1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange. The parent and the ultimate holding company is Well Success, a company incorporated in the British Virgin Islands. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is 10/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "**Group**") are the manufacturing and trading of footwear, property investment and investment holding. The activities of its principal subsidiaries are set out in note 37.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("**new HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (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 and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group, except for HKFRS 8 which may affect the presentation of operating segments effective for annual periods beginning on or after 1 January 2009.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[8]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

4. 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 the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 in 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.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 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 1 January 2001, the Group has discontinued amortisation from 1 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).

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the consolidated balance sheet.

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investments in Associates

An associate is an entity over which the investor has a significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net assets 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, 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

Non-current 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 asset's previous carrying amount and fair value less costs to sell.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales returns.

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 has been established.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent 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 consolidated 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 to 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 values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits is 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 consolidated 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 disposals. 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 consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

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 (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

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

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 consolidated 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment Losses (other than goodwill)

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 consolidated 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 three categories, including loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. 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 the relevant category of financial assets held by the Group are set out below.

<u>Loans and receivables</u>

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 trade and other receivables, amounts due from jointly controlled entities, promissory note receivables and bank balances) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss and loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial assets 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 financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity financial assets 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, 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 assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of structured deposits which are designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based Payment Transactions

Equity-settled share-based payment transactions

Share option granted prior to 1 January 2005

For share options granted to employees before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and those share options granted after 7 November 2002 but were vested before 1 January 2005 in accordance with the relevant transitional provision.

Share option granted on or after 1 January 2005

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

5. 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 year, are discussed below.

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 31 December 2006, the carrying amount of goodwill was HK$57,477,000. Details of the recoverable amount calculation are disclosed in note 18.

6. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's major financial instruments include structured deposits, bank balances, trade receivables, amounts due from/to jointly controlled entities 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.

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.

Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The five largest trade receivables of the Group constitute approximately 67% of the Group's total trade receivables. The management continuously assesses these customers' credit worthiness by evaluating their financial position, repayment pattern and market intelligence. 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 Group's of credit risk by geographical locations of customers is concentrated in the United States of America, Canada, Europe and Asia which accounted for 57%, 6%, 19% and 11%, respectively, of the trade receivables at 31 December 2006.

The credit risk on liquid funds is limited because the counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS (Continued)

(a) Financial Risk Management Objectives and Policies (Continued)

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. 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 risk 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.

(b) Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

Geographical Segments

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

2006

	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	1,065,789	112,268	351,258	201,764	33,343	97,182	1,861,604
RESULTS							
Segment results	130,178	15,184	44,295	29,365	4,282	11,369	234,673
Unallocated income							41,262
Unallocated expenses							(165,427)
Share of loss of an associate							(26)
Share of results of jointly controlled entities							111,690
Profit before tax							222,172
Income tax expense							(7,444)
Profit for the year							214,728
ASSETS							
Segment assets	312,915	32,962	103,129	59,238	9,790	28,532	546,566
Interests in jointly controlled entities							299,800
Deferred tax assets							14,106
Unallocated corporate assets							1,163,278
Consolidated total assets							2,023,750
LIABILITIES							
Segment liabilities	252,822	26,632	83,324	47,861	7,910	23,053	441,602
Tax payable							50,179
Deferred tax liabilities							8,724
Unallocated corporate liabilities							4,666
Consolidated total liabilities							505,171

	United States 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	28,803	3,034	9,493	5,453	901	2,626	-	50,310
Depreciation and amortisation	21,221	2,235	6,994	4,017	664	1,936	-	37,067
Amortisation of prepaid lease payments	-	-	-	-	-	-	1,345	1,345
Allowance for promissory notes receivables	13,909	1,465	4,584	2,633	435	1,269	-	24,295
Allowance for bad and doubtful debts	12,298	1,295	4,053	2,328	385	1,121	-	21,480

7. BUSINESS AND 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
TURNOVER							
External sales	1,142,435	83,979	357,506	145,683	22,472	100,436	1,852,511
RESULTS							
Segment results	196,395	14,437	61,459	26,319	3,863	17,266	319,739
Unallocated income							67,015
Unallocated expenses							(116,221)
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
ASSETS							
Segments assets	320,533	23,562	100,305	40,874	6,305	28,179	519,758
Interests in jointly controlled entities							199,763
Deferred tax assets							5,534
Unallocated corporate assets							1,190,396
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

	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	25,802	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
Impairment loss on available-for-sale investments	–	–	–	–	–	–	76	76

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

The following table 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	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,101,906**	1,165,567	**5,645**	2,997
The People's Republic of China ("**PRC**")	**522,192**	499,107	**31,898**	38,842
Others	**85,746**	45,480	**12,767**	–
	1,709,844	1,710,154	**50,310**	41,839

8. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
Hong Kong		
– current year	**2,938**	3,575
– overprovision in prior years	**(95)**	(78)
Other jurisdictions		
– current year	**11,295**	16,644
– under(over)provision in prior years	**274**	(545)
	14,412	19,596
Deferred tax *(note 29)*		
– current year	**(6,968)**	2,292
Taxation attributable to the Company and its subsidiaries	**7,444**	21,888

Hong Kong Profits Tax is calculated at 17.5% (2005: 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.

Pursuant to the relevant laws and regulations in 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 2 years commencing from their first profit-making year of operation and thereafter, followed by a 50% reduction in the applicable tax rate for the next 3 years.

The tax relief of 番禺興泰 mentioned in the above has expired and the concessionary tax rate for the current year is 12%. 中山精美, Fuqing Grand Galatica and 中山華利 were exempted from the PRC income tax for the year.

8. INCOME TAX EXPENSE (Continued)

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

	2006 HK$'000	2005 HK$'000
Profit before tax	**222,172**	257,635
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**38,880**	45,086
Tax effect of expenses not deductible for tax purpose	**7,806**	896
Tax effect of income not taxable for tax purpose	**(8,715)**	(8,375)
Tax effect of share of loss of an associate	**5**	–
Tax effect of share of results of jointly controlled entities	**(19,546)**	2,244
Under(over)provision in respect of prior year	**179**	(623)
Tax effect of deferred tax assets not recognised	**899**	976
Utilisation of deferred tax/tax losses previously not recognised	**(1,239)**	(1,233)
Effect of tax exemptions granted to certain subsidiaries	**(14,728)**	(19,177)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,841**	2,282
Others	**62**	(188)
Tax expense for the year	**7,444**	21,888

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 (see note 29).

9. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 10)*	**24,283**	6,016
Other staff costs	**353,196**	342,443
Retirement benefits schemes contributions, excluding directors	**707**	492
	378,186	348,951
Auditors' remuneration	**1,798**	1,608
Allowance for:		
Bad and doubtful debts	**21,480**	–
Promissory notes receivables	**24,295**	–
Amortisation of prepaid lease payments	**1,345**	1,427
Cost of inventories recognised as expense	**1,462,333**	1,428,723
Depreciation	**37,067**	32,146
Write-off of moulds	**–**	13,585
Exchange losses	**8,055**	7,137
Research and development expenditure	**46,399**	67,089
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**1,462**	2,285
And after crediting:		
Recovery of bad and doubtful debts	**–**	6,530
Dividends from equity investments	**34**	37
Exchange gains	**6,348**	5,959
Gross rental income from investment properties	**1,833**	1,769
Less: direct operating expenses from investment properties that generated rental income during the year	**(386)**	(179)
	1,447	1,590
Interest income from:		
Bank deposits	**27,551**	13,680
Available for sale investments	**255**	634
Trade debtors *(note)*	**25**	10,534
Promissory notes receivables	**–**	3,195
Loans to a jointly controlled entity	**2,409**	3,763

Note: Interest was charged to trade debtors with extended credit terms.

10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

A. Directors' Emoluments

The emoluments paid or payable to each of the 11 (2005: 10) directors were as follows:

2006

	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$'000	Ho Ting Seng HK$'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	-	2,016	1,416	120	120	540	-	-	-	-	-	4,212
Bonus	-	672	400	-	-	120	-	-	-	-	-	1,192
Contributions to retirement benefits schemes	-	101	-	-	-	4	-	-	-	-	-	105
Share-based payments	1,801	2,971	2,971	2,971	900	1,801	2,971	900	90	108	90	17,574
Total emoluments	2,521	5,760	4,787	3,091	1,020	2,465	3,067	996	186	204	186	24,283

2005

	Li Kwok Lun, 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

No director waived any emoluments for the year ended 31 December 2006.

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

B. Employees' Emoluments

During the year ended 31 December 2006, the 5 highest paid individuals were all directors of the Company. During the year ended 31 December 2005, the 5 highest paid individuals included 2 directors of the Company whose emoluments are disclosed in (A) above. The emoluments of the remaining individuals are as follows:

	2005 *HK$'000*
Salaries and other benefits	2,430
Retirement benefits schemes contributions	59
	2,489

11. DIVIDENDS

	2006 ***HK$'000***	2005 *HK$'000*
Ordinary shares:		
2006 Interim dividend of HK$0.03 per share (2005: Nil) paid	**49,941**	–
2005 Final dividend of HK$0.073 per share (2005: 2004 Final dividend of HK$0.072 per share) paid	**121,523**	79,906
	171,464	79,906

The 2006 final dividend of HK$0.0613 per share (2005: HK$0.073 per share) has been proposed by the directors and is subject to the approval by the shareholders in a general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders is based on the following data:

	2006	2005
Earnings:		
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	**HK$207,287,000**	HK$215,950,000
Basic number of shares:		
Weighted average number of ordinary shares for the purposes of earnings per share	**1,664,704,773**	1,431,709,348

No diluted earnings per share for the years ended 31 December 2006 and 2005 are presented because the exercise price of the Company's options was higher than the average market price of the shares for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improve-ments 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 1 January 2005	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 14)*	–	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 31 December 2005	5,619	107,818	50,152	–	171,185	17,590	12,675	365,039
Additions	–	49	5,507	–	36,821	5,829	2,104	50,310
Deficit arising on revaluation	–	(6,734)	–	–	–	–	–	(6,734)
Disposals	–	–	–	–	(8,874)	(48)	(623)	(9,545)
Write-off	–	–	–	–	(1,501)	–	–	(1,501)
Exchange realignment	241	3,534	1,283	–	5,391	414	326	11,189
At 31 December 2006	5,860	104,667	56,942	–	203,022	23,785	14,482	408,758
Comprising:								
At cost	–	–	56,942	–	203,022	23,785	14,482	298,231
At valuation – 2006	5,860	104,667	–	–	–	–	–	110,527
	5,860	104,667	56,942	–	203,022	23,785	14,482	408,758
DEPRECIATION AND AMORTISATION								
At 1 January 2005	–	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 31 December 2005	–	469	33,504	–	72,531	9,301	7,818	123,623
Provided for the year	–	4,272	8,306	–	20,167	2,583	1,739	37,067
Write back on revaluation	–	(4,174)	–	–	–	–	–	(4,174)
Eliminated on disposals	–	–	–	–	(7,022)	(28)	(343)	(7,393)
Eliminated on write-off	–	–	–	–	(250)	–	–	(250)
Exchange realignment	–	20	929	–	2,226	259	220	3,654
At 31 December 2006	–	587	42,739	–	87,652	12,115	9,434	152,527
CARRYING VALUE								
At 31 December 2006	5,860	104,080	14,203	–	115,370	11,670	5,048	256,231
At 31 December 2005	5,619	107,349	16,648	–	98,654	8,289	4,857	241,416

13. 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	
	2006	2005
	HK$'000	*HK$'000*
In Hong Kong		
Medium-term lease	**18,922**	19,404
Long-term lease	**236**	339
Outside Hong Kong		
Medium-term lease	**82,000**	84,711
Long-term lease	**2,922**	2,895
	104,080	107,349

The buildings of the Group were valued on 31 December 2006 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 located in Taiwan and valued on 31 December 2006 by Chia-Tai Real Estate Appraises Office ("**Chia-Tai**"), an independent firm of professional property valuers, Chartered Surveyors, on an open market value basis. Prudential and Chia-Tai are not connected with the Group. The revaluation of building resulted in a deficit amounting to HK$2,560,000 of which HK$190,000 has been charged directly to the consolidated income statement and HK$2,370,000 has been charged 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$99,596,238 (2005: HK$101,998,000).

14. INVESTMENT PROPERTIES

	THE GROUP *HK$'000*
FAIR VALUE	
At 1 January 2005	81,509
Increase in fair value recognised in the consolidated income statement	9,200
Transfer to prepaid lease payments	(11,735)
Transfer to buildings *(note 13)*	(3,974)
At 31 December 2005	75,000
Increase in fair value recognised in the consolidated income statement	5,000
At 31 December 2006	80,000

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 31 December 2006 was 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 31 December 2005 and 2006, all the investment properties were rented out under operating leases.

Details of operating lease arrangements are set out in note 32.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006 HK$'000	2005 HK$'000
Leasehold land in Hong Kong:		
Medium-term lease	**40,290**	41,168
Long-term lease	**1,333**	1,361
Leasehold land outside Hong Kong:		
Held under medium-term lease	**18,353**	18,070
	59,976	60,599
Analysed for reporting purposes as:		
Non-current asset	**58,504**	59,171
Current asset	**1,472**	1,428
	59,976	60,599

16. DEPOSIT MADE FOR ACQUISITION OF A PROPERTY

During the year, a deposit was made by the Group in connection with the acquisition of a property in Hong Kong.

17. GOODWILL

	THE GROUP HK$'000
COST	
At 1 January 2005	60,795
Elimination of accumulated amortisation upon the application of HKFRS 3	(3,318)
At 31 December 2005 and 2006	57,477
AMORTISATION	
At 1 January 2005	(3,318)
Elimination of accumulated amortisation upon the application of HKFRS 3	3,318
At 31 December 2005 and 2006	–
CARRYING VALUE	
At 31 December 2006	57,477
At 31 December 2005	57,477

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, 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 17 is attributed to 2 cash generating units ("**CGUs**"). The carrying amounts of goodwill as at 31 December 2006 allocated to these units are as follows:

	2006 *HK$'000*
Misto Worldwide Limited	55,109
Nice Well Holdings Limited	2,368
	57,477

Management of the Group has determined that there was no impairment of any of its CGUs containing goodwill as at 31 December 2006.

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.

19. INVESTMENT IN AN ASSOCIATE

	2006 *HK$'000*
Cost of investment in an associate – unlisted	26
Share of post-acquisition losses	(26)
	–

As at 31 December 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Principal activity
Global Hero Group Limited	Incorporated	British Virgin Islands	Ordinary	33.46%	Dormant

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	**223,868**	142,580
Shareholders' loan to a jointly controlled entity *(note 1)*	**–**	77,900
Share of post-acquisition net profits (losses)	**75,239**	(20,939)
Share of reserves of jointly controlled entities	**693**	222
	299,800	199,763

As at 31 December 2006, the Group had interests in the following jointly controlled entities:

Name of jointly controlled entity	Form of business structure	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**")	Incorporated	British Virgin Islands	Ordinary	50%	Investment holding, footwear and ladies' shoes trading
China Ocean Resources Limited ("**China Ocean**")	Incorporated	British Virgin Islands	Ordinary	50%	Investment holding and licensing of trademark
Grand Wealth Group Limited ("**Grand Wealth**")	Incorporated	British Virgin Islands	Ordinary Preferred	50% *(note 2)* 18% *(note 2)*	Investment holding, footwear marketing and trading

Notes:

1. The shareholders' loan was unsecured and interest-bearing at LIBOR plus a margin of 1.25%. It was fully repaid during the year.

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

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 31 December 2006, approximate to their carrying amounts.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2006 HK$'000	2005 HK$'000
Current assets	**150,512**	149,092
Non-current assets	**195,678**	95,986
Current liabilities	**(42,118)**	(35,496)
Non-current liabilities	**(4,272)**	(87,719)
Income	**366,508**	167,819
Expenses	**(254,818)**	(180,640)

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2006 comprise:

	2006 HK$'000	2005 HK$'000
Listed investments:		
– Equity securities listed in Hong Kong	**20**	20
– Equity securities listed outside Hong Kong	**1,014**	932
– Debentures listed outside Hong Kong with fixed interest ranging from 0% to 7.2% and maturity dates on 30 September 2013 and 15 December 2049	**9,734**	9,708
	10,768	10,660
Unlisted securities:		
– Equity securities	**–**	757
Impairment loss recognised	**–**	(757)
	–	–
– Debt securities	**450**	450
	450	450
Total	**11,218**	11,110

As at 31 December 2006, other than the unlisted securities, all available-for-sale investments were stated at fair value. Fair values were determined by reference to market bid prices quoted in relevant exchanges or second hand prices quoted in active market.

21. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The unlisted equity 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.

22. STRUCTURED DEPOSITS

As at 31 December 2006, the Group held two bank structured deposits denominated in United States dollar ("**US$**"), the major terms of the structured deposits are as follows:

Principal amount	Maturity date	Applicable interest rate
US$5,000,000	17 May 2009	7.56% per annum for the first year and thereafter, the preceding interest rate plus 2% to 5% per annum minus 6 months LIBOR
US$3,000,000	15 December 2009	8.38% per annum for the first half year and thereafter, the preceding interest rate plus 2% to 6% per annum minus 6 months LIBOR

The issuer has the right to call these structured deposits at principal amount plus accrued interest at any time before the maturity dates.

The structured deposits are a hybrid instrument containing a debt host contract and embedded derivative instruments in which the underlying is a fixed to float interest rate swap and the early redemption option by the issuer. The combined host contract and the embedded derivatives are designated at fair value through profit or loss.

The amounts are measured at fair value at each balance sheet date. The directors of the Company are of the opinion that their fair values at the balance sheet date approximate to their carrying amounts.

23. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**97,452**	74,932
Work in progress	**52,661**	42,618
Finished goods	**96,447**	133,536
	246,560	251,086

24. PROMISSORY NOTES RECEIVABLES

The promissory notes receivables are unsecured, interest-bearing at fixed rate of 10% per annum and repayable on or before 15 May 2006. During the year, in view of the distressed financial position of the debtor, the directors have resolved to make full provision against these promissory notes.

25. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**246,495**	194,411
Other receivables	**59,453**	31,691
	305,948	226,102

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	
	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**163,254**	137,813
31 to 60 days	**32,224**	41,933
61 to 90 days	**16,807**	16,200
Over 90 days	**59,210**	20,165
	271,495	216,111
Less: Allowances for bad and doubtful debts	**(25,000)**	(21,700)
	246,495	194,411

26. BANK BALANCES AND CASH

The bank balances carried interest at prevailing market rates which ranged from 0.72% to 5.27% (2005: 0.72% to 4.29%) during the year.

27. 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 12 December 1997 in Zhongshan, PRC for the construction of factory buildings and facilities (the "**Project**") thereon. During the year ended 31 December 2001, the Group decided to suspend the Project indefinitely. In the opinion of the directors, after taking into consideration of 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 31 December 2001. Under HKAS 17, the land held for development was reclassified to prepaid lease payments under operating leases.

On 24 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). As at 31 December 2005, deposits of RMB6,000,000 (equivalent to HK$5,769,000) was received. Subsequent to 31 December 2005, the remaining balance of RMB14,520,000 (equivalent to HK$13,962,000) was received. As at 31 December 2005, in the opinion of the directors of the Company, the land would be sold within 12 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 2005. The sale was completed during the year.

28. TRADE AND OTHER PAYABLES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**242,677**	225,615
Other payables	**203,090**	195,734
	445,767	421,349

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**102,313**	87,200
31 to 60 days	**76,592**	76,343
61 to 90 days	**20,083**	21,363
Over 90 days	**43,689**	40,709
	242,677	225,615

29. DEFERRED TAX

The Group

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

	Revaluation of buildings HK$'000	Accelerated tax depreciation HK$'000	Allowance for bad and doubtful debts HK$'000	Unrealised profit on inventories HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2005	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 31 December 2005	2,073	5,555	(2,985)	(778)	(1,771)	2,094
Charge (credit) to income	–	1,604	(576)	632	(8,628)	(6,968)
Credit to equity for the year	(508)	–	–	–	–	(508)
At 31 December 2006	1,565	7,159	(3,561)	(146)	(10,399)	(5,382)

At 31 December 2006, the Group had unused tax losses of HK$77,186,000 (2005: HK$32,594,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK$59,424,000 (2005: HK$10,120,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK$17,941,000 (2005: HK$22,474,000) due to the unpredictability of future profit streams. All the tax losses may be carried forward indefinitely.

At 31 December 2006, the Group also had deductible temporary differences of HK$6,015,000 (2005: HK$3,422,000). 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.

The following table is the analysis of the deferred tax balances for financial reporting purposes:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	**(14,106)**	(5,534)
Deferred tax liabilities	**8,724**	7,628
	(5,382)	2,094

30. SHARE CAPITAL OF THE COMPANY

	Number of shares 2006	Amount 2006 HK$'000
Authorised:		
At 1 January 2005 and 31 December 2006, at HK$0.25 each	8,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2005, at HK$0.25 each	1,109,803,182	277,451
Issue of shares on rights issued *(note)*	554,901,591	138,725
At 31 December 2005 and 2006, at HK$0.25 each	1,664,704,773	416,176

Note:

Pursuant to a circular dated 16 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 16 August 2005 on the basis of one rights 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.

31. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 22 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, at the sole discretion of the Board, 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.

31. SHARE OPTION SCHEME (Continued)

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 schemes 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 5 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 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.

31. SHARE OPTION SCHEME (Continued)

On 6 February 2006, options to subscribe for an aggregate of 75,270,048 shares of the Company granted pursuant to the 2001 Scheme expired. On 2 August 2006, the Company granted 166,050,000 share options to eligible participants at an exercise price of HK$1.032 pursuant to the 2001 Scheme. The following table discloses details of the options held by employees and consultants (including directors) and movements in such holding during the year ended 31 December 2006:

Name	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2006	Granted during the year	Expired during the year	Outstanding at 31.12.2006
Category I:							
Directors	9 January 2004	7 February 2004 to 6 February 2006	HK$1.91	32,889,672	–	(32,889,672)	–
Directors	2 August 2006	1 September 2006 to 31 August 2009	HK$1.032	–	97,600,000	–	97,600,000
Category II:							
Employees	9 January 2004	7 February 2004 to 6 February 2006	HK$1.91	42,380,376	–	(42,380,376)	–
Employees	2 August 2006	1 September 2006 to 31 August 2009	HK$1.032	–	67,450,000	–	67,450,000
Category III:							
Consultant	2 August 2006	1 September 2006 to 31 August 2009	HK$1.032	–	1,000,000	–	1,000,000
				75,270,048	166,050,000	(75,270,048)	166,050,000

The consultant rendered consultancy services with regard to the setting up and management of the PRC operations of the Group. The Group granted share options to him for recognising his services similar to those rendered by other employees.

31. 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 31 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	9 January 2004	7 February 2004 to 6 February 2006	HK$1.91	23,209,769	9,679,903	32,889,672
Category II:						
Employees	9 January 2004	7 February 2004 to 6 February 2006	HK$1.91	52,060,279	(9,679,903)	42,380,376
				75,270,048	–	75,270,048

Note: On 1 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.

The fair value of the options granted on 2 August 2006 was valued at HK$29,900,000 using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	**HK$1.03**
Exercise price	**HK$1.03**
Expected volatility	**43%**
Expected life	**3.08 years**
Risk-free rate	**4.34%**
Expected dividend yield	**7%**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$29,900,000 for the year ended 31 December 2006 (2005: Nil) in relation to share options granted by the Company.

32. OPERATING LEASE COMMITMENTS

The Group as Lessee

Minimum lease payments paid under operating leases for plants during the year was HK$24,409,000 (2005: HK$19,801,000).

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

	2006 HK$'000	2005 HK$'000
Within one year	**25,161**	15,799
In the second to fifth year inclusive	**33,114**	47,996
	58,275	63,795

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 2 to 5 years.

The Group as Lessor

Property rental income earned during the year was approximately HK$1,833,000 (2005: HK$1,769,000). All of the Group's properties are held for rental purposes. The properties held for rental purposes have committed tenants for the next 1 to 2 years.

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

	THE GROUP	
	2006 HK$'000	2005 HK$'000
Within one year	**2,189**	1,313
In the second to fifth year inclusive	**2,001**	514
	4,190	1,827

33. CAPITAL COMMITMENT

As at 31 December 2006, 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$4,755,000 (2005: HK$3,761,000).

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 PRC are members of the state-managed retirement benefits scheme operated by the government of 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 DISCLOSURES

(a) Related Party Transactions

During the year, the Group entered into the following transactions with its jointly controlled entity:

Name of company	Nature of transactions	2006 HK$'000	2005 HK$'000
Smart Shine	Interest income	**2,409**	3,763
	Management fee income	**933**	–
China Ocean	Management fee income	**701**	–

(b) Compensation of Key Management Personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	**12,030**	10,305
Post-employment benefits	**277**	185
Share-based payments	**23,157**	–
	35,464	10,490

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. BALANCE SHEET OF THE COMPANY

The following is the balance sheet of the Company as at 31 December 2006:

	2006 *HK$'000*	2005 *HK$'000*
Non-current assets		
Investments in subsidiaries	**988**	988
Current assets		
Other receivables	**1,259**	2,635
Amounts due from subsidiaries	**444,541**	518,775
Bank balances and cash	**490,106**	414,802
	935,906	936,212
Current liabilities		
Other payables	**1,246**	507
Net current assets	**934,660**	935,705
	935,648	936,693
Capital and reserves		
Share capital	**416,176**	416,176
Reserves *(Note)*	**519,472**	520,517
	935,648	936,693

Note:

Reserves

	Share premium *HK$'000*	**Contributed surplus** *HK$'000*	**Share options reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	82,044	63,561	–	123,070	268,675
Issue of shares in rights issue	206,264	–	–	–	206,264
Profit for the year	–	–	–	125,484	125,484
Dividends paid	–	–	–	(79,906)	(79,906)
At 31 December 2005	288,308	63,561	–	168,648	520,517
Profit for the year	–	–	–	140,519	140,519
Dividends paid	–	–	–	(171,464)	(171,464)
Recognition of equity-settled share-based payments	–	–	29,900	–	29,900
At 31 December 2006	288,308	63,561	29,900	137,703	519,472

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 9 February 1995.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	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
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 *(note)* 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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Paid up issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
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
Stateway Enterprises Limited	British Virgin Islands	Ordinary US$1	–	100%	Footwear Trading
Sunrise Footwear Limited	Macau	MOP1,000,000	–	100%	Footwear manufacturing
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
邦威(越南)企業有限公司	Vietnam (Wholly foreign owned enterprise)	Paid up capital VND32,969,341,000	–	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.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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.