days	**4,301**	4,560
Over 90 days	**781**	955
	51,088	57,828

The majority of the Group's turnover is on letter of credit or documents against payment. The remaining amounts of turnover are on open account terms with a general credit period of 30 to 60 days.

12. TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
0 – 30 days	**37,663**	22,673
31 – 60 days	**4,419**	12,520
61 – 90 days	**11,154**	6,194
Over 90 days	**3,325**	3,918
	56,561	45,305

13. SHARE CAPITAL

	30th June 2005 HK$'000	31st December 2004 HK$'000
Authorised		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid		
268,372,612 ordinary shares of HK$0.10 each	**26,837**	26,837

14. COMMITMENTS

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

	30th June 2005 HK$'000	31st December 2004 HK$'000
Contracted but not provided for	**2,520**	2,653

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

	30th June 2005 HK$'000	31st December 2004 HK$'000
Within one year	**1,444**	1,251
In the second to fifth year inclusive	**4,794**	5,471
	6,238	6,722

14. COMMITMENTS *(Continued)*

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

	30th June 2005	31st December 2004
	HK$'000	*HK$'000*
Within one year	**229**	437
In the second to fifth year inclusive	**–**	85
	229	522

15. CONTINGENT LIABILITIES

As at 30th June 2005, the Group had contingent liabilities, so far as not provided for in the financial statements, in respect of discounted bills of approximately HK$3,751,000 (31st December 2004: Nil).

16. PLEDGE OF ASSETS AND GUARANTEES

As at 30th June 2005, the Group's banking facilities were secured by the following:

(a) legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with an aggregate net book value of HK$46 million (31st December 2004: HK$46 million);

(b) a corporate guarantee from the Company; and

(c) joint and several guarantees from certain Directors of the Company.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

Turnover of the Group for the six months ended 30th June 2005 amounted to HK$147,649,000 (six months ended 30th June 2004: HK$148,200,000), representing a decrease of approximately 0.37% over the corresponding period last year. Loss attributable to equity holders of the Company was HK$7,850,000, as compared to loss as restated of HK$15,351,000 for the same period last year.

The Group's core business is the manufacture and export of athletic and athlete-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes. The Company's major customers were Fila, Hi-Tec, Geox, etc.

During the first half of 2005, staff changes and restructuring of the Group made it extremely challenging to the Group.

During the period, due to the historical high in oil prices, the increase in labour cost in the Pearl River Delta Region and the competition in the shoe manufacturing industry, the business environment was still very difficult. Despite the Group's continued efforts on controlling overall costs of manufacturing, selling and administrative expenses, pressure from the market was still enormous. In such an unfavourable business environment, the Group's business for the first six months of the year still incurred losses.

Nevertheless, the Group remains confident in its future prospects. In order to enhance our operating efficiency, we are now introducing the new Enterprise Resource Planning (ERP) system and expect that it will be fully functional online at the end of 2005. The Group expects that there will be substantial improvement in procurement of materials, inventory control, manufacturing management, project management and working capital management.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

Turnover of the Group for the six months ended 30th June 2005 amounted to HK$147,649,000 (six months ended 30th June 2004: HK$148,200,000), representing a decrease of approximately 0.37% over the corresponding period last year. Loss attributable to equity holders of the Company was HK$7,850,000, as compared to loss as restated of HK$15,351,000 for the same period last year.

The Group's core business is the manufacture and export of athletic and athlete-style leisure footwear, as well as the manufacture of working shoes, safety shoes and golf shoes. The Company's major customers were Fila, Hi-Tec, Geox, etc.

During the first half of 2005, staff changes and restructuring of the Group made it extremely challenging to the Group.

During the period, due to the historical high in oil prices, the increase in labour cost in the Pearl River Delta Region and the competition in the shoe manufacturing industry, the business environment was still very difficult. Despite the Group's continued efforts on controlling overall costs of manufacturing, selling and administrative expenses, pressure from the market was still enormous. In such an unfavourable business environment, the Group's business for the first six months of the year still incurred losses.

Nevertheless, the Group remains confident in its future prospects. In order to enhance our operating efficiency, we are now introducing the new Enterprise Resource Planning (ERP) system and expect that it will be fully functional online at the end of 2005. The Group expects that there will be substantial improvement in procurement of materials, inventory control, manufacturing management, project management and working capital management.

Business review and prospects *(Continued)*

In view of the complicated and ever changing present market environment, the Group is now considering various possible measures to further enhance the overall efficiency in utilization of resources and to lower its operating costs.

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

Liquidity, financial resources and capital structure

The Group has adhered to stringent and prudent financial policies in monitoring and managing its cash resources as well as banking facilities. As at 30th June 2005, the Group had available cash and bank balances of approximately HK$22,543,000 (2004: HK$27,038,000). There is no deposit (2004: Nil) pledged for banking facilities available to the Group of HK$25,000,000 (2004: HK$35,000,000). The banking facilities are also secured by legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of approximately HK$45,534,000 (2004: HK$46,012,000) as at 30th June 2005.

Funding of the Group's operations is mainly financed by internal resources. There were no borrowings from banks to the Group (2004: Nil) as at 30th June 2005.

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

There is no change in capital structure of the Company during the period.

Exposure to exchange rate fluctuation

As at 30th June 2005, purchases and sales of the Group were mainly denominated in Hong Kong dollars, Renminbi, New Taiwan dollars and US dollars. In view of the stability of these currencies, the Directors consider that the Group has no significant exposure to foreign exchange fluctuation.

Employees and remuneration policy

As at 30th June 2005, the Group employed approximately 15 staff in Hong Kong and Taiwan offices and had approximately 4,000 workers working in the Group's processing bases in Mainland China. 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 performance.

Significant investment

For the six months ended 30th June 2005, the Group had not made significant investment.

Material acquisitions and disposals of subsidiaries

There were no material acquisition and disposal of subsidiaries during the six months ended 30th June 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company adopted the Share Option Scheme (the "Scheme") on 10th June 2003 for the purpose of providing incentives or rewarded to selected eligible participants for their contribution to the Group, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the terms of the Scheme, the Directors of the Company may grant share options to employees of the Company or its subsidiaries, including Directors of any of such companies, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. However, no share options were granted during the period or outstanding as at 30th June 2005.

Exposure to exchange rate fluctuation

As at 30th June 2005, purchases and sales of the Group were mainly denominated in Hong Kong dollars, Renminbi, New Taiwan dollars and US dollars. In view of the stability of these currencies, the Directors consider that the Group has no significant exposure to foreign exchange fluctuation.

Employees and remuneration policy

As at 30th June 2005, the Group employed approximately 15 staff in Hong Kong and Taiwan offices and had approximately 4,000 workers working in the Group's processing bases in Mainland China. 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 performance.

Significant investment

For the six months ended 30th June 2005, the Group had not made significant investment.

Material acquisitions and disposals of subsidiaries

There were no material acquisition and disposal of subsidiaries during the six months ended 30th June 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company adopted the Share Option Scheme (the "Scheme") on 10th June 2003 for the purpose of providing incentives or rewarded to selected eligible participants for their contribution to the Group, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the terms of the Scheme, the Directors of the Company may grant share options to employees of the Company or its subsidiaries, including Directors of any of such companies, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. However, no share options were granted during the period or outstanding as at 30th June 2005.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

Apart from the share option scheme mentioned above,

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

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

As at 30th June 2005, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:–

Name of director	**Number of shares held in personal interests**
Feng Shen Chuan	72,878,313 *
Kuo Shu Chen	3,067,248
Feng Yung Chuan	7,501,500
Wu Xiaoqin	80,000

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

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr Feng Shen Chuan in trust for the Group as at 30th June 2005, none of the Directors and chief executives (including their spouse and children under 18 years of age) had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDER

As at 30th June 2005, so far as is known to the Company, the following shareholder, other than Directors or chief executives of the Company, had interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO:

Long position in the shares of the Company

Name	**Number of ordinary shares**
Micon Limited	114,118,540

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

Save as disclosed above, as at 30th June 2005, the Company is not aware of any other shareholder who had interest or short position in the shares, underlying shares and debt securities of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30th June 2005.

Securities Dealings by Directors

The Company has established written guidelines on no less exacting terms than the required standard of dealings by Directors and relevant employees in respect of their dealings in the securities of the Company. Having made specific enquiries of all Directors and relevant employees of the Company, the Board is pleased to confirm that they have fully complied with the required standard with respect to the securities dealings of the Company pursuant to the Listing Rules during the six months ended 30th June 2005.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2005, so far as is known to the Company, the following shareholder, other than Directors or chief executives of the Company, had interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO:

Long position in the shares of the Company

Name	**Number of ordinary shares**
Micon Limited	114,118,540

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

Save as disclosed above, as at 30th June 2005, the Company is not aware of any other shareholder who had interest or short position in the shares, underlying shares and debt securities of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30th June 2005.

Securities Dealings by Directors

The Company has established written guidelines on no less exacting terms than the required standard of dealings by Directors and relevant employees in respect of their dealings in the securities of the Company. Having made specific enquiries of all Directors and relevant employees of the Company, the Board is pleased to confirm that they have fully complied with the required standard with respect to the securities dealings of the Company pursuant to the Listing Rules during the six months ended 30th June 2005.

Purchase, sale or redemption of the company's listed securities

The Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors of the Company and its terms of reference have been modified to incorporate certain provisions with reference to the Appendix 14 of the Listing Rules. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30th June 2005.

Remuneration Committee

The Company has established a Remuneration Committee with specific terms of reference that specify the duties and responsibilities of committee members in accordance with the requirements set out in Appendix 14 of the Listing Rules. The Remuneration Committee comprises an Executive Director and two Independent Non-Executive Directors of the Company.

By Order of the Board
Feng Shen Chuan
Chairman

Hong Kong, 20th September 2005

As at the date of this report, the Executive Directors of the Company are Mr. Feng Shen Chuan (Chairman), Ms. Kuo Shu Chen, Mr. Feng Yung Chuan and Ms. Wu Xiaoqin, and the Independent Non-Executive Directors are Mr. Lo Kwok Kwei, David, Mr. Au Wing Kit and Ms Eugenia Yang.