

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

|                    |  |
|--------------------|--|
| HKAS 1 (Amendment) | Capital disclosures <sup>1</sup>   |
| HKFRS 7            | Financial instruments: disclosures <sup>1</sup>  |
| HK(IFRIC) – INT 7  | Applying the restatement approach under HKAS 29<br>Financial Reporting in Hyperinflationary Economies <sup>2</sup> |
| HK(IFRIC) – INT 8  | Scope of HKFRS 2 <sup>3</sup>  |
| HK(IFRIC) – INT 9  | Reassessment of embedded derivatives <sup>4</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

### 3. SEGMENT INFORMATION

#### Business Segments

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

#### Geographical Segments

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

|   | <b>For the six months<br/>ended 30 June</b> |             |
|---|---|-------------|
|   | <b>2006</b>                                 | 2005        |
|   | <b>HK\$'000</b>                             | HK\$'000    |
| <u>TURNOVER</u>                                 |   |             |
| United States of America                        | <b>607,916</b>                              | 670,429     |
| Canada  | <b>56,322</b>                               | 39,454      |
| Europe  | <b>167,761</b>                              | 222,484     |
| Asia  | <b>100,897</b>                              | 63,157      |
| Others  | <b>64,923</b>                               | 65,746      |
|   | <b>997,819</b>                              | 1,061,270   |
|   | <hr/> <hr/>                                 | <hr/> <hr/> |
|   | <b>For the six months<br/>ended 30 June</b> |             |
|   | <b>2006</b>                                 | 2005        |
|   | <b>HK\$'000</b>                             | HK\$'000    |
| <u>RESULTS</u>                                  |   |             |
| United States of America                        | <b>52,168</b>                               | 111,830     |
| Canada  | <b>5,967</b>                                | 6,581       |
| Europe  | <b>14,362</b>                               | 37,111      |
| Asia  | <b>12,309</b>                               | 11,191      |
| Others  | <b>4,864</b>                                | 10,966      |
|   | <b>89,670</b>                               | 177,679     |
| Unallocated corporate expenses                  | <b>(23,236)</b>                             | (24,739)    |
| Share of results of jointly controlled entities | <b>84,960</b>                               | (9,045)     |
| Finance costs                                   | <b>-</b>                                    | (24)        |
|   | <hr/> <hr/>                                 | <hr/> <hr/> |
| Profit before taxation                          | <b>151,394</b>                              | 143,871     |
| Taxation  | <b>(10,354)</b>                             | (16,173)    |
|   | <hr/> <hr/>                                 | <hr/> <hr/> |
| Profit for the period                           | <b>141,040</b>                              | 127,698     |
|   | <hr/> <hr/>                                 | <hr/> <hr/> |

**4. PROFIT BEFORE TAXATION**

|  | <b>For the six months<br/>ended 30 June</b> |                                    |
|--|---|------------------------------------|
|  | <b>2006</b>                                 | 2005                               |
|  | <b>HK\$'000</b>                             | HK\$'000                           |
| Profit before taxation has been arrived at after charging (crediting): |   |                                    |
| Cost of inventories recognised as expenses                             | <b>772,386</b>                              | 802,938                            |
| Depreciation and amortisation  | <b>18,403</b>                               | 15,970                             |
| Allowance for:   |   |                                    |
| Bad and doubtful debts for trade debtors                               | <b>20,411</b>                               | 7,570                              |
| Promissory notes receivables   | <b>24,295</b>                               | -                                  |
| Amortisation of prepaid lease payments                                 | <b>601</b>                                  | 207                                |
| Research and development expenses                                      | <b>30,459</b>                               | 33,071                             |
| Interest income from:  |   |                                    |
| Bank deposits  | <b>(14,911)</b>                             | (3,954)                            |
| Available-for-sale investments   | <b>(171)</b>                                | (317)                              |
| Trade debtors  | -   | (4,704)                            |
| Loans to a jointly controlled entity                                   | <b>(2,288)</b>                              | (1,816)                            |
| Promissory notes   | -   | (740)                              |
| Dividend income from available-for-sale investments                    | <b>(33)</b>                                 | (37)                               |
|  | <b><u>                    </u></b>          | <b><u>                    </u></b> |

**5. TAXATION**

|   | <b>For the six months<br/>ended 30 June</b> |               |
|---|---|---------------|
|   | <b>2006</b>                                 | 2005          |
|   | <b>HK\$'000</b>                             | HK\$'000      |
| Current tax:  |   |               |
| Hong Kong   | <b>1,340</b>                                | 3,440         |
| Other jurisdictions                                       | <b>9,450</b>                                | 12,953        |
|   | <b><u>10,790</u></b>                        | <u>16,393</u> |
| Deferred tax:   |   |               |
| Current period  | <b>(436)</b>                                | (220)         |
|   | <b><u>(436)</u></b>                         | <u>(220)</u>  |
| Taxation attributable to the Company and its subsidiaries | <b><u>10,354</u></b>                        | <u>16,173</u> |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30 June 2005 and 2006.

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

**6. DIVIDENDS**

During the period ended 30 June 2006, a dividend of HK\$0.073 per ordinary share which amounted to HK\$121,523,000 was paid to shareholders as the final dividend for the year ended 31 December 2005.

During the period ended 30 June 2005, a dividend of HK\$0.072 per ordinary share which amounted to HK\$79,906,000 was paid to shareholders as the final dividend for the year ended 31 December 2004.

The Board has determined the payment of HK\$0.03 (2005: HK\$ Nil) per ordinary share to shareholders, whose names appear in the register of members on 9 October 2006, as the interim dividend.

**7. EARNINGS PER SHARE**

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

|  | <b>For the six months<br/>ended 30 June</b> |                        |
|--|---|------------------------|
|  | <b>2006</b>                                 | 2005                   |
| Profit for the period attributable to equity holders of the parent and earnings for the purposes of basic earnings per share | <u><b>HK\$136,889,000</b></u>               | <u>HK\$117,972,000</u> |
| Number of/weighted average number of ordinary shares for the purposes of basic earnings per share                            | <u><b>1,664,704,773</b></u>                 | <u>1,109,803,182</u>   |

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

**8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES**

During the period, the Group acquired property, plant and equipment at a cost of HK\$28,647,000 (2005: HK\$16,025,000).

The Group's buildings were revalued by the directors on 30 June 2006. The revaluation resulted in a surplus amounting to approximately HK\$197,000 which has been credited directly to the condensed consolidated income statement.

As at 30 June 2006, the directors have also considered the carrying amount of the Group's investment properties at revalued amounts and have concluded that their fair value on that date did not differ significantly from their carrying amounts on 31 December 2005.

**9. MOVEMENTS IN INTERESTS IN JOINTLY CONTROLLED ENTITIES**

During the period, the Group further invested an amount of US\$10,500,000, equivalent to approximately HK\$81,438,000 as capital contribution to a jointly controlled entity.

On 28 June 2006, the board of directors of New Point Industrial Limited ("New Point"), a non-wholly owned subsidiary of a jointly controlled entity of the Group, approved and entered into an agreement (the "Agreement") to terminate a joint venture agreement, license agreement and distribution agreement in relation to products of a global brand in PRC. As a result of this termination, a compensation was payable to New Point. As at 30 June 2006, a profit of US\$12 million (equivalent to HK\$93 million) was recorded as share of results of jointly controlled entities in the condensed consolidated income statement, which represented the unconditional amount pursuant to the Agreement shared by the Group. Subject to completion, a further compensation income of US\$10 million (equivalent to HK\$78 million) will be recognised by New Point.

**10. PROMISSORY NOTES RECEIVABLES**

The promissory notes receivables were unsecured, interest-bearing at 9% to 10% per annum.

In view of the distressed financial position of the debtor, the directors have resolved to make a full provision against the promissory notes receivables.

**11. TRADE AND OTHER RECEIVABLES**

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

Included in trade and other receivables are trade receivables of HK\$253,581,000 (31 December 2005: HK\$194,411,000) and an aged analysis is as follows:

|   | <b>30.6.2006</b> | 31.12.2005 |
|---|------------------|------------|
|   | <b>HK\$'000</b>  | HK\$'000   |
| 0 to 30 days                                | <b>160,868</b>   | 137,813    |
| 31 to 60 days                               | <b>63,134</b>    | 41,933     |
| 61 to 90 days                               | <b>33,407</b>    | 16,200     |
| Over 90 days                                | <b>38,283</b>    | 20,165     |
|   | <b>295,692</b>   | 216,111    |
| Less: Allowances for bad and doubtful debts | <b>(42,111)</b>  | (21,700)   |
|   | <b>253,581</b>   | 194,411    |

**12. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK\$254,485,000 (31 December 2005: HK\$225,615,000) and an aged analysis is as follows:

|               | <b>30.6.2006</b><br><b>HK\$'000</b> | 31.12.2005<br><i>HK\$'000</i> |
|---------------|-------------------------------------|-------------------------------|
| 0 to 30 days  | <b>89,873</b>                       | 87,200                        |
| 31 to 60 days | <b>77,157</b>                       | 76,343                        |
| 61 to 90 days | <b>29,893</b>                       | 21,363                        |
| Over 90 days  | <b>57,562</b>                       | 40,709                        |
|               | <u><b>254,485</b></u>               | <u>225,615</u>                |

**13. SHARE CAPITAL**

|   | <b>Number of<br/>shares<br/>( '000)</b> | <b>Amount<br/>HK\$'000</b> |
|---|---|----------------------------|
| Ordinary shares of HK\$0.25 each        |   |                            |
| Authorised:                             |   |                            |
| As at 31 December 2005 and 30 June 2006 | <u>8,000,000</u>                        | <u>2,000,000</u>           |
| Issued and fully paid:                  |   |                            |
| As at 31 December 2005 and 30 June 2006 | <u>1,664,705</u>                        | <u>416,176</u>             |

**14. OPERATING LEASE COMMITMENTS***The Group as lessee*

Minimum lease payments paid under operating lease for land and buildings during the period was HK\$10,896,000 (six months ended 30 June 2005: HK\$9,896,000).

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

|                                       | <b>30.6.2006</b><br><b>HK\$'000</b> | 31.12.2005<br><i>HK\$'000</i> |
|---------------------------------------|-------------------------------------|-------------------------------|
| Within one year                       | <b>20,452</b>                       | 15,799                        |
| In the second to fifth year inclusive | <b>37,161</b>                       | 47,996                        |
|                                       | <u><b>57,613</b></u>                | <u>63,795</u>                 |

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

**14. OPERATING LEASE COMMITMENTS** (continued)*The Group as lessor*

Property rental income earned during the period was approximately HK\$1,074,000 (six months ended 30 June 2005: HK\$915,000). Certain of the Group's properties are held for rental purposes and generate rental yields of 3% (six months ended 30 June 2005: 3%) 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:

|                                       | <b>30.6.2006</b><br><b>HK\$'000</b> | 31.12.2005<br>HK\$'000 |
|---------------------------------------|-------------------------------------|------------------------|
| Within one year                       | <b>2,378</b>                        | 1,313                  |
| In the second to fifth year inclusive | <b>3,258</b>                        | 514                    |
|                                       | <b><u>5,636</u></b>                 | <b><u>1,827</u></b>    |

**15. CAPITAL COMMITMENTS**

As at 30 June 2006, the Group had commitments of approximately HK\$3,460,000 (31 December 2005: HK\$3,761,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

**16. RELATED PARTY TRANSACTIONS***(a) Transactions with a jointly controlled entity*

During the period, the Group entered into transactions with Smart Shine Industries Limited ("Smart Shine") and its subsidiaries. Smart Shine is a jointly controlled entity of the Group. These transactions are:

|                       | <b>For the six months<br/>ended 30 June</b> |                     |
|-----------------------|---|---------------------|
|                       | <b>2006</b><br><b>HK\$'000</b>              | 2005<br>HK\$'000    |
| Management fee income | <b>497</b>                                  | 874                 |
| Sale of goods         | -   | 9,450               |
| Interests received    | <b><u>2,288</u></b>                         | <b><u>1,816</u></b> |

In addition, as at 31 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 as at 31 December 2004 amounted to HK\$16,000,000. The 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 31 December 2005.

**16. RELATED PARTY TRANSACTIONS** (continued)*(b) Compensation of key management personnel*

The remuneration of directors and key management executives during the period is as follows:

|                     | <b>For the six months<br/>ended 30 June</b> |              |
|---------------------|---|--------------|
|                     | <b>2006</b>                                 | 2005         |
|                     | <b>HK\$'000</b>                             | HK\$'000     |
| Short-term benefits | <b><u>4,601</u></b>                         | <u>4,131</u> |

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

**17. POST BALANCE SHEET EVENT**

On 2 August 2006, the Company granted 166,050,000 share options to eligible participants under the share option scheme adopted at the special general meeting of the Company held on 22 October 2001 (the "2001 Scheme"). Up to the date of this report, the directors of the Company are in the process of determining the financial impact of share options granted.