1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The parent and the ultimate holding company is Well Success Investment Limited, a company incorporated in the British Virgin Island. The addresses of the registered office and principal place of business of the Company are 10th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong.

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

The principal activity of the Company and its subsidiaries (the "Group") are manufacture and trading of footwear and property and investment holding. The activities of its principal subsidiaries are set out in notes 38.

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

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

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations". The principal effects of the application of HKFRS 3 to the Group are in relation to goodwill.

In previous years, 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 consolidated balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$3,318,000 with a corresponding decrease in the cost of goodwill (note 15). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such 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 1st 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 was charged in the current year. Comparative figures for 2004 have not been restated (note 2A).

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

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which 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 share options granted to Directors and employees 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 share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and those share options granted after 7th November, 2002 but were vested before 1st January, 2005 in accordance with the relevant transitional provisions. Because there was no unvested share option at 1st January, 2005, comparative figures for 2004 have not been restated.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects 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 the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

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

Financial Instruments (Continued)

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

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. Investment securities of HK$10,940,000 and other securities of HK$450,000, respectively were classified to available-for-sale financial assets at fair value. Investment securities of HK$76,000 was transferred to available-for-sale financial assets at cost (note 2A).

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Classification of financial assets has been mentioned above. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The adoption of HKAS 39 has had no material effect on the Group's retained profits.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated 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 (note 2A).

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

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard 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 surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. As the Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards, this change in accounting policy does not have any impact on the Group's results for the prior years.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied Standing Interpretations Committee of IASB ("HK(SIC)") Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The change in accounting policy has not had any significant impact on the comparative figures of the Group.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Decrease in other expenses – representing a decrease in amortisation of goodwill	**6,080**	–
Decrease(increase) in administrative expenses – representing a decrease(increase) in depreciation and amortisation	**216**	(429)
Increase(decrease) in profit for the year	**6,296**	(429)

The cumulative effects of the application of the new HKFRSs on the Group's assets and liabilities at 31st December, 2004 and 1st January, 2005 are summarised below:

On balance sheet items

	As at 31st December, 2004 (originally stated)	Adjustments	As at 31st December, 2004 (restated)	Adjustments	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Impact of HKAS 17:					
Property, plant and equipment	291,887	(71,479)	220,408	–	220,408
Prepaid lease payments	–	49,940	49,940	–	49,940
Deferred tax assets	5,794	(105)	5,689	–	5,689
Deferred tax liabilities	(9,167)	5,002	(4,165)	–	(4,165)
Impact of HKAS 39:					
Investments in securities	11,466	–	11,466	(11,466)	–
Available-for-sale investments	–	–	–	11,466	11,466
Total effect on assets and liabilities	299,980	(16,642)	283,338	–	283,338
Share capital and other reserves	364,305	–	364,305	–	364,305
Retained profits	544,571	3,664	548,235	–	548,235
Properties revaluation reserve	22,495	(20,306)	2,189	–	2,189
Total effects on equity	931,371	(16,642)	914,729	–	914,729

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

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

	As originally stated *HK$'000*	Effect of HKAS 17 *HK$'000*	As restated *HK$'000*
Share capital and other reserves	338,931	–	338,931
Retained earnings	471,991	4,093	476,084
Properties revaluation reserve	9,181	(5,547)	3,634
Total effects on equity	820,103	(1,454)	818,649

The Group has not early applied the following new standards, amendments, and interpretations that have been issued but are not yet effective. The Directors of the Company have commenced considering the potential impact of these new standards and interpretations. The Directors of the Company consider that HKAS 1 (Amendment), HKAS 21 (Amendment), HKAS 39 (Amendment), HKFRS 7 and HK(IFRIC) – INT 4 may have impact to the Group but are not yet in a position to determine the financial impact on how the Group's results of operations and financial position are presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market–waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2005.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions prior to 1st January, 2005 (Continued)

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

Joint ventures

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Land classified as held for sale

Asset is classified as held for sale if its 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 is available for immediate sale in its present condition.

Asset classified as held for sale is measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition

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

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided for write-off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, 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 income statement in the year in which the item is derecognised.

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 period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. 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 asset) is included in the income statement in the year in which the item is dereognised.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessor

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

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 period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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 base 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 and interests in joint ventures, 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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which are the reversal of the impairment loss is treated as a revaluation increase under that other standard.

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 two categories, including loans and receivables 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 held by the Group are set out below.

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 amounts due from jointly controlled entities, promissory note receivables, bank balances and trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories investments. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investments are disposed of or are 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 investments are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss 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. An 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 investments. Such impairment losses will not reverse in subsequent periods.

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 and other than financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

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

Financial liabilities

Financial liabilities including trade and other payables and amount due to a jointly controlled entity subsequently measured at amortised cost, using the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption 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 years, are discussed below.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Depreciation and amortisation of property, plant and equipment

The Group's carrying values of property, plant and equipment as at 31st December, 2005 were HK$241,416,000. The Group depreciates the property, plant and equipment, after taking into account their estimated residual value, on a straight line basis over their estimated useful lives as set out in note 12. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Inventory valuation method

Inventory is valued using the cost method, which values inventory at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated net realisable value is generally merchandise selling price less selling expenses. The Group reviews its inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill was HK$57,477,000. Details of the recoverable amount calculation are disclosed in note 16.

Income taxes

As at 31st December 2005, a deferred tax asset of HK$2,985,000, HK$778,000 and HK$1,771,000 in relation to allowances for bad and doubtful debts, unrealised profit on inventories and unused tax losses, respectively, were recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank deposits, trade receivables and trade payables. Details of these financial instruments are disclosed in the 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.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, price risk and interest rate risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Currency risk

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

Certain bank balances and cash are denominated in Renminbi which were subject to foreign exchange control. The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

The five largest customers of the Group constitute approximately 79% of the Group's total sales. The management is of the view that there is no significant concentration of credit risk since their financial background is strong and they are credit trustworthy.

Price risk

The Group's certain available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to debt and equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The Directors consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

In addition, the Group has exposure of fair value interest rate risk through the impact of the rate changes on convertible notes, amount due to a Director, amount due to ultimate holding company/a Director and amounts due from minority shareholders of a subsidiary. The Group does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

6. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable by the Group for goods sold, after allowances for returns and trade discounts, to outside customers and gross rental income received and receivable from investment properties during the year.

Turnover represents the amounts received and receivable for the followings:

	2005 **HK$'000**	2004 *HK$'000*
Manufacture and sales of footwear products	**1,850,742**	1,446,393
Rental income	**1,769**	1,458
	1,852,511	1,447,851

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 sales of footwear products.

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by geographical markets, irrespective of the origin of the goods, is presented below:

2005

	United States of America *HK$'000*	Canada *HK$'000*	Europe *HK$'000*	Asia *HK$'000*	Australia *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
TURNOVER							
External sales	1,142,435	83,979	357,506	145,683	22,472	100,436	1,852,511
RESULTS							
Segment results	177,977	13,083	55,695	23,999	3,501	15,647	289,902
Unallocated corporate expenses							(19,369)
Share of results of jointly controlled entities							(12,821)
Interest on bank overdrafts wholly repayable within five years							(77)
Profit before tax							257,635
Income tax expense							(21,888)
Profit for the year							235,747

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2005

	United States of America HK$'000	Canada HK$'000	Europe HK$'000	Asia HK$'000	Australia HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	550,039	40,433	172,125	70,141	10,820	48,356	891,914
Interests in jointly controlled entities							199,763
Deferred tax assets							5,534
Unallocated corporate assets							818,240
Consolidated total assets							1,915,451
LIABILITIES							
Segment liabilities	254,228	18,688	79,556	32,419	5,001	22,351	412,243
Tax payable							40,061
Deferred tax liabilities							7,628
Unallocated corporate liabilities							20,358
Consolidated total liabilities							480,290

OTHER INFORMATION								
Capital additions	25,802	1,897	8,074	3,290	508	2,268	-	41,839
Depreciation and amortisation	19,825	1,457	6,204	2,528	390	1,742	-	32,146
Amortisation of prepaid lease payments	-	-	-	-	-	-	1,427	1,427
Reversal of impairment loss on land held for sale	-	-	-	-	-	-	19,731	19,731
Write off of moulds	8,378	616	2,622	1,068	165	736	-	13,585

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2004

	United States of America HK$'000	Canada HK$'000	Europe HK$'000	Asia HK$'000	Australia HK$'000	Others HK$'000	Consolidated HK$'000 (restated)
TURNOVER							
External sales	807,796	92,165	329,216	94,697	38,014	85,963	1,447,851
RESULTS							
Segment results	117,441	13,399	47,863	5,527	14,667	12,498	211,395
Unallocated corporate expenses							(21,167)
Share of results of jointly controlled entities							(2,646)
Profit before tax							187,582
Income tax expense							(16,807)
Profit for the year							170,775
ASSETS							
Segment assets	555,204	63,346	226,273	59,078	26,128	59,082	989,111
Interest in a jointly controlled entity							69,521
Deferred tax assets							5,689
Unallocated corporate assets							346,954
Consolidated total assets							1,411,275
LIABILITIES							
Segment liabilities	234,112	26,711	95,412	27,445	11,017	24,914	419,611
Tax payable							27,491
Deferred tax liabilities							4,165
Unallocated corporate liabilities							18,806
Consolidated total liabilities							470,073

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

2004

	United States of America HK$'000	Canada HK$'000	Europe HK$'000	Asia HK$'000	Australia HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
OTHER INFORMATION								
Capital additions	25,876	2,952	10,546	3,033	1,218	2,754	–	46,379
Depreciation and amortisation	23,722	2,707	9,668	2,781	1,116	2,526	–	42,520
Amortisation of prepaid lease payments	–	–	–	–	–	–	1,449	1,449
Reversal of impairment loss on prepaid lease payments	–	–	–	–	–	–	7,773	7,773
Allowances for bad and doubtful debts	7,881	899	3,212	924	370	839	–	14,125
Amortisation of goodwill of subsidiaries	1,774	202	723	208	83	189	–	3,179

The following is an analysis of the carrying amount of assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of assets		Capital additions	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,365,330**	900,761	**2,997**	3,917
The PRC	**499,107**	457,734	**38,842**	42,295
Others	**45,480**	47,091	**–**	167
	1,909,917	1,405,586	**41,839**	46,379

7. INCOME TAX EXPENSE

	2005 **HK$'000**	2004 *HK$'000*
Current tax:		
Hong Kong		
– current year	**3,575**	6,077
– overprovision in prior years	**(78)**	(208)
Other jurisdictions		
– current year	**16,644**	12,005
– (over)underprovision in prior years	**(545)**	104
	19,596	17,978
Deferred tax *(note 26)*		
– current year	**2,292**	(1,171)
Taxation attributable to the Company and its subsidiaries	**21,888**	16,807

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

PRC income tax is calculated at 27% of the estimated assessable profit for both years.

7. INCOME TAX EXPENSE (Continued)

Pursuant to the relevant laws and regulations in the PRC, 中山精美鞋業有限公司 ("中山精美"), Fuqing Grand Galatica Footwear Co. Ltd. 福清宏太鞋業有限公司 ("Fuqing Grand Galatica"), 廣州番禺興泰鞋業有限公司 ("番禺興泰") and 中山華利企業有限公司 ("中山華利") are entitled to exemption from the PRC enterprise income tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to 50% relief from the PRC enterprise income tax for the following three years.

The tax relief of 番禺興泰 has expired and the tax rate thereafter is 27%. Fuqing Grand Galatica, 中山精美 and 中山華利 were exempted from PRC income tax for the year.

The tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before tax	**257,635**	187,582
Tax at Hong Kong Profits Tax rate of 17.5%	**45,086**	32,827
Tax effect of expenses not deductible for tax purpose	**896**	1,073
Tax effect of income not taxable for tax purpose	**(8,375)**	(2,236)
Tax effect of share of results of jointly controlled entities	**2,244**	463
Overprovision in respect of prior year	**(623)**	(104)
Tax effect of deferred tax assets not recognised	**976**	1,413
Utilisation of deferred tax/tax losses previously not recognised	**(1,233)**	(6,288)
Effect of tax exemptions granted to certain subsidiaries	**(19,177)**	(12,927)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,282**	2,424
Others	**(188)**	162
Tax expense for the year	**21,888**	16,807

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties was charged directly to equity (note 26).

8. PROFIT FOR THE YEAR

	2005 **HK$'000**	2004 *HK$'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 9)*	**6,016**	4,581
Other staff costs	**342,443**	277,344
Retirement benefits schemes contributions, excluding Directors	**492**	455
	348,951	282,380
Auditors' remuneration	**1,608**	1,304
Allowances for bad and doubtful debts	**–**	14,125
Amortisation of prepaid lease payments	**1,427**	1,449
Amortisation of goodwill of subsidiaries, included in other expenses	**–**	3,179
Cost of inventories recognised as expense	**982,018**	761,039
Depreciation and amortisation	**32,146**	42,520
Shipping and handling costs, included in distribution costs	**34,677**	28,432
Write off of moulds	**13,585**	–
Net exchange losses	**1,178**	1,865
Research and development expenditure	**67,089**	47,456
Share of tax of jointly controlled entities, included in share of results of jointly controlled entities	**2,285**	–
and after crediting:		
Recovery of bad and doubtful debts	**6,530**	–
Dividends from equity investments	**37**	45
Gross rental income from investment properties	**1,769**	1,458
Less: direct operating expenses from investment properties that generated rental income during the year	**(179)**	(335)
direct operating expenses from investment properties that did not generate rental income during the year	**–**	(74)
	1,590	1,049
Interest income from:		
Bank deposits	**13,680**	4,620
Available for sale investments/investments in securities	**634**	1,669
Trade debtors *(note)*	**10,534**	8,779
Promissory note receivables	**3,195**	–
Loans to a jointly controlled entity	**3,763**	1,476

Note: Interest income was received from trade debtors with extended credit terms.

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

A. Directors' emoluments

The emoluments paid or payable to each of the ten (2004: ten) Directors were as follows:

2005

	Li Kwok Lung, Alfred Ronald *HK$'000*	Sze Sun Sun, Tony *HK$'000*	Chang Tsung Yuan *HK$'000*	Ku Edward Y. *HK$'000*	Chan Lu Min *HK$'000*	Li I Nan *HK$'000*	Chan Ting Chuen *HK$'000*	Cheng Kar Shing *HK$'000*	Feng Lei Ming *HK$'000*	Ho Shing Chak *HK$'000*	Total *HK$'000*
Fees	720	-	-	-	-	96	96	96	96	96	1,200
Other emoluments											
Salaries and other benefits	-	1,931	1,416	120	120	-	-	-	-	-	3,587
Bonus	-	672	472	-	-	-	-	-	-	-	1,144
Contributions to retirement benefits schemes	-	85	-	-	-	-	-	-	-	-	85
Total emoluments	720	2,688	1,888	120	120	96	96	96	96	96	6,016

2004

	Li Kwok Lung, Alfred Ronald *HK$'000*	Sze Sun Sun, Tony *HK$'000*	Chang Tsung Yuan *HK$'000*	Ku Edward Y. *HK$'000*	Chan Lu Min *HK$'000*	Li I Nan *HK$'000*	Chan Ting Chuen *HK$'000*	Cheng Kar Shing *HK$'000*	Feng Lei Ming *HK$'000*	Ho Shing Chak *HK$'000*	Total *HK$'000*
Fees	300	–	–	–	–	78	–	78	78	–	534
Other emoluments											
Salaries and other benefits	–	1,622	–	120	120	–	1,445	–	–	–	3,307
Bonus	–	531	–	–	–	–	123	–	–	–	654
Contributions to retirement benefits schemes	–	55	–	–	–	–	31	–	–	–	86
Total emoluments	300	2,208	–	120	120	78	1,599	78	78	–	4,581

No Director waived any emoluments in the year ended 31st December, 2005.

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

B. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: two) are Directors of the Company whose emoluments are disclosed in (A) above. The emoluments of the remaining three (2004: three) individuals are as follows:

	2005 **HK$'000**	2004 *HK$'000*
Salaries and other benefits	**2,430**	3,423
Retirement benefits schemes contributions	**59**	36
	2,489	3,459

Their emoluments were within the following bands:

	2005 **Number of employees**	2004 Number of employees
HK$nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	1

10. DIVIDENDS

	2005 **HK$'000**	2004 *HK$'000*
Ordinary shares:		
Interim, paid – Nil per share (2004: HK$0.028 per share)	**–**	31,074
Final, proposed – HK$0.073 per share (2004: HK$0.072 per share)	**121,523**	79,906
Underprovision in prior year	**–**	240
	121,523	111,220

The proposed final dividend per share has been proposed by the Directors and is subject to the approval by the shareholders in a general meeting.

The underprovision represents final dividend payable to shares issued subsequent to the approval of the consolidated financial statements for the year ended 31st December, 2003 by the Directors.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005	2004 (restated)
Earnings:		
Profit for the year attributable to equity holders of the Company and earnings for the purposes of basic per share	**HK$215,950,000**	HK$163,760,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,431,709,348**	1,301,757,850

For the purpose of calculating basic earnings per share, the weighted average number of ordinary shares for the year ended 31st December, 2004 had been adjusted to reflect the rights issue as set out in note 27(b).

No diluted earnings per share for the years ended 31st December, 2005 and 2004 are presented because the exercise price of the Company's options was higher than the average market price of the shares for both years.

The following table summarises the impact on basic earnings per share as a result of:

	Impact on basic earnings per share	
	2005	2004
	Cents	*Cents*
Figures before adjustments *(note 2A)*	**14.7**	12.6
Adjustments arising from changes in accounting policies *(note 2A)*	**0.4**	–
	15.1	12.6