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 *HK$'000*	31st December 2004 *HK$'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 *HK$'000*	**General provisions** *HK$'000*	**Pensions** *HK$'000*	**Estimated tax losses** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'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	Others	Total
	HK$'000	*HK$'000*	*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	31st December 2004
	HK$'000	*HK$'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	31st December 2004
	HK$'000	*HK$'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	31st December 2004
	HK$'000	*HK$'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.