NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

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

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 value or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 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 ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 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 has been applied retrospectively. The adoption of the new HKFRSs has also 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:

(i) Share-based payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to those share options granted on or after 1 January 2005 (if any). In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to those share options granted on or before 7 November 2002 and those share options that were granted after 7 November 2002 but were vested before 1 January 2005 in accordance with the relevant transitional provisions. Because there were no unvested share options at 1 January 2005, comparative figures for 2004 will not be restated.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(ii) Business combinations

HKFRS 3 "Business Combinations" is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are in relation to goodwill.

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(iii) Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has been no material effect in the presentation of financial instrument in the financial statements of the Group. The principal effects on the Group resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

On or before 31 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 "Accounting for Investments in Securities" ("SSAP 24") issued by the HKICPA. 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 1 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. For available-for-sale financial assets which are investment in equity instruments whose fair vale cannot be reliably measured, they are measured at cost less impairment which cannot be reversed subsequently. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(iii) Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under non-current assets with a carrying amount of HK$11,466,000 were classified to available-for-sale investments on 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

(iv) 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 revaluation 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 interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively and the financial impact on the Group is set out in note 3.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) 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 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase 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 1 January 2005 onwards. The change in accounting policy has not had any significant impact on the comparative figures of the Group.

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 Standards or Interpretations will have no material impact on the financial statements of the Group:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan 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 Decommissing, Restoration and Environmental Rehabilitation Funds

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

The effects of the changes in the accounting policies described in note 2 above on the Group's results and financing positions are as follows:

(i) On results

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Decrease in other operating expenses – representing a decrease in amortisation charge of goodwill	**3,040**	–

(ii) On balance sheet items

	At 31.12.2004 (originally stated)	Adjustments	At 31.12.2004 (restated)	Adjustments	**At 1.1.2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Property, plant and equipment	291,887	(24,151)	267,736	–	**267,736**
Prepaid lease payments	–	18,143	18,143	–	**18,143**
Investments in securities	11,466	–	11,466	(11,466)	**-**
Available-for-sale investments	–	–	–	11,466	**11,466**
Deferred tax liabilities	(9,167)	1,493	(7,674)	–	**(7,674)**
Accumulated profits	(544,571)	–	(544,571)	–	**(544,571)**
Properties revaluation reserve	(22,495)	4,515	(17,980)	–	**(17,980)**
		–		–	

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised below:

	As originally stated	**Adjustment**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*
Properties revaluation reserve and effect on equity – to reverse the valuation surplus relating to the prepaid lease payments	9,181	(5,547)	3,634

4. SEGMENT INFORMATION

Business segments

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

Geographical segments

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

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
TURNOVER		
United States of America	**670,429**	348,609
Canada	**39,454**	56,232
Europe	**222,484**	184,228
Asia	**63,157**	31,770
Others	**65,746**	62,707
	1,061,270	683,546
RESULTS		
United States of America	**111,830**	53,490
Canada	**6,581**	8,628
Europe	**37,111**	28,267
Asia	**11,191**	6,037
Others	**10,966**	9,622
	177,679	106,044
Unallocated corporate expenses	**(26,399)**	(22,885)
Share of (loss) profit of a jointly controlled entity	**(9,045)**	5,768
Finance costs	**(24)**	–
Profit before taxation	**142,211**	88,927
Taxation	**(16,173)**	(11,148)
Profit for the period	**126,038**	77,779

5. PROFIT BEFORE TAXATION

	For the six months ended 30 June **2005** ***HK$'000***	2004 *HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expense	**577,386**	372,034
Depreciation and amortisation	**15,970**	20,810
Allowance for bad and doubtful debts	**7,570**	9,295
Amortisation of prepaid lease payments	**207**	207
Amortisation of goodwill	**–**	139
Interest income from:		
Bank deposits	**(3,954)**	(1,564)
Available-for-sale investments/ investments in securities	**(317)**	(714)
Trade debtors	**(4,704)**	(4,537)
Loans to a jointly controlled entity	**(1,816)**	(478)
Promissory notes	**(740)**	–
Dividend income from available-for-sale investments/investments in securities	**(37)**	(44)

6. TAXATION

	For the six months ended 30 June **2005** ***HK$'000***	2004 *HK$'000*
Current tax:		
Hong Kong	**3,440**	2,901
Other jurisdictions	**12,953**	7,617
	16,393	10,518
Deferred tax:		
Current period	**(220)**	630
	(220)	630
Taxation attributable to the Company and its subsidiaries	**16,173**	11,148

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the six months ended 30 June 2005.

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

7. DIVIDENDS

During the period ended 30 June 2005, a dividend of HK$0.072 per ordinary share was paid to shareholders as the final dividend for the year ended 31 December 2004.

During the period ended 30 June 2004, a final dividend of HK$0.06 per ordinary share was paid to shareholders as the final dividend for the year ended 31 December 2003.

The directors do not recommend the payment of an interim dividend (2004: HK$0.028 per ordinary share).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	For the six months ended 30 June	
	2005	2004
Net profit for the period and earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the parent)	**HK$116,312,000**	HK$74,435,000
Number of/weighted average number of ordinary shares for the purposes of basic earnings per share	**1,109,803,182**	1,105,365,028

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment at a cost of HK$16,025,000.

The Group's land and buildings were revalued by the directors at 30 June 2005. The revaluation resulted in a surplus amounting to approximately HK$690,000 of which approximately HK$81,000 has been credited directly to the consolidated income statement and approximately HK$609,000 has been credited directly to the properties revaluation reserve.

The directors have also considered the valuation of the Group's investment properties at 30 June 2005 and have concluded that their fair value at that date are not materially different from their carrying value at 31 December 2004.

10. PROMISSORY NOTE RECEIVABLES

The promissory note receivables are unsecured, interest-bearing at 10% per annum and repayable on or before 15 May 2006.

11. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK$321,386,000 (31 December, 2004: HK$328,375,000) and an aged analysis is as follows:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
0 to 30 days	**176,831**	163,679
31 to 60 days	**99,430**	65,406
61 to 90 days	**47,412**	22,074
Over 90 days	**33,513**	105,446
	357,186	356,605
Less: Allowances for bad and doubtful debts	**(35,800)**	(28,230)
	321,386	328,375

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$245,624,000 (31 December 2004: HK$243,684,000) and an aged analysis is as follows:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
0 to 30 days	**98,960**	102,888
31 to 60 days	**78,215**	83,880
61 to 90 days	**23,660**	20,244
Over 90 days	**44,789**	36,672
	245,624	243,684

13. DEPOSIT RECEIVED

The amount represents a refundable deposit received by the Group for its disposal of certain property rights in the PRC for a total consideration of approximately HK$20 million. A provision was made against the Group's entire carrying value of these property rights in prior years. As completion of the disposal is subject to fulfillment of certain conditions, the directors, after careful consideration of the terms of the disposal agreement, have determined that the provision previously made against the property rights should not be reversed at this stage.

14. BANK BORROWINGS

During the period, the Group obtained two new unsecured bank loans totalling HK$77,700,000 which were used to finance the acquisition of property, plant and equipment and for working capital of the Group. A loan of HK$38,850,000 bore interest at 0.5% per annum over Singapore Interbank Money Market Offer Rate and the other loan of HK$38,850,000 bore interest at 0.5% per annum above the bank's cost of funds, as determined from time to time by bank for the relevant currencies. Both loans were fully repaid in July 2005.

15. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.25 each		
Authorised:		
At 31 December 2004 and 30 June 2005	8,000,000,000	2,000,000
Issued and fully paid:		
At 31 December 2004 and 30 June 2005	1,109,803,182	277,451

16. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum leases payments paid under operating leases for land and buildings during the period was HK$9,896,000 (six months ended 30 June 2004: HK$7,616,000).

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

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Within one year	**18,535**	18,597
In the second to fifth year inclusive	**49,484**	55,571
After five years	**2,900**	6,169
	70,919	80,337

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

The Group as lessor

Property rental income earned during the period was approximately HK$915,000 (six months ended 30 June 2004: HK$738,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 3% (six months ended 30 June 2004: 7%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

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

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Within one year	**1,267**	990
In the second to fifth year inclusive	**304**	75
	1,571	1,065

17. RELATED PARTY TRANSACTIONS

(i) During the period, the Group received interest income and management fee income amounting to HK$1,816,000 and HK$874,000 (six months ended 30 June 2004: HK$478,000 and Nil) from Smart Shine, a jointly controlled entity of the Group and New Point Industrial Limited, a subsidiary of Smart Shine, respectively. In addition, the Group sold goods amounting to HK$9,545,000 (six months ended 30 June 2004: Nil) to Reebok China Limited, a subsidiary of Smart Shine. The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

(ii) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**4,131**	4,245

18. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company raised approximately HK$349,600,000 before expenses by a rights issue of 554,901,591 rights shares, at a subscription price of HK$0.63 each payable in full on acceptance. Details of the rights issue are set out in the Company's circular dated 16 August 2005.