

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Buildings HK\$'000	Land held for development HK\$'000	Leasehold improvements HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP									
COST OR VALUATION									
At 1st January, 2004									
- As originally stated	5,946	137,145	25,234	36,989	18,194	116,137	12,286	9,610	361,541
- Reclassified to prepaid lease payments	-	(40,592)	(25,234)	-	-	-	-	-	(65,826)
- As restated	5,946	96,553	-	36,989	18,194	116,137	12,286	9,610	295,715
Acquisition of subsidiaries	-	-	-	-	-	6,166	703	887	7,756
Additions	-	828	-	7,712	-	25,837	2,270	1,976	38,623
Transfer from investment properties (note 13)	-	4,751	-	-	-	-	-	-	4,751
Deficit arising on revaluation	-	(5,489)	-	-	-	-	-	-	(5,489)
Disposals	-	-	-	-	-	(2,074)	(1,063)	(103)	(3,240)
Exchange realignment	-	623	-	1	-	8	80	67	779
At 31st December, 2004	5,946	97,266	-	44,702	18,194	146,074	14,276	12,437	338,895
Additions	-	3,561	-	5,050	-	29,445	3,294	489	41,839
Transfer from investment properties (note 13)	-	3,974	-	-	-	-	-	-	3,974
Surplus arising on revaluation	-	1,712	-	-	-	-	-	-	1,712
Disposals	-	-	-	(142)	-	(6,597)	(62)	(337)	(7,138)
Write-off	-	-	-	-	(18,225)	-	-	-	(18,225)
Exchange realignment	(327)	1,305	-	542	31	2,263	82	86	3,982
At 31st December, 2005	5,619	107,818	-	50,152	-	171,185	17,590	12,675	365,039
Comprising:									
At cost	-	-	-	50,152	-	171,185	17,590	12,675	251,602
At valuation - 2005	5,619	107,818	-	-	-	-	-	-	113,437
	5,619	107,818	-	50,152	-	171,185	17,590	12,675	365,039

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12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold land HK\$'000	Buildings HK\$'000	Land held for development HK\$'000	Leasehold improvements HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
DEPRECIATION AND AMORTISATION									
At 1st January, 2004									
- As originally stated	-	277	25,234	17,607	1,942	51,939	6,281	4,386	107,666
- Reclassified to prepaid lease payments	-	-	(25,234)	-	-	-	-	-	(25,234)
- As restated	-	277	-	17,607	1,942	51,939	6,281	4,386	82,432
Provided for the year	-	3,815	-	7,000	16,252	12,047	1,677	1,729	42,520
Write back on revaluation	-	(3,720)	-	-	-	-	-	-	(3,720)
Eliminated on disposals	-	-	-	-	-	(1,839)	(956)	(93)	(2,888)
Exchange realignment	-	23	-	-	-	7	60	53	143
At 31st December, 2004	-	395	-	24,607	18,194	62,154	7,062	6,075	118,487
Provided for the year	-	3,943	-	8,719	-	15,217	2,258	2,009	32,146
Write back on revaluation	-	(3,849)	-	-	-	-	-	-	(3,849)
Eliminated on disposals	-	-	-	(142)	-	(5,815)	(49)	(304)	(6,310)
Eliminated on write-off	-	-	-	-	(18,225)	-	-	-	(18,225)
Exchange realignment	-	(20)	-	320	31	975	30	38	1,374
At 31st December, 2005	-	469	-	33,504	-	72,531	9,301	7,818	123,623
CARRYING VALUE									
At 31st December, 2005	5,619	107,349	-	16,648	-	98,654	8,289	4,857	241,416
At 31st December, 2004	5,946	96,871	-	20,095	-	83,920	7,214	6,362	220,408

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual value, on a straight-line basis at the following rates per annum:

Freehold land	Nil
Buildings	2% -5%
Leasehold improvements	9% - 45%
Plant and machinery	9% - 45%
Furniture, fixtures and equipment	9% - 20%
Motor vehicles	16% - 20%

The carrying value of buildings shown above comprises:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
In Hong Kong		
Medium-term lease	19,404	15,649
Long-term lease	339	212
Outside Hong Kong		
Medium-term lease	84,711	77,849
Long-term lease	2,895	3,161
	107,349	96,871

The buildings of the Group were valued on 31st December, 2005 by Prudential Surveyors International Limited ("Prudential"), an independent firm of professional property valuers, Chartered Surveyors, on an open market existing use basis. The freehold land of the Group was valued on 31st December, 2005 by Chia-Tai Real Estate Appraises Office ("Chia-Tai"), an independent firm of professional property valuers, Chartered Surveyors, on an open market existing use basis. Prudential and Chia-Tai are not connected with the Group. The revaluation resulted in a surplus amounting to HK\$5,561,000 of which HK\$344,000 has been credited directly to the consolidated income statement and HK\$5,217,000 has been credited directly to the revaluation reserve.

If buildings had not been revalued, they would have been included in these consolidated financial statements at historical costs less accumulated depreciation of HK\$101,998,000 (2004: HK\$104,399,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

13. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i> (restated)
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FAIR VALUE	
At 1st January, 2004	65,000
Surplus arising on revaluation	24,390
Transfer to prepaid lease payments	(3,130)
Transfer to buildings (<i>note 12</i>)	(4,751)
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At 31st December, 2004	81,509
Net increase in fair value recognised in the consolidated income statement	9,200
Transfer to prepaid lease payments	(11,735)
Transfer to buildings (<i>note 12</i>)	(3,974)
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At 31st December, 2005	75,000
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The investment properties are situated in Hong Kong and are held under medium term leases.

The fair value of the Group's investment properties at 31st December, 2005 were arrived at on the basis of a valuation carried out on that date by Prudential. Prudential is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's leasehold interests in land held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31st December, 2005, all the investment properties (2004: total carrying value of HK\$65,800,000) were rented out under operating leases.

Details of operating lease arrangements are set out in note 31. Investment properties with a balance of HK\$15,709,000 were not rented out at 31st December, 2004.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Leasehold land in Hong Kong:		
Medium-lease term	41,168	30,409
Long-term lease	1,361	1,388
Leasehold land outside Hong Kong held under medium-term lease	18,070	18,143
	60,599	49,940
Analysed for reporting purposes as:		
Current asset	1,428	1,449
Non-current asset	59,171	48,491
	60,599	49,940

15. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2004	2,786
Arising on acquisition of subsidiaries (<i>note 29</i>)	58,009
At 31st December, 2004	60,795
Elimination of accumulated amortisation upon the application of HKFRS 3 (<i>note 2</i>)	(3,318)
At 31st December, 2005	57,477
AMORTISATION	
At 1st January, 2004	(139)
Provided for the year	(3,179)
At 31st December, 2004	(3,318)
Elimination of accumulated amortisation upon the application of HKFRS 3 (<i>note 2</i>)	3,318
At 31st December, 2005	–
CARRYING VALUE	
At 31st December, 2005	57,477
At 31st December, 2004	57,477

Until 31st December, 2004, goodwill was amortised over its estimated useful life of 10 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

16. IMPAIRMENT TEST ON GOODWILL

As explained in note 6, 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. For the purposes of impairment testing, goodwill set out in note 15 is attributed to two cash generating units (CGUs). The carrying amounts of goodwill as at 31st December, 2005 allocated to these units are as follows:

	HK\$'000
Misto Worldwide Limited	55,109
Nice Well Holdings Limited	2,368
	57,477

Management of the Group has determined that there were no impairments of any of its CGUs containing goodwill during the year ended 31st December, 2005.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are the same and are summarised below:

The recoverable amounts of the CGUs have been determined based on value in use calculations. That value in use calculations use cash flow projections based on financial budgets approved by management covering a two-year period, and a discount rate of 12%. Both subsidiaries' cash flows are extrapolated without application of any growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed their aggregate recoverable amount.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Cost of unlisted investments in jointly controlled entities	142,580	–
Shareholder's loan/convertible bonds issued by a jointly controlled entity (<i>note 1</i>)	77,900	77,900
Share of post-acquisition net losses	(21,235)	(8,414)
Share of reserves of jointly controlled entities	518	35
	199,763	69,521

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

At 31st December, 2005, the Group had interests in the following jointly controlled entities:

Name of jointly controlled entity	Place of incorporation and operation	Class of share held	Proportion of nominal value of issued capital indirectly held by the Group	Principal activities
Smart Shine Industries Limited ("Smart Shine")	British Virgin Islands	Ordinary	50%	Investment holding
China Ocean Resources Limited ("China Ocean")	British Virgin Islands	Ordinary	50%	Investment holding
Grand Wealth Group Limited ("Grand Wealth")	British Virgin Islands	Ordinary Preferred	50% (note 2) 18% (note 2)	Investment holding

On 8th June, 2004, the Group acquired 50% of the issued capital of Union Overseas Holdings Limited ("UOHL") at cash consideration of HK\$390. After the acquisition, UOHL becomes a wholly owned subsidiary of the Company.

Notes:

- Pursuant to a subscription agreement dated 16th November, 2004 (the "Smartshine Agreement"), the Group acquired convertible bonds issued by Smart Shine in the principal amount of US\$10,000,000, equivalent to approximately HK\$77,900,000. The bonds were unsecured, interest-bearing at London Interbank Offered Rate ("LIBOR") plus a margin of 1.25% per annum together with participation equally and rateably with the shareholders of Smart Shine in all distributions, assets, capital and capital gains of Smart Shine. The bonds had a maturity date on the earlier of 31st December, 2009 and the termination date of certain agreements specified in the Smartshine Agreement. The Group had the right at any time to convert all or any of the bonds into fully paid ordinary shares of US\$1.00 each in the share capital of Smart Shine at a conversion price of US\$1.00 per share.

On 1st January, 2005, the Group and Smart Shine signed a termination agreement (the "Termination Agreement"). Pursuant to the Termination Agreement, the Group and Smart Shine have agreed to terminate the convertible bonds and the outstanding principal of HK\$77,900,000 became a shareholders' loan provided by the Group effective from 1st January, 2005.

The shareholders' loan is unsecured and interest-bearing at LIBOR plus a margin of 1.25% per annum. The principal and the accrued interest of the shareholders' loan shall be due and payable on such date as agreed between the Group and Smart Shine.

- The preferred shares shall have the same rights and privileges to income as the ordinary shares in the proportion of 99:1.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The amounts due from/to jointly controlled entities are unsecured, interest free and repayable on demand. The fair values of the Group's amounts due from/to jointly controlled entities at 31st December, 2005, approximate to their carrying amounts.

The following summarised financial information in respect of the Group's jointly controlled entities have been extracted from their unaudited management accounts:

Results for the year	Smart Shine		Grand Wealth	China Ocean	UOHL
	1.1.2005 to 31.12.2005 <i>HK\$'000</i>	2.1.2004 to 31.12.2004 <i>HK\$'000</i>	10.11.2005 to 31.12.2005 <i>HK\$'000</i>	20.10.2005 to 31.12.2005 <i>HK\$'000</i>	1.1.2004 to 8.6.2004 <i>HK\$'000</i>
Turnover	329,355	47,019	–	–	–
(Loss) profit for the year	(18,752)	(16,828)	(20,700)	694	11,536
(Loss) profit for the year attributable to the Group	(9,376)	(8,414)	(3,792)	347	5,768
Financial position	Smart Shine		Grand Wealth	China Ocean	
	31.12.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Non-current assets	9,117	4,255	442,144	23,310	
Current assets	192,966	227,802	5,712	103,154	
Non-current liabilities	(166,235)	(173,465)	–	(9,202)	
Current liabilities	(70,416)	(75,350)	(1,554)	(18)	
Net (liabilities) assets	(34,568)	(16,758)	446,302	117,244	
Net (liabilities) assets attributable to the Group	(17,284)	(8,379)	80,525	58,622	

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

18. INVESTMENTS IN SECURITIES

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investments in securities were reclassified to available-for-sale investments under HKAS 39 (*note 2*).

	THE GROUP		
	At 31.12.2004		
	Investment securities	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities, at cost			
Listed	2,521	–	2,521
Unlisted	760	–	760
Less: Impairment loss recognised	(1,998)	–	(1,998)
	1,283	–	1,283
Debt securities			
Listed	9,930	–	9,930
Less: Impairment loss recognised	(197)	–	(197)
	9,733	–	9,733
Golf club debenture in the PRC, at cost	–	880	880
Less: Impairment loss recognised	–	(430)	(430)
	–	450	450
Total:			
Listed			
Hong Kong	20	–	20
Elsewhere	10,920	–	10,920
Unlisted	76	450	526
	11,016	450	11,466
Market value of listed securities	11,069	–	11,069
Carrying amount analysed for reporting purposes as:			
Current	–	–	–
Non-current	11,016	450	11,466
	11,016	450	11,466

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st December, 2005 comprise:

	THE GROUP
	2005
	HK\$'000
Listed investments:	
– Equity securities listed in Hong Kong	20
– Equity securities listed elsewhere	932
– Debentures listed elsewhere with fixed interest ranging from 7.2% to 8.8 % and maturity dates on 30th September, 2013 and 15th December, 2049	9,708
	10,660
Unlisted securities:	
– Equity securities	757
Impairment loss recognised	(757)
	–
– Debt securities	450
	450
Total	11,110
Analysed for reporting purposes as:	
Current assets	–
Non-current assets	11,110
	11,110

As at 31st December, 2005, all available-for-sale investments were stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of those investments were determined by reference to market bid prices quoted in relevant exchanges or second hand prices quoted in active market.

The above unlisted securities are securities issued by a private entity incorporated in the United States of America. The equity securities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Raw materials	74,932	81,571
Work in progress	42,618	58,978
Finished goods	133,536	95,826
	251,086	236,375

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21. LAND CLASSIFIED AS HELD FOR SALE

The land held for sale represented the Group's 68% interest in a piece of land with an area of approximately 353,333 square metres for a term of 50 years from 12th December, 1997 in Zhongshan, PRC for the construction of factory buildings and facilities (the "Project") thereon. During the year ended 31st December, 2001, the Group decided to suspend the Project indefinitely. In the opinion of the Directors, after taking into consideration the conditions as stated in the land grant contracts and the suspension of the Project for an indefinite period of time, the recoverability of the carrying value of the land was considered to be remote. Accordingly, full provision in respect of the carrying value of the land of HK\$25,234,000 was made for the year ended 31st December, 2001. Under HKAS 17, the land held for development was reclassified to prepaid lease payments under operating leases as set out in note 2.

On 24th May, 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in the land with a consideration of RMB20,520,000 (equivalent to HK\$19,731,000). At 31st December, 2005, deposit of RMB6,000,000 (equivalent to HK\$5,769,000) was received. Subsequent to 31st December, 2005, further deposit of RMB10,000,000 (equivalent to HK\$9,615,000) was received. In the opinion of the Directors of the Company, the land will be sold within twelve months and accordingly, it was transferred from prepaid lease payments to land classified as held for sale. An impairment loss of HK\$19,731,000 was reversed during the year.

22. PROMISSORY NOTE RECEIVABLES

Promissory note receivables are unsecured, interest-bearing at a fixed rate of 10% per annum and repayable on or before 15th May, 2006. The fair values of the Group's promissory note receivables approximate to their carrying amounts.

23. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables	194,411	328,375
Other receivables	31,691	67,981
	226,102	396,356

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For the year ended 31st December, 2005

23. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows a credit period ranging from 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 to 30 days	137,813	163,679
31 to 60 days	41,933	65,406
61 to 90 days	16,200	22,074
Over 90 days	20,165	105,446
	216,111	356,605
Less: Allowances for bad and doubtful debts	(21,700)	(28,230)
	194,411	328,375

The fair values of the Group's trade and other receivables approximate to their carrying amounts.

24. BANK BALANCES AND CASH

The bank balances carried interest at prevailing market rates. The fair values of the Group's bank balances and cash approximate to their carrying amounts.

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade payables	225,615	243,684
Other payables	195,734	194,733
	421,349	438,417

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 to 30 days	87,200	102,888
31 to 60 days	76,343	83,880
61 to 90 days	21,363	20,244
Over 90 days	40,709	36,672
	225,615	243,684

The fair values of the Group's trade and other payables approximate their carrying amounts.

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For the year ended 31st December, 2005

26. DEFERRED TAX

The Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Revaluation of buildings <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Allowances for bad and doubtful debts <i>HK\$'000</i>	Unrealised profit on inventories <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2004, as originally stated	3,044	1,624	(1,822)	(563)	(339)	1,944
Effects of changes in accounting policies (note 2)	(1,839)	-	-	-	-	(1,839)
At 1st January, 2004, as restated	1,205	1,624	(1,822)	(563)	(339)	105
Charge (credit) to income	-	1,794	(2,211)	(310)	(444)	(1,171)
Credit to equity for the year	(458)	-	-	-	-	(458)
At 31st December, 2004	747	3,418	(4,033)	(873)	(783)	(1,524)
Charge (credit) to income	-	2,137	1,048	95	(988)	2,292
Charge to equity for the year	1,326	-	-	-	-	1,326
At 31st December, 2005	2,073	5,555	(2,985)	(778)	(1,771)	2,094

At 31st December, 2005, the Group had unused tax losses of HK\$32,594,000 (2004: HK\$28,322,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK\$10,120,000 (2004: HK\$4,476,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$22,474,000 (2004: HK\$23,846,000) due to the unpredictability of future profit streams. All the tax losses may be carried forward indefinitely.

At the balance sheet date, the Group had deductible temporary differences of HK\$3,422,000 (2004: HK\$3,521,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Deferred tax assets	(5,534)	(5,689)
Deferred tax liabilities	7,628	4,165
	2,094	(1,524)

Notes to the Consolidated Financial Statements

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27. SHARE CAPITAL OF THE COMPANY

	Number of shares 2005 '000	Amount 2005 HK\$'000
Authorised:		
At 1st January, 2004 and 31st December, 2005, at HK\$0.25 each	8,000,000	2,000,000
Issued and fully paid:		
At 1st January, 2004, at HK\$0.25 each	996,680	249,170
Exercise of share option	12,232	3,058
Issue of shares on bonus issue (<i>note a</i>)	100,891	25,223
At 31st December, 2004, at HK\$0.25 each	1,109,803	277,451
Issue of shares on rights issue (<i>note b</i>)	554,902	138,725
At 31st December, 2005, at HK\$0.25 each	1,664,705	416,176

Notes:

- (a) Pursuant to a circular dated 20th April, 2004, the Directors of the Company proposed to make a bonus issue of new ordinary shares of HK\$0.25 each in the capital of the Company ("Bonus Shares") to the registered holders of the shares whose names appeared on the Company's register at the close of business on 12th May, 2004 on the basis of one new share, credited as fully paid, for every ten shares then held (the "Bonus Issue"). The Bonus Shares credited as fully paid rank pari passu in all respects with the then existing issued shares except that they did not rank for the Bonus Issue. The Directors of the Company were authorised to capitalise a sum of approximately HK\$25,223,000, being part of the amount standing to the credit of the Company's share premium and apply such sum in paying up in full the Bonus Shares. The total number of shares in issue was increased to 1,109,803,182 after the Bonus Issue.
- (b) Pursuant to a circular dated 16th August, 2005, the Directors of the Company proposed to make a rights issue of 554,901,591 rights shares at a subscription price of HK\$0.63 each in the capital of the Company ("Rights Shares") to the registered holders of the shares whose names appeared on the Company's register at the close of business on 16th August, 2005 on the basis of one right share for every two existing ordinary shares of HK\$0.25 each in the share capital of the Company (the "Rights Issue"). The Rights Shares credited as fully paid rank pari passu in all respects with the then existing issued shares except that they did not rank for the Rights Issue. As a result of the Rights Issue, the total number of shares in issue was increased to 1,664,704,773.

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For the year ended 31st December, 2005

28. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 22nd October, 2001, the Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All Directors, full-time employees and any other persons who, in the sole discretion of the board of Directors, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of Directors at the time the option is offered to the participants.

No options may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

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For the year ended 31st December, 2005

28. SHARE OPTION SCHEME (Continued)

During the year ended 31st December, 2005, no option was granted, lapsed or exercised under the 2001 Scheme. The following table discloses details of the 2001 Scheme held by employees (including Directors) and movements in such holding during the year ended 31st December, 2005:

Name	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Outstanding at 1.1.2005	Adjustment during the year (note)	Outstanding at 31.12.2005
Category I: Directors	9th January, 2004	7th February, 2004 – 6th February, 2006	HK\$1.91	23,209,769	9,679,903	32,889,672
Category II: Employees	9th January, 2004	7th February 2004 – 6th February, 2006	HK\$1.91	52,060,279	(9,679,903)	42,380,376
				75,270,048	-	75,270,048

Note: On 1st February, 2005, Mr. Chang Tsung Yuan was appointed as a Director of the Company. Accordingly, the share options granted to him was adjusted from Category II: Employees to Category I: Directors.

Pursuant to an announcement dated 2nd September, 2005, adjustments were required to be made to the exercise price of and the number of share option as a result of the rights issue in August 2005. Up to the date of approval of these consolidated financial statements, no such adjustment in respect of the exercise price of and the number of options has been made and these options had already expired in February 2006.

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For the year ended 31st December, 2005

28. SHARE OPTION SCHEME (Continued)

The following table discloses details of the 2001 Scheme held by employees (including Directors) and movements in such holdings during the year ended 31st December, 2004:

Name	Date of grant	Exercisable period	Exercise price per share (Note)	Outstanding at 1.1.2004	Number of share options			Adjustment during the year (Note)	Outstanding at 31.12.1004	
					Granted during the year	Exercised during the year	Cancelled during the year			
Category I:										
Directors	9th January, 2004	7th February, 2004 – 6th February, 2006	HK\$1.91	-	30,100,000	(9,000,000)	-	2,109,769	23,209,769	
Category II:										
Employees	9th January, 2004	7th February, 2004 – 6th February, 2006	HK\$1.91	-	51,060,000	(3,232,000)	(549,995)	4,782,274	52,060,279	
					-	81,160,000	(12,232,000)	(549,995)	6,892,043	75,270,048

Note: On 12th May, 2004, the Company made a bonus issue on the basis of one new ordinary share of HK\$0.25 each in the capital of Company, credited as fully paid, for every ten shares then held as set out in note 27(a) to the consolidated financial statements. Accordingly, the exercise price and the number of share options were adjusted.

The exercise price of the share options exercised during the year ended 31st December, 2004 was HK\$2.10 per share.

Details of closing prices of the Company's share immediately before the date of exercise of the share options under the 2001 Scheme were as follows:

Number of share options exercised	Closing price before the date of exercise HK\$
4,612,000	2.50
4,000,000	2.25
3,000,000	2.325
330,000	2.35
180,000	2.15
60,000	2.275
50,000	2.375
<u>12,232,000</u>	

Total consideration received during the year ended 31st December, 2004 from employees (including Directors) for taking up the options granted amounted to HK\$51.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

29. ACQUISITION OF SUBSIDIARIES

On 8th June, 2004 and 12th July, 2004, the Group acquired additional 50% of the issued capital of UOHL and the entire interest in Misto Worldwide Limited and its subsidiaries for considerations of HK\$390 and HK\$70,961,000 respectively. These acquisitions were accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was approximately HK\$58,009,000.

	2004 HK\$'000
Net assets acquired:	
Property, plant and equipment	7,756
Inventories	28,242
Trade and other receivables	43,018
Bank balances and cash	8,088
Trade and other payables	(74,066)
Minority interests	–
Net assets	13,038
Goodwill arising on acquisition (<i>note 15</i>)	58,009
Total consideration	71,047
Satisfied by:	
Reclassified from interest in a jointly controlled entity	86
Cash	70,961
	71,047
Net cash outflow arising on acquisition:	
Cash consideration paid	70,961
Bank balances and cash acquired	(8,088)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	62,873

The subsidiaries acquired during the year ended 31st December, 2004 contributed approximately HK\$107,045,000 to the Group's turnover and approximately HK\$18,133,000 to the Group's profit.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

30. DISPOSAL OF SUBSIDIARIES

On 9th June, 2004, the Group disposed of its entire interest in certain subsidiaries, Muspole International Limited ("Muspole") and its subsidiaries for a consideration of HK\$36,828,000 to Smart Shine.

On 1st July, 2004, the Group disposed of its entire interest in Symphony Marketing Limited for a consideration of HK\$18,000.

	2004 HK\$'000
Net assets disposed of:	
Trade and other receivables	2,155
Bank balances and cash	57,489
Trade and other payables	(141)
Minority interests	(22,657)
Net assets	36,846
Net cash outflow arising on disposal:	
Cash consideration	36,846
Bank balances and cash disposed	(57,489)
	(20,643)

The subsidiaries disposed of during the years ended 31st December, 2004 did not made any significant contribution to the results and cashflows of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

31. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum leases payments paid under operating leases for plants during the year was HK\$19,801,000 (2004: HK\$18,758,000).

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	15,799	18,597
In the second to fifth year inclusive	47,996	55,571
After five years	–	6,169
	63,795	80,337

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

The Group as lessor

Property rental income earned during the year was approximately HK\$1,769,000 (2004: HK\$1,458,000). All of the Group's properties are held for rental purposes and are expected to generate rental yields of 2% (2004: 2%) 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:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	1,313	990
In the second to fifth year inclusive	514	75
	1,827	1,065

32. CAPITAL COMMITMENT

At 31st December, 2005, capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounted to HK\$3,761,000 (2004: HK\$7,233,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

33. CONTINGENT LIABILITIES

At 31st December, 2004, the Group had issued revolving stand-by letters of credit facilities amounting to HK\$30,000,000 to a subsidiary of a jointly-controlled entity, of which HK\$16,000,000 was utilised. The subsidiary of the jointly-controlled entity provided a collateral in the form of cash amounting to HK\$16,000,000 to secure the credit facilities granted to it. The facilities and the collateral were released during the year ended 31st December, 2005.

In addition, at 31st December, 2005, the Company had outstanding corporate guarantees amounting to HK\$117,000,000 (2004: HK\$78,000,000) issued in favour of a bank to secure general banking facilities granted to the Company and certain of its subsidiaries.

34. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

35. RELATED PARTY TRANSACTIONS

- (a) During the year ended 31st December, 2004, loans of approximately HK\$75,777,000 were granted to Smart Shine. A portion of these loans to the extent of HK\$38,949,000 was unsecured and bore interest at a fixed rate of 6.4363% per annum from 12th May, 2004 to 30th June, 2004 and at LIBOR plus 2% per annum thereafter. The balance of the loans was unsecured and interest-free. All the loans were fully repaid during the year ended 31st December, 2004 and the amount of interest the Group received from Smart Shine amounted to HK\$936,000.
- (b) On 9th June, 2004, the Group disposed of the entire interest in Muspole to Smart Shine as set out in note 30.
- (c) On 16th November, 2004, the Group acquired convertible bonds issued by Smart Shine in the principal amount of US\$10,000,000, equivalent to HK\$77,900,000.

On 1st January, 2005, the Group and Smart Shine signed an agreement to terminate the convertible bonds and the outstanding principal of HK\$77,900,000 was converted into a shareholders' loan provided by the Group as set out in note 17. The amount of interest the Group received from Smart Shine amounted to HK\$3,763,000 (2004: HK\$540,000).

- (d) At 31st December, 2004, the Company had provided banking facilities in respect of revolving stand-by letters of credit amounting to HK\$30,000,000 to a subsidiary of Smart Shine. The extent of such facilities utilised at 31st December, 2004 amounted to HK\$16,000,000. Another subsidiary of the jointly-controlled entity provided a collateral in the form of cash amounting to HK\$16,000,000 to secure the banking facilities granted to it. The facilities and the collateral were released during the year ended 31st December, 2005.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

35. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005 HK\$'000	2004 HK\$'000
Short-term benefits	10,305	7,462
Post-employment benefits	185	167
	10,490	7,629

The remuneration of Directors and key executives is determined by the Directors of the Company having regard to the performance of individuals and market trends.

36. POST BALANCE SHEET EVENT

Subsequent to 31st December, 2005, the Group acquired production equipment for a consideration of approximately HK\$10,850,000.

37. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2005 are as follows:

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investments in subsidiaries		988	988
Current assets			
Other receivables		2,635	–
Amounts due from subsidiaries		518,775	486,645
Bank balances and cash		414,802	75,113
		936,212	561,758
Current liabilities			
Other payables		507	16,620
Net current assets		935,705	545,138
		936,693	546,126
Capital and reserves			
Share capital		416,176	277,451
Reserves	<i>(a)</i>	520,517	268,675
		936,693	546,126

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

37. BALANCE SHEET OF THE COMPANY (Continued)

Note:

(a) Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2004	84,637	63,561	93,732	241,930
Issue of shares on bonus issue	(25,223)	–	–	(25,223)
Exercise of share options	22,630	–	–	22,630
Profit for the year	–	–	120,947	120,947
Dividends paid	–	–	(91,609)	(91,609)
At 31st December, 2004	82,044	63,561	123,070	268,675
Issue of shares on rights issue	206,264	–	–	206,264
Profit for the year	–	–	125,484	125,484
Dividends paid	–	–	(79,906)	(79,906)
At 31st December, 2005	288,308	63,561	168,648	520,517

The contributed surplus of the Company represents the excess of the fair value of the shares of the acquired subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation on 9th February, 1995.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Canray Int'l Limited	British Virgin Islands	Ordinary US\$1	–	100%	Footwear trading
Cashmaster Profits Limited	British Virgin Islands	Ordinary US\$1	–	100%	Footwear trading
Chi Yuen Developments Limited	British Virgin Islands/PRC	Ordinary US\$1	–	100%	Footwear manufacturing
Cosmo Group Holdings Limited	British Virgin Islands	Ordinary US\$10,000	100%	–	Investment holding

Notes to the Consolidated Financial Statements

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Continuance Enterprises Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
廣州番禺興泰鞋業有限公司	PRC (Co-operative joint venture)	Registered capital RMB68,260,876	–	92.78%	Footwear manufacturing
Fuqing Grand Galatica	PRC (Wholly foreign owned enterprise)	Registered capital US\$700,000	–	100%	Footwear manufacturing
Holey Trading Limited	Hong Kong	Ordinary HK\$2	–	100%	Footwear trading
Liang Shing Industries Limited	Hong Kong	Ordinary HK\$72,000 Non-voting deferred (<i>note</i>) HK\$1,428,000	–	100%	Provision of management services
Liang Shing Industries (HK) Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Footwear marketing and trading
Lucky Port Trading Limited	Hong Kong	Ordinary US\$2	–	100%	Footwear marketing and trading
Misto Worldwide Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Nice Well Holdings Limited	British Virgin Islands	Ordinary US\$50,000	–	80%	Investment holding
Power Plus Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Sunrise Footwear Limited	Macau	MOP1,000,000	–	100%	Footwear manufacturing

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Takson Asia Limited	Hong Kong	Ordinary HK\$10,000	-	100%	Footwear purchasing
Uprise Group Limited	British Virgin Islands	Ordinary US\$50,000	-	80%	Footwear manufacturing
Zenith Billion Trading Limited	Hong Kong	Ordinary HK\$2	-	100%	Footwear trading
中山精美鞋業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital US\$21,500,000	-	100%	Footwear manufacturing
中山華利企業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital US\$2,500,000	-	100%	Footwear manufacturing

Note:

The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividend and are, on a winding-up, only entitled out of the surplus assets of the Company, to a return of the capital after a total sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company.

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.