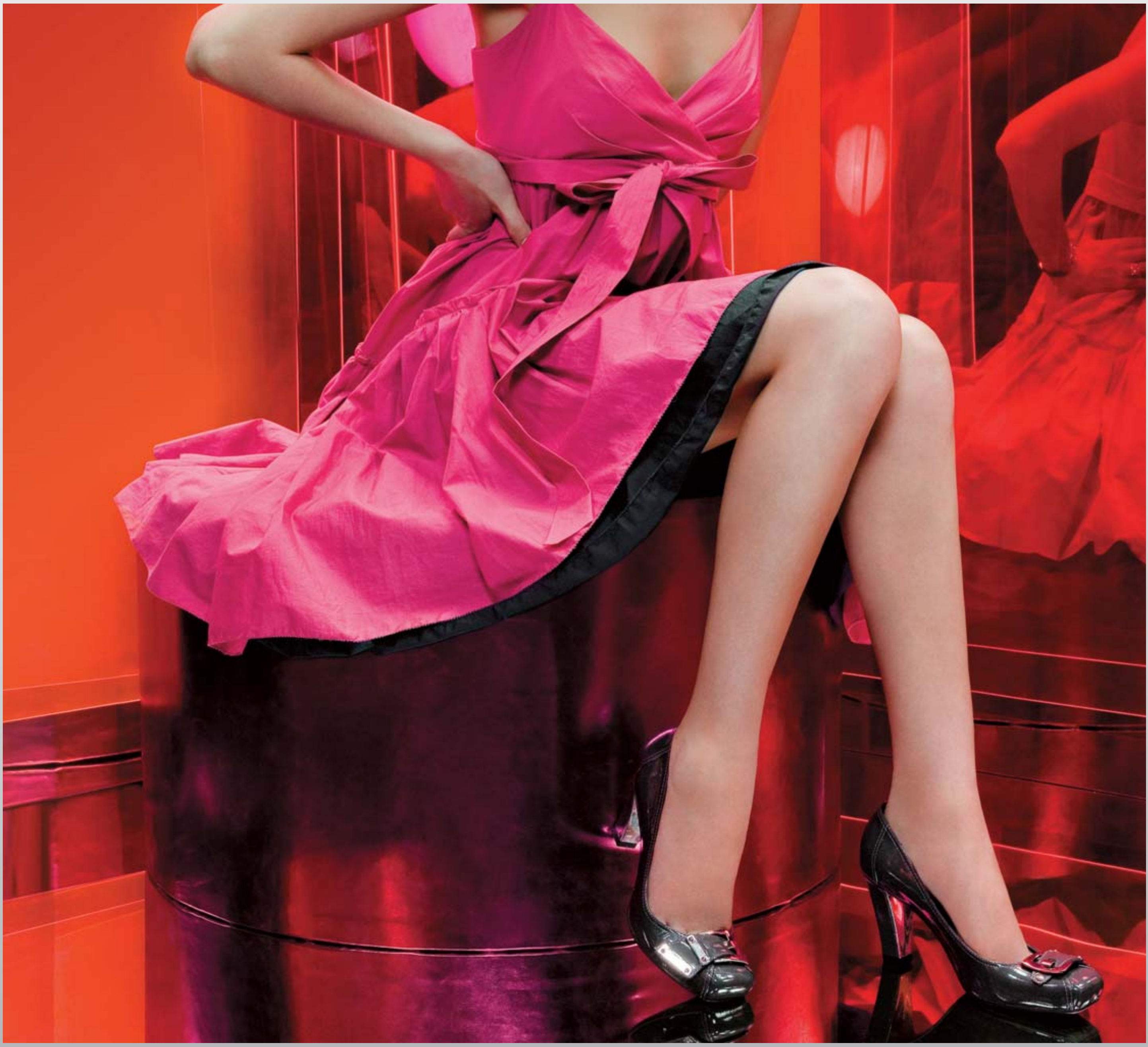
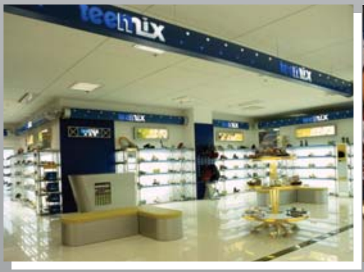
百麗國際控股有限公司
Belle International Holdings Limited

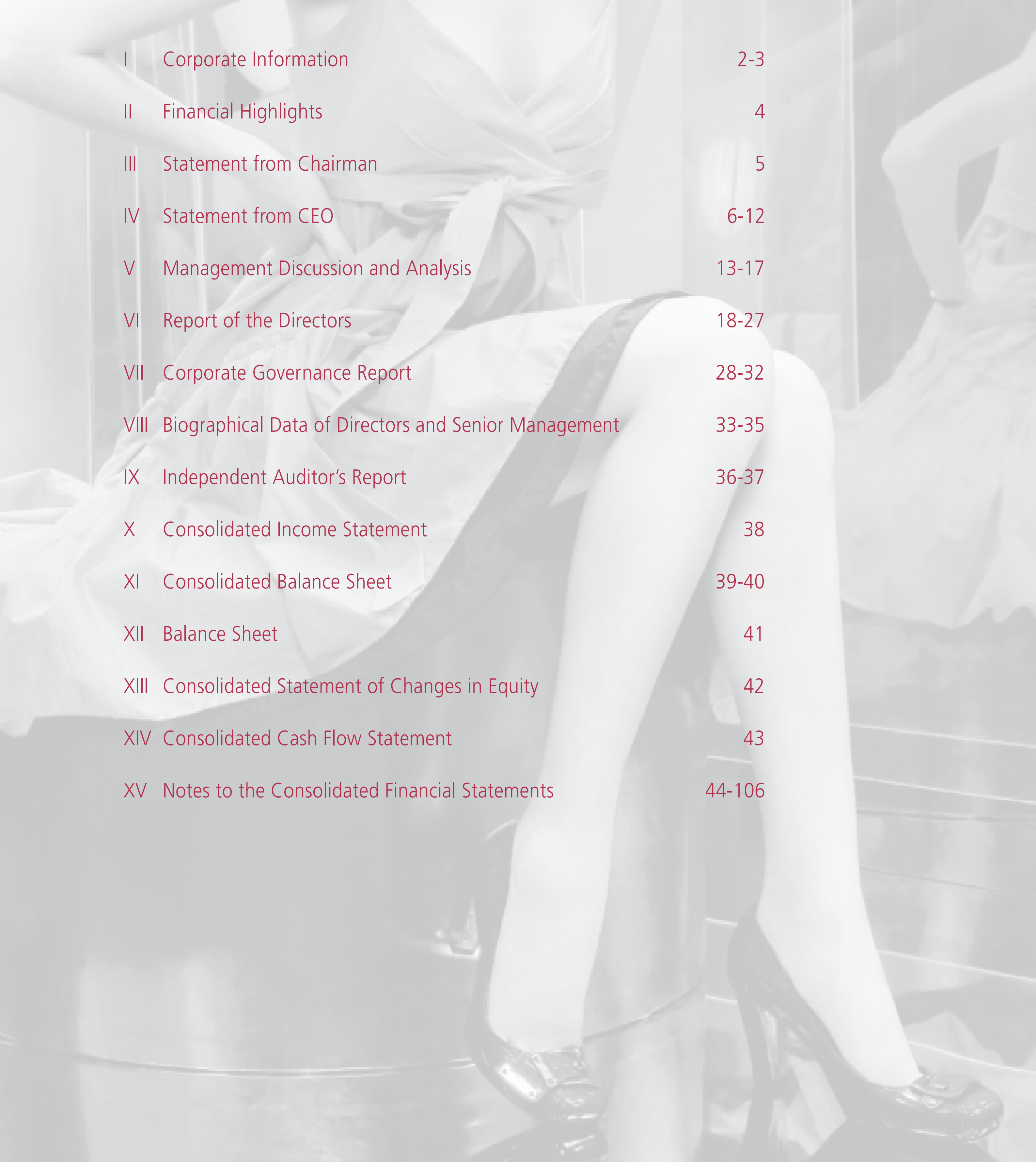
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1880)





Annual Report 2007 業績報告

CONTENTS



CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Tang Yiu (Chairman)
Mr. Sheng Baijiao (Chief Executive Officer)
Mr. Yu Mingfang
Ms. Tang Ming Wai

Non-executive Directors
Mr. Gao Yu
Ms. Hu Xiaoling

Independent Non-executive Directors
Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

Authorized Representatives

Ms. Tang Ming Wai
Mr. Leung Kam Kwan

Audit Committee

Mr. Ho Kwok Wah, George (Chairman)
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

Remuneration Committee

Mr. Chan Yu Ling, Abraham (Chairman)
Mr. Sheng Baijiao
Dr. Xue Qiuzhi

Qualified Accountant and Company Secretary

Mr. Leung Kam Kwan, *FCPA*

Registered Office

Offshore Incorporation (Cayman) Limited
Scotia Centre, 4/F
P.O. Box 2804, George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

19/F Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
Hong Kong

Stock Code

1880

Website

www.belleintl.com

Legal Advisor

Norton Rose
38/F Jardine House
1 Connaught Place
Central
Hong Kong

Compliance Advisor

Platinum Securities Company Limited
22/F Standard Chartered Bank Building
4 Des Voeux Road
Central
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
DBS Bank (HK) Limited
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.

FINANCIAL HIGHLIGHTS

		Year ended 31 December	
		2007	2006
Revenue	RMB’000	**11,671,858**	6,238,560
Operating profit	RMB’000	**1,754,915**	1,024,621
Earnings before interest, tax, depreciation and amortization	RMB’000	**2,441,440**	1,240,765
Profit attributable to equity holders of the Company	RMB’000	**1,979,106**	976,569
Gross profit margin	%	**50.6**	56.1
Net profit margin	%	**17.0**	15.7
Earnings per share - basic	RMB cents	**25.03**	14.75
- dilluted	RMB cents	**25.03**	14.75

		As at 31 December	
		2007	2006
Gearing ratio	%	**1.5**	17.9
Current ratio	times	**6.9**	1.8
Average trade receivables turnover period	days	**34.9**	36.9
Average trade payables turnover period	days	**33.7**	42.8
Average inventory turnover period	days	**121.8**	144.6

STATEMENT FROM CHAIRMAN

Dear Shareholders,

Since the listing, the operations of Belle International Holdings Limited (the "Company") and its subsidiaries (collectively, referred to as the "Group") have attracted close attention from shareholders and investors in the capital market. Although all indices of the capital market experienced significant fluctuations in the second half year, the operations of the Group remained unaffected. The development of all business segments has maintained a steady growth.

The results for the year ended 31 December 2007 demonstrated that the business development objectives formulated at the beginning of the year had been achieved successfully. In 2007, 2,280 new company-managed retail outlets were opened. As at 31 December 2007, the total number of company-managed retail outlets reached 6,143. If the acquisitions of Millie's and Senda brands and operations are also considered, the Group will have over 700 additional company-managed retail outlets.

I feel very gratified that the management team has captured the development opportunities arising from various acquisitions since the listing with an enthusiastic and progressive attitude. Our team is always in high spirit and passionate about our work, which is most encouraging. Therefore, I am confident about the development of the Group and I believe the Group will have a bright future.

Tang Yiu
Chairman

26 March 2008

Dear Shareholders,

In 2007, the footwear business continued to make good progress in all operating benchmarks such as the gross profit ratio, the expenses-to-sales ratio and the net profit margin, while maintaining a steady and rapid growth in sales. The sportswear business has also been growing rapidly. For the first-tier sportswear brands Nike and Adidas, the sales growth, the same-outlet sales growth and the increase in the number of new outlets were in line with the expected growth rates formulated at the beginning of the year.

In view of the development trend of the sportswear market in the next two to three years, the Group has accelerated the opening of outlets for the second-tier sportswear brands such as Reebok, PUMA, Kappa, Mizuno and Converse in 2007. More than 700 new outlets for the second-tier sports brands were opened in 2007.

Following the listing, the Group has successively completed acquisition of the brands and businesses of Fila, Millie's and Senda, while maintaining a steady growth in its operations. The integration of new brands and new businesses will bring about a series of challenges, but the acquisitions reflect the enthusiastic and progressive attitude of the management. Rather than slowing down our growth pace due to the success of the listing, we have an even stronger desire and set a higher standard for the future development of the Group.

I am pleased to report the results for the full year of 2007 to you:

Results for the Full Year of 2007

Our turnover increased by 87.1% to RMB11,671.9 million. This was mainly attributable to the continually steady and rapid growth of sales generated from the footwear business and the contribution of the sportswear business compared with last year.

Operating profit for the year was RMB1,754.9 million, an increase of 71.3% from last year. Profit attributable to equity holders of the Company was RMB1,979.1 million, an increase of 102.7%. The increase in net profit was attributable to the returns from the growth in the footwear and sportswear businesses and one-off interest income earned from the tied-up fund during the listing.

Earnings per share was RMB25.03 cents and the board of directors (the "Board") has recommended the payment of a final dividend of RMB3.5 cents per share.

Summary of the Overall Business Development Strategy of the Group

The Group's business is broadly divided into two main segments – the footwear business and the sportswear business.

Footwear Business

For footwear business, the Group mainly adopts the vertically integrated business model which covers product research and development, procurement, manufacturing, distribution and sales. The company-owned brands include Belle, Staccato, Teenmix, Tata, Fato and JipiJapa. Distribution brands include Joy & Peace and Bata.

With the acquisitions of the operations of Millie's and Senda in 2008, the Group acquired new company-owned brands Millie's, Senda, Basto and 好人緣 ("Haorenyuan"), and obtained the distribution rights of BCBG, Elle and Clarks. From the second quarter of 2008 onwards, the Group will operate the distribution business for Geox as well.

To maintain our leading position in the footwear market, the Group will further expand its coverage in the medium-end to high-end footwear market segments and further segregate the market. Specifically, the major price range for the target market of the Group falls between US$40 to US$200. Based on our understanding of the current domestic market for medium-end to high-end footwear, the market development strategy for the Group's footwear business is described as follows:

Average Transaction Price	**Strategy**
Around US$200	Cover this market segment through acting as the distribution agent for products of reputable international brands.
Around US$100	Increase market share in this market segment through company-owned brands, acquisition of new brands and businesses, and licensed production and sales of international brands.
Around US$60	Enhance coverage in the markets for men and ladies footwear and increase market share in the market segment through company-owned brands and acquisition of new brands and businesses.

Sportswear Business

In contrast to the footwear business, the sportswear business mainly adopts a distribution and retail operation model. The sportswear brands distributed by the Group include first-tier sportswear brands Nike and Adidas, and second-tier sportswear brands Reebok, PUMA, Kappa, Mizuno, Converse and LiNing (李寧).

Fila, the first company-owned sportswear brand, is owned (for mainland China, Hong Kong and Macau) by Full Prospect Limited. The Group held an 85% stake in Full Prospect Limited which is responsible for product development and design, brand promotion, marketing and product procurement of the Fila brand in the aforesaid regions. Meanwhile, wholly-owned subsidiaries of the Group operate the distribution and retailing business for the brand in the aforesaid areas.

Based on our understanding of the development of the consumer market for sportswear in mainland China, we believe the consumer market for sportswear will continue to grow rapidly over the next couple of years. The development scale of the Group's sportswear business will be further geared to the rapid development of the market. While maintaining the steady and rapid growth of the first-tier sportswear brand business, the Group will strengthen the development of the second-tier sportswear brands. The Group has basically completed the disposition of retail networks for the second-tier sportswear brands in 2007, laying a solid foundation for the future growth of the sportswear business.

Footwear Business

The table below sets out the revenue from our company-owned brands and distribution brands, as well as OEM revenue, and provides their respective percentage of total sales and comparative growth rates for the years indicated.

	Year ended 31 December				
	2007		2006		
	Turnover	**% of total**	Turnover	% of total	% of Growth
Company-owned brands	**5,681.9**	**91.6%**	4,295.9	92.2%	32.3%
Distribution brands	**340.3**	**5.5%**	211.7	4.5%	60.7%
Sub-total	**6,022.2**	**97.1%**	4,507.6	96.7%	33.6%
OEM	**179.7**	**2.9%**	154.2	3.3%	16.5%
Total	**6,201.9**	**100.0%**	4,661.8	100.0%	33.0%

Unit: RMB million

Remarks: *The company-owned brand business comprises six brands, namely Belle, Staccato, Teenmix, Tata, Fato and JipiJapa. The distribution brands business comprises two brands, namely Joy & Peace and Bata.*

Sportswear Business

Since the Group acquired the sportswear business on 1 July 2006, there was no comparable data for the first half year. Therefore, the tables below set out our revenue from our first-tier sportswear brands, second-tier sportswear brands, as well as other sportswear business (including the apparel business) for the six months ended 31 December 2006, and their respective percentages of sales and comparative growth rates for the six months ended 31 December 2007, and their respective percentages of sales and comparative growth rates for the year ended 31 December 2007.

	Six months ended 31 December				
	2007		2006		
	Turnover	**% of total**	Turnover	% of total	% of Growth
First-tier sportswear brands #	**2,605.6**	**82.9%**	1,542.6	97.8%	68.9%
Second-tier sportswear brands #	**501.9**	**16.0%**	23.2	1.5%	2,063.4%
Other sportswear business	**34.1**	**1.1%**	10.9	0.7%	212.8%
Total	**3,141.6**	**100.0%**	1,576.7	100.0%	99.3%

	Year ended 31 December				
	2007		2006		
	Turnover	**% of total**	Turnover	% of total	% of Growth
First-tier sportswear brands #	**4,731.5**	**86.5%**	1,542.6	97.8%	206.7%
Second-tier sportswear brands #	**684.7**	**12.5%**	23.2	1.5%	2,851.3%
Other sportswear business	**53.8**	**1.0%**	10.9	0.7%	393.6%
Total	**5,470.0**	**100.0%**	1,576.7	100.0%	246.9%

Unit: RMB million

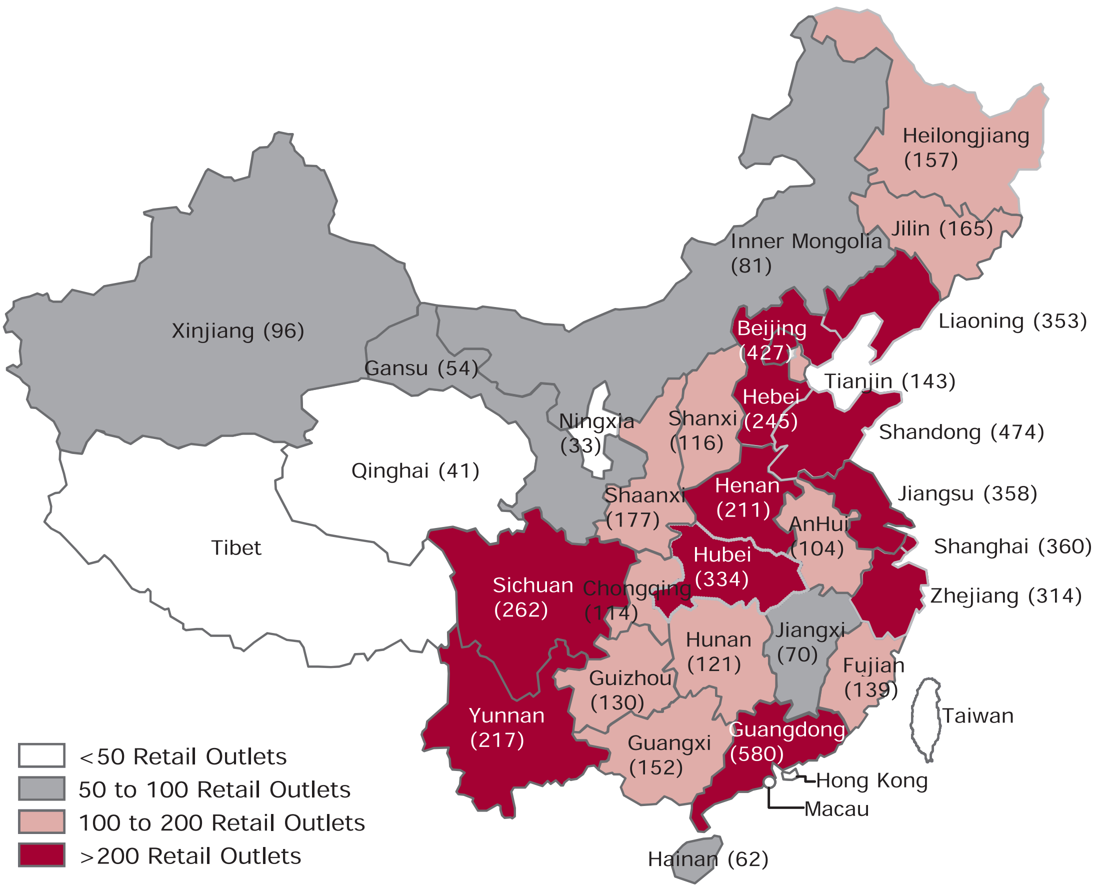
The first-tier sportswear brands and second-tier sportswear brands are classified according to our Group's relative sales amounts.

- The first-tier sportswear brand business comprises Nike and Adidas. Both brands experienced steady and healthy sales growth during the year. They performed well in both sales growth rate and same-outlet sales growth rate.

- The second-tier sportswear brand business consists of Fila, Reebok, PUMA, Kappa, Mizuno, Converse and LiNing (李寧).

Expansion of Company-Managed Retail Network

The following map shows the geographical distribution of the company-managed retail outlets of the Group in mainland China as at 31 December 2007.



The following table sets out the distribution of our company-managed retail outlets by regions and business segments in mainland China as at 31 December 2007.

	Number of Company-managed retail outlets							
	Footwear			Sportswear				
Region	Company-owned brands	Distribution brands	Sub-total	First-tier brands	Second-tier brands	Apparel	Sub-total	Total
Eastern China	587	73	660	353	123	—	476	1,136
Northern China	617	94	711	208	70	23	301	1,012
Southern China *	541	37	578	192	78	—	270	848
North-eastern China	392	40	432	165	78	—	243	675
Shandong and Henan	258	18	276	209	200	—	409	685
Central China	265	27	292	85	78	—	163	455
South-western China	232	18	250	103	23	—	126	376
North-western China	225	12	237	96	68	—	164	401
Yunnan and Guizhou	131	10	141	81	125	—	206	347
Guangzhou *	151	4	155	—	—	—	—	155
Total	3,399	333	3,732	1,492	843	23	2,358	6,090

* *Sportswear: Guangzhou and Southern China are grouped under Southern China.*

** *In addition, the Group operates 53 company-managed outlets in Hong Kong, Macau and the United States.*

Overview of Market and Management in 2007

Development Trend of the Mainland China Market

For the overall development of the consumer market in mainland China, the first-tier, second-tier and third-tier markets all experienced rapid growth. In particular, the second-tier and third-tier markets grew at a faster rate than the first-tier market. Therefore, the contribution of the first-tier market (Beijing, Shanghai, Guangzhou, Shenzhen) to the revenue from the footwear business and the sportswear business declines slightly relative to that of the second-tier and third-tier markets.

From now on, the Group will formulate different operating strategies for different brands in different market conditions. The development of well-established brands in the first-tier market will focus on enhancing brand quality. For the second-tier and third-tier markets, the emphasis will be on outward expansion. More quality commercial retail space will be obtained through rapid expansion.

Change in Overall Business Structure

The sales revenue from the sportswear business of the Group contributed to 45.4% of the total sales revenue in the first half year of 2007, and the percentage increased slightly to 46.9% for the whole year. The relative change in the sales revenue of the footwear business and the sportswear business of the Group in 2007 reflected that the consumer market for sportswear as a whole had been growing faster than that for footwear. However, for long-term operating strategy, the Group will continue to strengthen the development of the footwear business so as to maintain its prominent position in the Group.

Labour Cost and the Implementation of the New Labour Law

Considering the overall situation for this year, the labour cost in mainland China in general had been rising. The overall labour cost of the Group increased correspondingly by approximately 8%-10%. The increase in wages offset the effect of inflation on the living standard of the staff. We are always concerned about the impact of the increase in labour cost on the operations. The Group's staff cost to sales ratio reduced from 12.0% in 2006 to 10.8% in 2007. At the moment, the change in labour cost is still within acceptable limits.

The Group has complied with the requirements of national laws and labour policy vigilantly. Therefore, the implementation of the new Labour Law in January 2008 has no significant negative impact on the labour policy and operations of the Group.

Acquisitions of the Footwear Business

The Group has successively acquired the operations of Millie's and Senda early 2008, and made a proposed voluntary conditional cash offer for Mirabell International Holdings Limited ("Mirabell International"), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in late February 2008. According to the development strategy for the footwear business of the Group:

- Through the acquisition of the operations of Senda, the Group will enhance the brand portfolio for the medium-end (average transaction price approximately US$60) footwear market, which includes the newly-acquired famous mainland China men's footwear brand Senda and women's footwear brand Basto. The distribution right for the internationally well-known brand Clarks (average transaction price approximately US$200) was also obtained;

- Through the acquisition of the operations of Millie's, the Group will enhance the brand portfolio for the medium-end to high-end (average transaction price approximately US$100) footwear market, which includes new company-owned brand Millie's, as well as brands BCBG and Elle for which the Group is the distributor;

- If the general offer for Mirabell International is completed, the Group will own the medium-end to high-end brands Joy & Peace (average transaction price approximately US$100) and Mirabell, and secure the exclusive distribution rights for famous international brands such as Caterpillar, Merrell and Sebago (average transaction price approximately US$200) in mainland China, Hong Kong and/or Macau, enhancing the Group's coverage in the market segment for high-end footwear.

We believe that the above acquisitions will further consolidate our strong presence in the footwear market.

Valuation Standard for Acquiring New Brands and Businesses

The Group evaluates the benefit of acquiring brands and businesses in a comprehensive way. The Group firstly considers whether the potential brands and businesses are in line with the development strategy of the Group and whether the acquisitions can result in economy of scale. The Group also carries out qualitative analyses of the capability for integration of the potential businesses to evaluate if the value of the new brands and businesses can be further enhanced. Quantitative analyses of the value of the potential brands and businesses are also conducted. Unlike other non-footwear industry investors, the Group is extremely confident of revamping and integrating the businesses of this industry. Therefore, our evaluation of new brands and businesses considers not only the current operations, but also the long-term increase in revenue and other benefits generated after integration.

Integration of Brands and Operations

The Group has established the Fila management team in 2007. The operations of Fila are proceeding as scheduled. The integration of the operations of Millie's and Senda is mainly related to four aspects, namely product research and development, marketing, production and supply chain operation model. At the moment, the integration of these two businesses has been basically completed.

Prospect

Today, we have presented the first annual report of the Group following its listing. Despite increasing costs and rising expenses during the past year, through the joint efforts of the management team of the Group, we overcame various unfavourable factors and achieved the operating targets set at the beginning of the year.

The operations of the Group had been steady in 2007. However, it happened that the capital market experienced significant fluctuations recently. The share price of the Company also became more volatile. Investors became concerned about the operation of the Group. It is encouraging that, in the face of market pressure, we still implemented our planned development strategy. While striving for further growth of the existing business, we laid a solid foundation for future development through a series of acquisitions and fast expansion of the distribution business for the second-tier sportswear brands.

Looking ahead, we will continue to focus on long-term steady development. With the huge market and fast-growing economy of mainland China, we believe the operations of the Group will continue to grow rapidly, and the Group will maintain its leading position in the industry.

Sheng Baijiao
CEO and Executive Director

26 March 2008

Financial Review

The Group continued to benefit from fast growth. During the year, the Group recorded revenue and profit attributable to equity holders of the Company of RMB11,671.9 million and RMB1,979.1 million respectively, achieving growth rate of 87.1% and 102.7% respectively.

Revenue

The Group's revenue increased by 87.1% to RMB11,671.9 million (full year operation of footwear and sportswear) in 2007 from RMB6,238.5 million (full year operation of footwear and half year operation of sportswear) in 2006. This increase was primarily due to the increase in sales of footwear business. Sales from footwear business increased by RMB1,540.1 million, representing an increase of 33.0%, to RMB6,201.9 million in 2007 from RMB4,661.8 million in 2006. In addition, contribution of full year sales from the sportswear business, which was acquired on 1 July 2006, also accounted for the increase in sales.

	Year ended 31 December				
	2007		2006		
	Revenue	**% of total**	Revenue	% of total	% of Growth
Footwear					
Company-owned brands	**5,681.9**	**48.7%**	4,295.9	68.8%	32.3%
Distribution brands	**340.3**	**2.9%**	211.7	3.4%	60.7%
OEM	**179.7**	**1.5%**	154.2	2.5%	16.5%
	6,201.9	**53.1%**	4,661.8	74.7%	33.0%
Sportswear					
First-tier sportswear brands	**4,731.5**	**40.5%**	1,542.6	24.7%	206.7%
Second-tier sportswear brands	**684.7**	**5.9%**	23.2	0.4%	2,851.3%
Other sportswear business	**53.8**	**0.5%**	10.9	0.2%	393.6%
	5,470.0	**46.9%**	1,576.7	25.3%	246.9%
Total	**11,671.9**	**100.0%**	6,238.5	100.0%	87.1%

Unit: RMB million

Profitability

On account of the continuous growth of the Group's businesses, the profit attributable to equity holders of the Company increased by 102.7% to RMB1,979.1 million, achieving a net profit margin of 17.0%.

	Year ended 31 December					
	2007		2006		Growth Rate	
	Footwear	**Sportswear**	Footwear	Sportswear	Footwear	Sportswear
	RMB million	**RMB million**	RMB million	RMB million	%	%
Revenue	**6,201.9**	**5,470.0**	4,661.8	1,576.7	33.0	246.9
Cost of sales	**(2,244.5)**	**(3,524.9)**	(1,725.1)	(1,012.7)	30.1	248.1
Gross profit	**3,957.4**	**1,945.1**	2,936.7	564.0	34.8	244.9
Gross profit margin (%)	**63.8**	**35.6**	63.0	35.8		

Cost of sales increased by 110.7% from RMB2,737.8 million (full year operation of footwear and half year operation of sportswear) in 2006 to RMB5,769.4 million (full year operation of footwear and sportswear) in 2007. The significant increase was primarily due to increase in sales of both company-owned brands and distribution brands of the footwear business. In addition, contribution of full year sales from the sportswear business, which was acquired on 1 July 2006, also accounted for the increase in cost of sales.

Gross profit increased by 68.6% to RMB5,902.5 million in 2007 from RMB3,500.7 million in 2006. Gross profit in our footwear segment increased by 34.8% to RMB3,957.4 million in 2007 from RMB2,936.7 million in 2006 while gross profit in the sportswear segment increased by 244.9% to RMB1,945.1 million in 2007 from RMB564.0 million in 2006.

Gross profit margin decreased to 50.6% in 2007 from 56.1% in 2006. The decrease was primarily due to the inclusion of full year sales of sportswear products in 2007, which generally have lower gross profit margin than the sales of our footwear products due to differences in the respective business models. During the year, the gross profit margins of footwear business and sportswear business were 63.8% and 35.6% respectively. Comparing to 2006, the gross profit margins of footwear business and sportswear business have no material change.

Selling and distribution expenses in 2007 amounted to RMB3,366.4 million (2006: RMB1,947.2 million), primarily consist of concessionaire fees and rental expenses, sales personnel salaries and commissions, depreciation charges on retail outlets decorations and advertising and promotional expenses. General and administrative expenses in 2007 amounted to RMB819.9 million (2006: RMB533.3 million), primarily consist of management and administrative personnel salaries and depreciation charges on office premises and office equipment. Comparing to 2006, in term of percentage, both selling and distribution expenses and general and administrative expenses to sales was improved from 31.2% to 28.8% and from 8.5% to 7.0% respectively.

In May 2007, new issue of 1,370,733,000 shares at HK$6.2 was offered globally and the Company was successfully listed on the main board of the Stock Exchange on 23 May 2007. In respect of Hong Kong public offer, over HK$400 billion was tied up and the Company earned approximately RMB364.2 million interest income. On the other hand, approximately RMB54.6 million listing-related expenses were charged to the income statement.

During the year ended 31 December 2007, Renminbi appreciated against Hong Kong dollar by approximately 7.2% and the Group recorded an exchange loss of approximately RMB208.0 million, primarily due to translation of net proceeds from the share issuance in May 2007 from Hong Kong dollar to Renminbi. In view of expected appreciation of Renminbi, since July 2007, the Group entered into foreign exchange forward contracts with major and reputable financial institutions to hedge foreign exchange risk for minimizing our foreign exchange exposure on the net proceeds denominated in Hong Kong dollar. During the year, the Group earned RMB71.3 million from the aforesaid foreign exchange contracts and recorded RMB138.1 million interest income (excluding the interest income from subscription money upon initial public offering). These financial incomes, in total of RMB209.4 million, just offset against the exchange loss recorded.

Liquidity and Financial Resources

The Group maintains a strong and healthy balance sheet. Cash and cash equivalents as at 31 December 2007 rose 1,625.7% to RMB5,213.2 million from RMB302.1 million as at 31 December 2006. As at 31 December 2007, the working capital of the Group was RMB8,243.9 million, representing an increase of 542.8% as compared to 31 December 2006. The increase in cash and cash equivalents is primarily due to the cash proceeds received from issuance of new shares from listing.

As at 31 December 2007, the Group's current ratio was 6.9 times (2006: 1.8 times) and gearing ratio stood at a low level of 1.5% (2006: 17.9%) (Gearing ratio is calculated using the following formula: total borrowings / total assets). Group's total borrowings as at 31 December 2007 decreased by 74.9% to RMB200.0 million from RMB795.7 million as at 31 December 2006, as a result of repayment of bank borrowings after the listing of the Company on 23 May 2007, and therefore resulted in decrease in gearing ratio and increase in current ratio.

During the year, net cash generated from operations amounted to RMB337.9 million, increased by 682.6%, from RMB43.2 million of last year. This reflects the Group's ability to generate solid earnings.

Net cash used in investing activities for the year ended 31 December 2007 was RMB2,452.9 million (2006: RMB418.8 million). During the year, the Group invested approximately RMB372.9 million, RMB423.1 million, RMB255.1 million and RMB360.2 million on renovation for footwear and sportswear retail outlets, purchase of properties, construction of new factories and acquisition of Fila Marketing (Hong Kong) Limited and certain trademarks respectively. In addition, RMB904.5 million was paid as deposit for acquisition of Senda.

Net cash generated from financing activities during the year was RMB7,240.6 million (2006: RMB509.1 million), primarily as a result of approximately RMB8,014.6 million net proceeds received from global offering of 1,370,733,000 Company's shares at HK$6.2 per share in May 2007, partially offset by the net decrease in bank borrowings of RMB595.7 million and payment of dividends of RMB653.2 million.

Pledge of assets

As at 31 December 2007, the net book values of property, plant and equipment, leasehold land and land use rights and investment properties pledged as security for certain banking facilities available to the Group was RMB292.2 million (2006: RMB147.8 million).

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

Foreign exchange risk

Substantially all of the Group's revenues and operating costs were denominated in Renminbi. As such, the Group did not encounter any significant difficulties arising from, and its operating cashflow or liquidity was not subject to, significant exchange rate fluctuations. Proceeds from the new issue of shares in May 2007 were received in Hong Kong dollars. Since May 2007, Renminbi appreciated against Hong Kong dollar by 4.3%. In view of expected appreciation of Renminbi, since July 2007, the Group entered into certain foreign exchange forward contracts with major and reputable financial institutions to hedge foreign exchange risk for minimizing our foreign exchange exposure on the unused portion of net proceeds which is denominated in Hong Kong dollars.

Use of net proceeds from the new issue

The shares of the Company were successfully listed on the Stock Exchange on 23 May 2007, with a total number of offer shares of 1,370,733,000 shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the new issue aggregated to approximately RMB8,014.6 million. Up to 31 December 2007, the net proceeds from the new issue have been utilized as follows:

- approximately RMB1,264.7 million used to implement our expansion plans which include acquiring companies or forming alliances with strategic partners;
- approximately RMB957.2 million used to expand our retail network for our footwear and sportswear businesses by opening new retail outlets and establishing new retail sports complexes;
- approximately RMB459.4 million used to expand our production and warehouse capacity and logistics centers in our sales regions, and to construct additional office facilities;
- approximately RMB1,200.0 million used to pay down the bank borrowings;
- approximately RMB50.4 million used to increase our promotional and marketing activities, as well as upgrade the brand image of our self-owned brands; and
- approximately RMB38.3 million used to establish research and development centers for our products, and to enhance our research and development ability.

As disclosed in the Listing Prospectus, the Group will continue to utilize the net proceeds from the new issue to finance our future development plans.

Subsequent events

On 27 October 2007, Full Brand Limited, a wholly-owned subsidiary of the Group, as the purchaser, and Ossia International Limited, Ms. Shum Kan Fong Rosa and Mr. Wong Kin Shing, collectively as the sellers, entered into a sale and purchase agreement, pursuant to which the sellers have agreed to sell to the purchaser the entire equity interests in Ossia Marketing (HK) Company Limited and Ossia International (HK) Limited. These companies are incorporated in Hong Kong and principally engaged in the distribution and retail sales of footwear products in Hong Kong, Macau and mainland China, mainly under the brand name of "Millie's". The initial consideration for the acquisition is HK$600.0 million (equivalent to RMB559.6 million) and subject to a further payment of an amount not exceeding HK$200.0 million (equivalent to RMB186.5 million), calculated with reference to certain performance conditions. The control of the companies was transferred to the Group in January 2008.

In November 2007, New Belle Footwear (Shenzhen) Company Limited ("New Belle"), a wholly-owned subsidiary of the Group, entered into a series of agreements with Jiangsu Senda Group Co., Ltd ("Senda"), pursuant to which New Belle has agreed to acquire interests in certain assets, businesses and companies (collectively the "Senda Business") from Senda. The Senda Business is principally engaged in the manufacturing and retail sales of men's and ladies' footwear products in mainland China. The aggregate maximum consideration for the acquisition of the Senda Business amounted to approximately RMB2.2 billion. The control of the Senda Business has been gradually transferred to the Group since January 2008.

On 22 February 2008, a letter was sent by Belle Group Limited ("BGL"), a wholly-owned subsidiary of the Group, to inform Mirabell International that BGL is considering making a proposed voluntary conditional cash offer to acquire all of the issued and to be issued shares in the share capital, and for the cancellation of all the outstanding share options, of Mirabell International (the "Offer").

The making of the Offer is subject to approval from independent shareholders of the Company, on the proposed acquisition of 164,925,000 offer shares by BGL from the controlling shareholders of Mirabell International, pursuant to an ordinary resolution to be passed at the Extraordinary General Meeting of the Company to be held on 11 April 2008.

The Offer, if and when made, will be based on the price of HK$6.0 (equivalent to RMB5.6) per ordinary share and 262,320,000 ordinary shares of Mirabell International in issue (the "Offer Price"); and a price equivalent to the difference between the Offer Price and the exercise price for each outstanding share options of Mirabell International. Should the Offer be approved and completed, it is estimated that the maximum amount payable under the Offer to be approximately HK$1.6 billion (equivalent to RMB1.5 billion).

Other than those disclosed above, the Group had no other significant events taken place subsequent to 31 December 2007 until the date of this annual report.

Human Resources

As at 31 December 2007, the Group had a total of 48,495 employees (31 December 2006: 33,995 employees). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance.

The board of directors (the "Board") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2007.

Principal activities

The principal activity of the Company is investment holdings. The principal activities and other particulars of the principal subsidiaries are set out in note 38 to the financial statements.

The analysis of the Group's performance by businesses and by geographical locations of the Group during the year are set out in note 5 to the financial statements.

The issue and listing of shares

The Company listed its shares on the Stock Exchange on 23 May 2007 and offered and issued 1,370,733,000 shares (including shares issued as a result of the exercise of the over-allotment option) by way of public offer in Hong Kong and international placing at an issue price of HK$6.2 per share.

Results and dividends

The profit of the Group for the year ended 31 December 2007 and the financial position of the Group and of the Company as at that date are set out in the financial statements on pages 38 to 106.

The Board declared on 25 August 2007 an interim dividend of RMB3 cents per share, totaling RMB253,240,000 and the interim dividend was paid on 19 September 2007.

The Board recommended the payment of a final dividend of RMB3.5 cents (equivalent to HK3.89 cents) per share in respect of the year ended 31 December 2007, totalling RMB295,447,000.

The translation of RMB into Hong Kong dollars is made for illustration purpose only, at the rate of HK$1.00=RMB0.899645. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the official fixing exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 15 May 2008, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

Closure of register of members

The dividend will be payable on or about 29 May 2008 to the shareholders whose names appear on the register of members of the Company on 15 May 2008. The register of members of the Company will be closed from Saturday, 10 May 2008 to Thursday, 15 May 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 9 May 2008.

Distributable reserves

As at 31 December 2007, distributable reserves (including share premium and retained earnings) of the Company amounted to RMB9,920,155,000 (2006: RMB1,836,180,000). The movements on distributable reserves during the year are set out in notes 30 and 31 to the financial statements.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Purchase from the Group's five largest suppliers accounted for approximately 60.9% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 29.7% of the Group's purchases.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Property, plant and equipment

During the year, the Group acquired property, plant and equipment of approximately RMB878.3 million (2006: RMB507.7 million). Details of the movements in property, plant and equipment are set out in note 16 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 30 to the financial statements.

The Company has not redeemed any of its shares during the year ended 31 December 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors
Mr. Tang Yiu (Chairman)
Mr. Sheng Baijiao (Chief Executive Officer)
Mr. Yu Mingfang
Ms. Tang Ming Wai

Non-executive Directors
Mr. Gao Yu
Ms. Hu Xiaoling

Independent Non-executive Directors
Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

In accordance with article 87 of the Company's articles of association, Mr. Yu Mingfang (an Executive Director), Ms. Hu Xiaoling (a Non-executive Director) and Dr. Xue Qiuzhi (an Independent Non-executive Director) shall retire and be eligible to offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors and senior management as at the date of this report are set out in this report on pages 33 to 35.

Directors' service contracts

Each of the Executive Directors has entered into a service contract with the Company on 27 April 2007 for a term of three years commencing on 1 May 2007, subject to termination before expiry by either party giving not less than three months' notice in writing to the other, expiring not earlier than the end of the first year after the date on which the shares of the Company are listed on the Stock Exchange.

Each of the Non-executive and Independent Non-executive Directors has entered into a service contract with the Company on 27 April 2007 for an initial term of one year commencing on 1 May 2007, and shall continue thereafter for successive period of one year subject to a maximum of three years unless terminated by either party giving at least one month's notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFC or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, were as follows:

(i) Interests in issued shares of the Company

Name of Director	Capacity/ Nature of Interest	Number of shares (Note 1)	Approximate percentage of interest in the Company
Mr. Tang Yiu	Interest in controlled corporation *(Note 2)*	2,865,625,000 (L)	34.0%
	Interest in controlled corporation *(Note 3)*	673,924,000 (L)	8.0%
	Interest in controlled corporation *(Note 4)*	337,500,000 (L)	4.0%
	Deemed interest *(Note 5)*	694,675,000 (L)	8.2%
	Deemed interest *(Note 6)*	75,000,000 (L)	0.9%
Mr. Sheng Baijiao	Interest in controlled corporation *(Note 5)*	694,675,000 (L)	8.2%
	Beneficial Interest *(Note 6)*	75,000,000 (L)	0.9%
	Deemed interest *(Note 2)*	2,865,625,000 (L)	34.0%
	Deemed interest *(Note 3)*	673,924,000 (L)	8.0%
	Deemed interest *(Note 4)*	337,500,000 (L)	4.0%

Notes:

(1) The letter "L" denotes a long position in shares.

(2) These ordinary shares of HK$0.01 each ("Shares") are held by Profit Leader Holdings Limited ("Profit Leader"), a limited liability company incorporated in the British Virgin Islands. Mr. Tang Yiu ("Mr. Tang") and Ms. Tang Wing Sze ("Ms. WS Tang"), daughter of Mr. Tang, are together beneficially interested in the entire issued share capital of Merry Century Investments Limited ("Merry Century"), which is interested in 51.1% of the issued share capital of Profit Leader. Golden Coral Holdings Limited ("Golden Coral") is interested in 38.9% of the issued share capital of Profit Leader. By virtue of a concert agreement dated 18 September 2006 entered into between Mr. Tang (for himself and on behalf of his family members) and Mr. Sheng Baijiao (the "Concert Agreement"), Mr. Sheng Baijiao ("Mr. Sheng") is taken to be interested in any Shares in which Mr. Tang and Ms. WS Tang are interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(3) These Shares are held by Profit Discovery Limited ("Profit Discovery"), a limited liability company incorporated in the British Virgin Islands. Mr. Tang is interested in the entire issued share capital of Profit Discovery. By virtue of the Concert Agreement, each of Mr. Sheng and Ms. WS Tang is taken to be interested in any Shares in which Mr. Tang is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(4) These Shares are held by High Summit Group Limited ("High Summit"), a limited liability company incorporated in the British Virgin Islands. Mr. Tang is interested in the entire issued share capital of High Summit. By virtue of the Concert Agreement, each of Mr. Sheng and Ms. WS Tang is taken to be interested in any shares in our Company in which Mr. Tang is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(5) These Shares are held by Handy Limited ("Handy"), a limited liability company incorporated in the British Virgin Islands. Mr. Sheng is interested in 56.4% of the issued share capital of Handy. By virtue of the Concert Agreement, each of Mr. Tang and Ms. WS Tang is taken to be interested in any Shares in which Mr. Sheng is interested pursuant to section 318 of the SFO. The Concert Agreement has beed terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(6) These Shares are held by Mr. Sheng in his personal capacity. By virtue of the Concert Agreement, each of Mr. Tang and Ms. WS Tang is taken to be interested in any Shares in which Mr. Sheng is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(ii) Interests in underlying shares of the Company

No Directors of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2007, the interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of shareholders	Capacity/Nature of Interest	Number of shares (Note 1)	Approximate percentage of interest in the Company
Profit Discovery	Beneficial Interest	673,924,000 (L)	8.0%
Handy	Beneficial Interest	694,675,000 (L)	8.2%
Essen Worldwide Limited	Beneficial Interest	689,700,000 (L)	8.2%
Profit Leader	Beneficial Interest	2,865,625,000 (L)	34.0%
Merry Century	Interest in controlled corporation *(Note 2)*	2,865,625,000 (L)	34.0%
Golden Coral	Interest in controlled corporation *(Note 2)*	2,865,625,000 (L)	34.0%
Ms. WS Tang	Interest in controlled corporation *(Note 2)*	2,865,625,000 (L)	34.0%
	Deemed interest *(Note 3)*	673,924,000 (L)	8.0%
	Deemed interest *(Note 4)*	337,500,000 (L)	4.0%
	Deemed interest *(Note 5)*	694,675,000 (L)	8.2%
	Deemed interest *(Note 6)*	75,000,000 (L)	0.9%
JPMorgan Chase & Co.	Interest in controlled corporation *(Note 7)*	425,222,992 (L) 48,673,339 (P)	5.0% 0.6%

Save as disclosed above, no other parties (other than Directors and chief executive of the Company) disclosed to the Company pursuant to Division 2 and 3 of Part XV of SFO or were recorded in the register kept by the Company under section 336 of the SFO as having an interest or a short position in the shares of underlying shares of the Company as at 31 December 2007.

Notes:

(1) The letter "L" denotes a long position in shares and the letter "P" denotes a lending pool in shares.

(2) These Shares are held by Profit Leader. Mr. Tang and Ms. WS Tang are together beneficially interested in the entire issued share capital of Merry Century, which is interested in 51.1% of the issued share capital of Profit Leader. Golden Coral is interested in 38.9% of the issued share capital of Profit Leader.

(3) These Shares are held by Profit Discovery. Mr. Tang is interested in the entire issued share capital of Profit Discovery. By virtue of the Concert Agreement, each of Mr. Sheng and Ms. WS Tang is taken to be interested in any Shares in which Mr. Tang is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(4) These Shares are held by High Summit. Mr. Tang is interested in the entire issued share capital of High Summit. By virtue of the Concert Agreement, each of Mr. Sheng and Ms. WS Tang is taken to be interested in any Shares in which Mr. Tang is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(5) These Shares are held by Handy. Mr. Sheng is interested in 56.4% of the issued share capital of Handy. By virtue of the Concert Agreement, each of Mr. Tang and Ms. WS Tang is taken to be interested in any Shares in which Mr. Sheng is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(6) These Shares are hold by Mr. Sheng in his personal capacity. By virtue of the Concert Agreement, each of Mr. Tang and Ms. WS Tang is taken to be interested in any Shares in which Mr. Sheng is interested pursuant to section 318 of the SFO. The Concert Agreement has been terminated on 20 March 2008 and Mr. Tang (and his family members) and Mr. Sheng shall cease to be deemed to be interested in each others interest in the Company thereafter.

(7) JPMorgan Chase & Co. was interesed in 2,895,653 Shares, 373,654,000 Shares and 48,673,339 Shares in its capacity as beneficial owner, investment manager and custodian corporation/ approved lending agent, respectively. JPMorgan Chase & Co. was interested in such Shares through its interests in controlled corporations. Of these shares, 48,673,339 Shares were held by JPMorgan Chase Bank, N.A., 252,924,000 Shares were held by JF Asset Management Limited, 2,895,653 Shares were held by J.P. Morgan Whitefriars Inc., 1,710,000 Shares were held by JF International Management Inc., 2,100,000 Shares were held by J.P. Morgan Investment Management Inc., 70,621,000 Shares were held by JF Asset Management (Singapore) Limited, 14,827,000 Shares were held by JF Asset Management (Taiwan) Limited, 14,504,000 Shares were held by JPMorgan Asset Management (Japan) Limited, 16,968,000 Shares were held by China International Fund Management Ltd, all of which are either controlled by or indirectly controlled corporations of JPMorgan Chase & Co..

Share option scheme

The Company adopted its share option scheme pursuant to shareholders resolution passed on 27 April 2007 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract calibres and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; ((i) and (ii) collectively "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, advisor, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in respect of which options may be granted under the Share Option Scheme or other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of Shares in issue as of the Listing Date, unless such scheme mandate limited is renewed by shareholders of the Company in a general meeting.

As at the date of this annual report, no options have been granted under the Share Option Scheme.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Directors' interests in contracts

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, were subsisting during or at the end of the financial year ended 31 December 2007.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2007 are set out in note 29 to the financial statements.

Continuing Connected Transactions

Mirabell International Holdings Limited

宏裕貿易（深圳）有限公司 (Hong Yu Trading (Shenzhen) Company Limited) ("Hong Yu") is a wholly-owned subsidiary of Mirabell International. Mirabell International is a company listed on the Stock Exchange and is held as to more than 50% by Mr. Tang Wai Lam and Mr. Tang Keung Lam (collectively "Mr. Tang's Cousins") collectively, who are both cousins of Mr. Tang.

Pursuant to the Listing Rules, Mr. Tang, being an Executive Director, the Chairman and a controlling shareholder of the Company, is a connected person of the Company. Accordingly, by virtue of Rule 14A.11(4) of the Listing Rules, Mr. Tang's Cousins are also considered to be connected persons of the Company. On a strict interpretation of Rule 14A.11(4), the associates of Mr. Tang's Cousins (including Mirabell International and Hong Yu) should not be considered as connected persons. However, taking into account the spirit of Rule 14A.11(4) and the extent of control that Mr. Tang's Cousins are able to exercise in Mirabell International, the Directors consider it appropriate to voluntarily treat Mirabell International and Hong Yu as connected persons of the Company for the purpose of Chapter 14A of the Listing Rules.

On 30 April 2007, New Belle, a wholly-owned subsidiary of the Company, entered into a license agreement (the "License Agreement") with Hong Yu. Pursuant to the License Agreement, Hong Yu, as the licensor, granted to New Belle an exclusive license of the right to use the "Joy & Peace" trademarks (the "License") in mainland China, excluding Guangdong Province and Fuijian Province, for a term of three years commencing from 1 May 2007. The license fee payable by New Belle to Hong Yu under the License Agreement is HK$5,000 per month for each retail outlet carrying on retail sales of "Joy & Peace" branded products. For the year ended 31 December 2007, the license fee paid by the Group to Hong Yu amounted to approximately RMB6,755,000.

Fila Korea Limited and Fila Sport Limited

Full Prospect Limited ("Full Prospect") is a non-wholly owned subsidiary of the Company in which the Company is interested in 85% of its issued share capital on a fully converted basis. Fila Luxembourg S.a.r.l ("Fila Luxembourg"), a shareholder of Full Prospect, is interested in 15 class B convertible shares, representing 15% of the issued share capital of Full Prospect on a fully converted basis. Fila Korea Limited ("Fila Korea") is the ultimate holding company of Fila Luxembourg and Fila Sport Limited ("Fila Sport"). Therefore, Fila Korea, being a substantial shareholder of the Group, and Fila Sport, being an associate of the substantial shareholder of the Group, are connected persons of the Company within the meaning of the Listing Rules.

On 23 December 2007, Fila Marketing (Hong Kong) Limited and Speed Benefit Limited, both subsidiaries of the Company, entered into a master sales agreement with Fila Korea and Fila Sport, pursuant to which Fila Korea and Fila Sport have agreed to supply footwear products, sports/lifestyle apparels, bags and accessories and other ancillary products manufactured by or offered by Fila Korea, and its affiliates ("Fila Products") to the Group on a continuing basis. The payment terms of the individual transactions will be determined by the relevant contracting parties at the time of entering into the transactions with reference to factors such as the relevant transaction amount, nature and specification requirement for the particular transaction. For the year ended 31 December 2007, Fila Products in an aggregate amount of approximately RMB10,752,000 were purchased from Fila Korea and Fila Sport.

Four years financial summary

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out as follows:

	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**11,671,858**	6,238,560	1,731,833	870,508
Gross profit	**5,902,466**	3,500,745	957,145	211,966
Gross profit margin	**50.6%**	56.1%	55.3%	24.3%
Operating profit	**1,754,915**	1,024,621	292,288	99,486
Operating profit margin	**15.0%**	16.4%	16.9%	11.4%
Profit attributable to equity holders of the Company	**1,979,106**	976,569	234,865	75,056
Term deposits, bank balances and cash	**5,213,167**	302,095	235,904	63,147
Bank loans and overdraft	**200,000**	819,182	155,238	145,059
Total assets	**13,539,243**	4,445,172	1,600,641	636,551
Total liabilities	**1,502,882**	1,811,208	773,469	345,122
Total equity	**12,036,361**	2,633,964	827,172	291,429

Retirement schemes

Particulars of the retirement schemes of the Group are set out in note 14 to the financial statements.

Confirmation of independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

Auditor

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Tang Yiu
Chairman

Hong Kong, 26 March 2008

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

During the year ended 31 December 2007, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as stated in Appendix 14 of the Listing Rules.

Board

The Board is charged with providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board comprises four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The Board has appointed two Board Committees, the Audit Committee and the Remuneration Committee, to oversee different areas of the Company's affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

Board of Directors	**Audit Committee**	**Remuneration Committee**
Executive Directors		
Mr. Tang Yiu (Chairman)	N/A	N/A
Mr. Sheng Baijiao (Chief Executive Officer)	N/A	√
Mr. Yu Mingfang	N/A	N/A
Ms. Tang Ming Wai	N/A	N/A
Non-executive Directors		
Mr. Gao Yu	N/A	N/A
Ms. Hu Xiaoling	N/A	N/A
Independent Non-executive Directors		
Mr. Ho Kwok Wah, George	√	N/A
Mr. Chan Yu Ling, Abraham	√	√
Dr. Xue Qiuzhi	√	√

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Directors. The Company maintains appropriate directors' and officers' liabilities insurance.

During the year, the Board convened a total of four Board meetings based on the need of the operation and business development of the Company. Details of attendance of the Board meetings and the Audit Committee and Remuneration Committee meetings are as follows:

	Meetings attended/held		
	Board	Audit Committee	Remuneration Committee
Mr. Tang Yiu (Chairman)	4/4	N/A	N/A
Mr. Sheng Baijiao (Chief Executive Officer)	4/4	N/A	1 / 1
Mr. Yu Mingfang	4/4	N/A	N/A
Ms. Tang Ming Wai	4/4	N/A	N/A
Mr. Gao Yu#	4/4	N/A	N/A
Ms. Hu Xiaoling#	4/4	N/A	N/A
Mr. Ho Kwok Wah, George*	3/4	1 / 1	N/A
Mr. Chan Yu Ling, Abraham*	3/4	1 / 1	1 / 1
Dr. Xue Qiuzhi*	2/4	1 / 1	1 / 1

\# *Non-executive Directors*

* *Independent Non-executive Directors*

The Board members have no financial, business, family or other material/relevant relationships with each other save that Mr. Tang is father of Ms. Tang Ming Wai ("Ms. MW Tang"). In the Board's opinion, this relationship does not affect the Directors' independent judgment and integrity in executing their roles and responsibilities. The Independent Non-executive Directors bring a variety of experience and expertise to the Company.

Each of the Independent Non-executive Directors has confirmed with the Company in writing his independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such directors to be independent.

Biographical details of the Directors and senior management of the Company as at the date of this report are set out on pages 33 to 35 of this annual report.

Given the composition of the Board and the skills, knowledge and expertise that each Director brings to bear in its deliberations, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

Appointment and re-election of Directors

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering the appointment of new Directors. Currently, all Non-executive Directors and Independent Non-executive Directors are appointed for a specific term of three years.

Pursuant to the written resolutions passed by the then shareholders of the Company on 27 April 2007, the articles of association of the Company were approved and adopted by the Company's shareholders. In accordance with article 87 of the Company's articles of association, Mr. Yu Mingfang (an Executive Director), Ms. Hu Xiaoling (a Non-executive Director) and Dr. Xue Qiuzhi (an Independent Non-executive Director) shall retire and be eligible to offer themselves for re-election as Directors at the forthcoming annual general meeting.

Chairman and Chief Executive

The Chairman and the Chief Executive Officer of the Company are Mr. Tang and Mr. Sheng respectively. Mr. Tang is the father of Ms. MW Tang. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The reasonable division of work under the laws ensures a definite division between power and obligations with clear-cut and efficient decisions and implementations by the Board and the management.

Audit Committee

We established an audit committee on 27 April 2007 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Audit Committee consists of three Independent Non-Executive Directors, Mr. Ho Kwok Wah, George (being the Chairman who has a professional qualification in accountancy), Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi. The primary duties of the Audit Committee are to assist the Board to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board of the Company.

Major work completed by the Audit Committee during the year includes:

- Reviewing the Group's annual report, interim financial information and annual financial statements;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Reviewing the external auditor's qualifications, independence and performance;
- Reviewing the external auditor's management letter and the management's response.
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system; and
- Advice on material event or draw the attention of the management on related risks.

The Audit Committee met once since the listing of the Company in May 2007 to 31 December 2007. During the meeting, the Audit Committee has considered the interim results of the Group for the six months ended 30 June 2007 as well as the report prepared by the external auditor relating to accounting matters and other major findings identified during the course of interim review. All members of the Audit Committee attended the meeting.

Remuneration Committee

We established a remuneration committee on 27 April 2007 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Remuneration Committee consists of three members, two of whom are Independent Non-Executive Directors, being Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi, and an Executive Director, Mr. Sheng. The Remuneration Committee is chaired by Mr. Chan Yu Ling, Abraham. The primary duties of the Remuneration Committee include (but without limitation):

- making recommendations to the Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration;
- determining the terms of the specific remuneration package of the Directors and senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and
- considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme upon authorization by the Board of the Company.

The Remuneration Committee met once since the listing of the Company in May 2007 to 31 December 2007. During the meeting, the Committee reviewed the remuneration policy of the Group for the year of 2007. All members of the Remuneration Committee attended the meeting.

Directors' and Auditor's responsibilities for the financial statements

The Directors are responsible for overseeing the preparation of financial statements for each financial period to ensure that they give a true and fair view of the financial position of the Company and of the Group, and of the Group's financial performance and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 36 and 37.

Internal control

The Board is responsible for maintaining sound and effective internal controls to safeguard the Company's assets. The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings with the Audit Committee periodically to discuss financial, operational and risk management control. The directors are of the view that the existing system of internal control is effective and adequate to the Group.

Auditor's remuneration

The remuneration charged by the Company's auditor, PricewaterhouseCoopers, and their affiliated firms, for statutory audit and non-audit services is set out below:

	2007 **(In HK$ million)**
Statutory audit	5.8
Non-audit services	0.8
Total	6.6

Model Code for Securities Transactions

The Company has adopted a Code of Conduct for Securities Transactions by Directors on terms no less exacting than that required by the Listing Rules. Following a specific enquiry, each of the Directors confirmed that he complied with the aforesaid Code throughout the year.

The Company has also adopted a Code of Conduct for Securities Transactions by Specified Employees to govern securities transactions of those employees who may possess or have access to price sensitive information.

Social responsibility

The Group is committed to being a successful and responsible corporate citizen. As such, we are committed not only to delivering quality products and service to our customers and strong and sustained financial performance to our shareholders. We are also committed to creating a positive impact in the communities where we conduct business. We aim to achieve this by, amongst others, ensuring that the workers producing our products are treated with fairness and respect; and at all times achieving our goals through environmentally friendly means.

Investor and shareholder relations

In the light of the good faith principle, the Company strictly complies with and implements the Listing Rules to disclose discloseable information on a true, accurate, complete and timely basis and all other information that might have significant impact on the decisions of shareholders and other concerned parties in an active and timely manner. Also, the Company takes effort in ensuring all shareholders with equal access to information. As such, the Company has honestly performed its statutory obligation in respect of information disclosure.

Through results presentation, press conference, teleconference and investors' call-in enquiries and visits, the Company takes initiatives for agreeable communications with investors to enable them to have a clear and in-depth understanding of the Company's business environment, operating strategies and prospects, whereby their sense of identity was strengthened. In delivering information to investors, the Company also listens to their advice and collects the feedback from them, aiming to form an interactive and mutual beneficial relation with the Company's investors.

Executive Directors

Mr. Tang Yiu ("Mr. Tang"), aged 73, is our Executive Director, Chairman of our Company and the founder of our Group. With over 30 years of experience in the footwear manufacturing industry, Mr. Tang is primarily responsible for our Group's overall strategic planning. He is currently the Chairman of The Federation of Hong Kong Footwear Limited, a committee member of the Chinese People's Consultative Conference in the Sanshui District of Foshan in the PRC and the Unified Association of Kowloon West Limited. Mr. Tang has also been awarded with the Certificate of Foshan Honorary Citizenship by the Foshan Municipality in the PRC in November 2004. Mr. Tang is the father of Ms. MW Tang.

Mr. Sheng Baijiao ("Mr. Sheng"), aged 55, is our Executive Director and the Chief Executive Officer of our Company. Mr. Sheng joined our Group in 1991 and has almost 20 years of experience in the footwear manufacturing industry. Mr. Sheng is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Prior to joining our Group, Mr. Sheng worked at the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司). Mr. Sheng is currently the Vice Chairman of the China Leather Industry Association (中國皮革工業協會） and the Chairman of the Shenzhen Leather and Shoes Association(深圳市皮革行業協會).

Mr. Yu Mingfang ("Mr. Yu"), aged 49, is our Executive Director. Mr. Yu joined our Group in 2005 and has over 13 years of experience in the management of footwear retail business. Mr. Yu is primarily responsible for the management of our footwear retail business. He is currently a member of the Beijing Federation of Industry and Commerce (北京市工商聯合會) and the Beijing Chamber of Commerce (北京市商會). Mr. Yu has a degree in business administration from Beijing Administrative College (北京行政學院) and another degree in corporate management from the Capital University of Economics and Business (首都經濟貿易大學).

Ms. Tang Ming Wai ("Ms. MW Tang"), aged 38, is our Executive Director. Ms. MW Tang joined our Group in 1998 and has more than 10 years of experience in finance and financial management. Ms. MW Tang is primarily responsible for overseeing the finance division of our Group's business in Hong Kong as well as the management of human resources. Ms. MW Tang graduated from the University of Texas at Austin in the United States with a Bachelor's degree in business administration. Ms. MW Tang is the daughter of Mr. Tang.

Non-executive Directors

Mr. Gao Yu ("Mr. Gao"), aged 34, is our Non-executive Director. Mr. Gao was appointed as a director of our Company in August 2006. He is currently an executive director of the Private Equity Division of Morgan Stanley Asia Limited, primarily focusing on private equity investment activities in China, and a non-executive director of China Dongxiang (Group) Co., Ltd., a listed company in Hong Kong. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao has also worked in Donaldson, Lufkin & Jenrette's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University in Beijing (北京清華大學) with dual Bachelor's degrees in engineering and economics.

Ms. Hu Xiaoling ("Ms. Hu"), aged 37, is our Non-executive Director. She was appointed as a director of our Company in September 2005 and is currently the managing director of CDH China Growth Capital Management Company Limited which is the management company of CDH China Growth Capital Fund II L.P.. Ms. Hu had previously worked in the direct investment department of China International Capital Corporation Limited and for Arthur Anderson. She is a Chinese certified public accountant and a fellow member of the Association of Chartered Certified Accountants. Ms. Hu graduated from Beijing Jiaotong University (北京交通大學) previously known as Northern Jiaotong University (北方交通大學) with a Master's degree in economics and accounting and Bachelor's degree in economics.

Independent Non-executive Directors

Mr. Ho Kwok Wah, George ("Mr. Ho"), aged 49, is our Independent Non-executive Director. He was appointed as a director of our Company in October 2006 and has over 20 years of experience in accounting and auditing. Mr. Ho is a practicing certified public accountant in Hong Kong and is currently the proprietor of George K.W. Ho & Co., Certified Public Accountants. Mr. Ho is also currently a director of The Taxation Institute of Hong Kong and the Hong Kong Commerce and Industry Associations Limited and the Hong Kong Shatin Industries and Commerce Association Limited. From 2001 to 2003, Mr. Ho was the president of The Hong Kong Institute of Accredited Accounting Technicians. Mr. Ho previously been an independent non-executive director of two listed companies in Hong Kong, namely Asia Resources Holdings Limited and MAXX Bioscience Holdings Limited and he has resigned as their independent non-executive director in April 2002 and December 2003, respectively. Mr. Ho is currently an independent non-executive director and an audit committee member of Town Health International Holdings Limited, a listed company in Hong Kong.

Mr. Chan Yu Ling, Abraham ("Mr. Chan"), aged 48, is our Independent Non-executive Director. He was appointed as a director of our Company in October 2006. Mr. Chan is a chartered engineer in the United Kingdom, a professional engineer in Ontario, Canada and is currently the Chairman of PuraPharm Corporation Limited. Mr. Chan is also currently a member of the Institution of Structural Engineers in the United Kingdom, Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference, the president of the Modernized Chinese Medicine International Association Limited, and a part-time member of the Central Policy Unit of The Government of Hong Kong Special Administrative Region. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's degree in applied science in 1982.

Dr. Xue Qiuzhi ("Dr. Xue"), aged 54, is our Independent Non-executive Director. He was appointed as a director of our Company in October 2006. Dr. Xue is currently an associate dean of the School of Management of Fudan University. Dr. Xue became a professor of Fudan University in 1996. Between 1993 and 1999, Dr. Xue was the head of the Department of International Business Administration of Fudan University and between 1999 and 2003, Dr. Xue was the head of the Department of Business Administration at the same university. Dr. Xue graduated from Wuhan University with a Bachelor's degree in economics in 1982 and obtained a Master's degree in political economics and a Doctoral degree in science and economics from the Universite Libre de Bruxelles in Belgium in 1984 and 1988, respectively.

Senior Management

Mr. Song Xiaowu ("Mr. Song"), aged 42, is our deputy general manager primarily responsible for the production management of our Group. Mr. Song joined our Group in 1993 and has over 13 years of experience in the production management of footwear. Mr. Song was also previously responsible for various production processes such as production, technology and quality control.

Ms. Li Zhao ("Ms. Li"), aged 50, is our deputy general manager primarily responsible for the sales division of our sportswear retail business. Ms. Li joined our Group in 1995 and has left our Group in 1997. She subsequently rejoined our Group in 2005. Prior to joining our Group, Ms. Li worked for Shekou Light & Textile Industries Industrial Development Company (蛇口輕紡工業開發公司) and China Textile Academy (中國紡織科學研究院). Ms. Li graduated from Donghua University (東華大學) with a Bachelor's degree in textile mechanical engineering, a Master's degree in business administration from Shanghai Maritime University （上海海運學院） and a Master of Business Administration for Senior Management from the Shanghai Jiaotong University (上海交通大學).

Company secretary and qualified accountant

Mr. Leung Kam Kwan ("Mr. Leung"), FCPA, aged 43, is our company secretary, qualified accountant, and the chief financial manager. Mr. Leung joined our Group in September 2004. Mr. Leung has over 18 years of experience in accounting and finance and over 10 years of experience in the retail industry. Prior to joining our Group, Mr. Leung had held various senior positions at listed companies in Hong Kong and had previously worked for KPMG. Mr. Leung graduated from City University of Hong Kong with a Bachelor's degree in accounting. He is also a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants as well as a member of the Hong Kong Institute of Chartered Secretaries.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
BELLE INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Belle International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 106, which comprise the consolidated and company balance sheets as of 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Revenue	5	**11,671,858**	6,238,560
Cost of sales		**(5,769,392)**	(2,737,815)
Gross profit		**5,902,466**	3,500,745
Selling and distribution expenses		**(3,366,380)**	(1,947,206)
General and administrative expenses		**(819,941)**	(533,286)
Other income	6	**10,008**	8,912
Other gains	7	**83,390**	—
Other expenses		**(54,628)**	(4,544)
Operating profit	8	**1,754,915**	1,024,621
Finance income		**502,235**	3,375
Finance costs		**(235,333)**	(24,651)
Finance income/(costs), net	9	**266,902**	(21,276)
Profit before income tax		**2,021,817**	1,003,345
Income tax expense	10	**(43,197)**	(26,776)
Profit for the year	11	**1,978,620**	976,569
Attributable to:			
Equity holders of the Company		**1,979,106**	976,569
Minority interests		**(486)**	—
		1,978,620	976,569
Earnings per share for profit attributable to equity holders of the Company during the year	12		
– basic		**RMB25.03 cents**	RMB14.75 cents
– diluted		**RMB25.03 cents**	RMB14.75 cents
Dividends	13	**548,687**	400,001

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

		As at 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	16	**1,113,312**	575,621
Leasehold land and land use rights	17	**549,703**	278,897
Investment properties	18	**24,382**	11,636
Intangible assets	19	**1,114,102**	656,137
Long-term deposits, prepayments and other non-current assets	21	**1,053,055**	13,105
Deferred income tax assets	22	**37,493**	9,057
		3,892,047	1,544,453
Current assets			
Inventories	23	**2,281,651**	1,569,862
Trade receivables	24	**1,395,111**	836,749
Other receivables, deposits and prepayments		**317,899**	192,013
Financial assets at fair value through profit or loss	25	**396,703**	—
Derivative financial instruments	26	**42,665**	—
Cash and cash equivalents	27	**5,213,167**	302,095
		9,647,196	2,900,719
Total assets		**13,539,243**	4,445,172
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	30	**83,126**	3
Share premium		**9,249,510**	1,318,078
Reserves	31	**2,640,794**	1,315,883
		11,973,430	2,633,964
Minority interests		**62,931**	—
Total equity		**12,036,361**	2,633,964

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

		As at 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Non-current borrowings	29	—	150,535
Deferred income tax liabilities	22	**52,322**	42,438
Other non-current liabilities	33(a)	**47,293**	—
		99,615	192,973
Current liabilities			
Trade payables	28	**617,834**	448,274
Other payables, accruals, and other current liabilities		**505,769**	330,099
Amounts due to related parties	36	—	128,839
Short-term borrowings	29	**200,000**	609,900
Current portion of non-current borrowings	29	—	35,251
Trust receipt loans, secured		—	23,496
Current income tax liabilities		**79,664**	42,376
		1,403,267	1,618,235
Total liabilities		**1,502,882**	1,811,208
Total equity and liabilities		**13,539,243**	4,445,172
Net current assets		**8,243,929**	1,282,484
Total assets less current liabilities		**12,135,976**	2,826,937

Tang Yiu
Director

Sheng Baijiao
Director

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**5,157,483**	968,812
Current assets			
Amounts due from subsidiaries	20	**4,845,182**	865,569
Other receivables		**608**	2,105
Cash and cash equivalents	27	**213**	39
		4,846,003	867,713
Total assets		**10,003,486**	1,836,525
EQUITY			
Capital and reserves			
Share capital	30	**83,126**	3
Share premium	30	**9,367,321**	1,435,889
Retained earnings	31	**552,834**	400,291
Total equity		**10,003,281**	1,836,183
LIABILITIES			
Current liabilities			
Other payables and accruals		**205**	342
Total liabilities		**205**	342
Total equity and liabilities		**10,003,486**	1,836,525
Net current assets		**4,845,798**	867,371
Total assets less current liabilities		**10,003,281**	1,836,183

Tang Yiu
Director

Sheng Baijiao
Director

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Merger reserve**	**Statutory reserve**	**Exchange reserves**	**Retained earnings**	**Subtotal**	**Minority interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 30)		*(Note 31(b))*	*(Note 31(c))*					
For the year ended 31 December 2007									
As at 1 January 2007	**3**	**1,318,078**	**3,531**	**19,068**	**534**	**1,292,750**	**2,633,964**	**—**	**2,633,964**
Capitalisation issue	**69,763**	**(69,763)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Issue of shares	**13,360**	**8,269,822**	**—**	**—**	**—**	**—**	**8,283,182**	**—**	**8,283,182**
Share issuance costs	**—**	**(268,627)**	**—**	**—**	**—**	**—**	**(268,627)**	**—**	**(268,627)**
Acquisition of a business	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**63,417**	**63,417**
Profit/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**1,979,106**	**1,979,106**	**(486)**	**1,978,620**
Dividends	**—**	**—**	**—**	**—**	**—**	**(653,241)**	**(653,241)**	**—**	**(653,241)**
Transfer to reserves	**—**	**—**	**—**	**18,238**	**—**	**(18,238)**	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**	**—**	**(954)**	**—**	**(954)**	**—**	**(954)**
As at 31 December 2007	**83,126**	**9,249,510**	**3,531**	**37,306**	**(420)**	**2,600,377**	**11,973,430**	**62,931**	**12,036,361**
For the year ended 31 December 2006									
As at 1 January 2006	3	487,079	3,808	19,568	533	316,181	827,172	—	827,172
Issue of shares	—	830,999	—	—	—	—	830,999	—	830,999
Liquidation of a subsidiary	—	—	(277)	(500)	—	—	(777)	—	(777)
Profit for the year	—	—	—	—	—	976,569	976,569	—	976,569
Exchange differences	—	—	—	—	1	—	1	—	1
As at 31 December 2006	3	1,318,078	3,531	19,068	534	1,292,750	2,633,964	—	2,633,964

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

		Year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Net cash generated from operations	32(a)	**337,854**	43,173
Hong Kong profits tax (paid)/refunded		**(2,573)**	458
The PRC enterprise income tax paid		**(42,064)**	(63,885)
Macau income tax paid		**(520)**	(276)
Net cash generated from/(used in) operating activities		**292,697**	(20,530)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(878,276)**	(380,701)
Payments for intangible assets and leasehold land and land use rights		**(298,534)**	(245,850)
Purchase of investment properties		**(14,231)**	(11,542)
Proceeds from sale of property, plant and equipment	32(b)	**2,948**	4,172
Acquisition of subsidiaries, net of cash acquired	33(a)&(b)	**(360,247)**	215,132
Deposit for acquisition of subsidiaries	21	**(904,552)**	—
Net cash used in investing activities		**(2,452,892)**	(418,789)
Cash flows from financing activities			
Proceeds from issuance of new shares, net		**8,014,555**	—
Dividends paid		**(653,241)**	—
Interest received		**502,235**	3,375
Interest paid		**(27,299)**	(19,160)
Proceeds from borrowings		**1,985,762**	894,936
Repayments of borrowings		**(2,581,448)**	(370,077)
Net cash generated from financing activities		**7,240,564**	509,074
Net increase in cash and cash equivalents		**5,080,369**	69,755
Exchange differences		**(169,297)**	(3,564)
Cash and cash equivalents at beginning of the year		**302,095**	235,904
Cash and cash equivalents at end of the year	27	**5,213,167**	302,095

The notes on pages 44 to 106 are an integral part of these consolidated financial statements.

1 Organization and principal activities

Belle International Holdings Limited (the "Company") and its subsidiaries (collectively, referred to as the "Group") are principally engaged in the manufacturing, distribution and retail sales of shoes and footwear products. The Group has manufacturing plants in the People's Republic of China (the "PRC") for the production of shoes and footwear products and sells mainly in the PRC, Hong Kong, Macau and the United States (the "US"). The Group began to engage in the retail sales of sporting shoes and apparel in the PRC after its acquisition of the relevant business on 1 July 2006.

The Company was incorporated in the Cayman Islands on 19 May 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

During the year, the Company completed its initial public offering on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company's shares were listed on the Stock Exchange on 23 May 2007.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are measured at fair value, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The following standards, amendments and interpretations to the standards are mandatory for accounting periods beginning on or after 1 January 2007. The adoption of these standards, amendments and interpretations to the standards does not have any significant impact to the results and financial position of the Group.

IFRS 7 and IAS 1 (Amendment)	IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1,"Presentation of financial statements: Capital disclosures"
IFRIC Int 7	Applying the restatement approach under IAS 29, "Financial reporting in hyper-inflationary economies"
IFRIC Int 8	Scope of IFRS 2
IFRIC Int 9	Re-assessment of embedded derivatives
IFRIC Int 10	Interim financial reporting and impairment

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The following new standards, amendments and interpretations to the standards have been issued but are not effective for 2007 and have not been early adopted by the Group. The Group anticipates that the adoption of these new standards, amendments and interpretations to the standards will not result in a significant impact on the results and financial position of the Group.

IAS 23 (Revised)	Borrowing costs (effective from 1 January 2009)
IFRS 8	Operating segments (effective from 1 January 2009)
IFRIC Int 11	IFRS 2 - Group and treasury share transactions (effective from 1 March 2007)
IFRIC Int 12	Service concession arrangements (effective from 1 January 2008)
IFRIC Int 13	Customer loyalty programmes (effective from 1 July 2008)
IFRIC Int 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

The following amendments to standards have been issued but are not effective for 2007 and have not been early adopted by the Group. The Group has already commenced an assessment of the impact of these changes. The expected impact is still being assessed in detail by management.

IAS 27 (Revised)	Consolidated and separate financial statements (effective from annual period beginning on or after 1 July 2009)
IAS 32 and IAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009)
IFRS 2 (Amendment)	Share-based payment - vesting conditions and cancellations (effective from 1 January 2009)
IFRS 3 (Revised)	Business combinations (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009)

2 Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, including any contingent liabilities assumed, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains or losses for the Group are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in "Renminbi" ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost less impairment losses of each asset to their residual values over their estimated useful lives as follows:

Buildings	20-40 years
Leasehold improvements	shorter of the lease term or 5 years
Plant and equipment	10 years
Furniture and fixtures and other equipment	3-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gains or losses on disposals of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized in the income statement.

2.6 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowing used to finance these assets during the period of construction or installation and testing. All other borrowing costs are expensed. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5 above.

2 Summary of significant accounting policies (continued)

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property is carried at cost, including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 35 to 40 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

2.8 Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period from 30 to 50 years. Amortization of leasehold land and land use rights is calculated on a straight-line basis over the period of leases.

2.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

(b) Acquired distribution contracts

Acquired distribution contracts are carried at cost less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired distribution contracts over their estimated useful lives of one to five years.

2 Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

(c) Acquired trademarks and patents

Acquired trademarks and patents that have definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired trademarks and patents over their estimated useful lives of 10 to 40 years.

(d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years. Cost associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

Computer software development costs recognized as assets are amortized over their estimated useful lives of not exceeding five years.

2.10 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization/depreciation and are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

2.11 Inventories

Inventories, comprise raw materials, work-in-progress, finished goods and consumables, are stated at the lower of cost and net realizable value. Cost is determined by weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 Summary of significant accounting policies (continued)

2.12 Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.13 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables include trade receivables, loans and other receivables.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method, less any provision for impairment.

2 Summary of significant accounting policies (continued)

2.13 Financial assets (continued)

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other gains/losses, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in the income statement; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.14 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. The method of recognizing the resulting gains or losses depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. Since the derivative financial instruments entered into by the Group do not qualify for hedge accounting, changes in fair value of any derivative financial instruments are recognized immediately in the income statement within other gains/losses.

2 Summary of significant accounting policies (continued)

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.16 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade payables) are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Non-mandatorily redeemable ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.19 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2 Summary of significant accounting policies (continued)

2.19 Current and deferred income tax (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee benefits

(a) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution plans are expensed as incurred and, in most cases, are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus entitlements

The expected cost of bonus payments is recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (continued)

2.22 Operating leases (as a leasee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When a component of the lease payment which is not fixed but is based on future amount of a factor, other than with the passage of time, such as percentage of sales or concessionaire fees, the amount is recognized as expenses as it arises.

2.23 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of (i) the amount initially recognized less, where appropriate, cumulative amortization recognized in the income statement over the period of the relevant liabilities and (ii) the amount of which the Group is obliged to reimburse the recipient under the financial guarantee contracts.

2.24 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts after eliminated sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue and income are recognized as follows:

(a) Sales of goods

Revenue from the sales of goods is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) Commissions from concessionaire sales are recognized upon the sales of goods by the relevant stores.

(c) Interest income is recognized on a time proportion basis using the effective interest method.

(d) Rental income under operating leases is recognized on a straight-line basis over the lease periods.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risks, credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors of the Company.

(a) Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group also has retail operations in Hong Kong, Macau and the US, of which foreign exchange risk is considered insignificant. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to Hong Kong Dollars ("HK$") and the United States Dollars ("US$").

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and has entered into certain forward foreign exchange contracts to hedge its exposure against HK$ and US$ to mitigate the impact on exchange rate fluctuations.

The Group's assets and liabilities, and transactions arising from its operations primarily do not expose the Group to material foreign exchange risk. Other than certain cash and bank balances that are denominated in HK$ and US$, the Group's assets and liabilities are primarily denominated in the respective group companies' functional currency.

At 31 December 2007, a substantial amount of the Group's cash and bank balances that were denominated in HK$ and US$, as disclosed in Note 27, represents the proceeds received from the initial public offering of the Company's shares during the year remain unused as at year end. RMB experienced certain appreciation in recent years which is the major reason for the exchange losses recognized by the Group for the year. Further depreciation or appreciation of HK$ against RMB will affect the Group's financial position and results of operations.

At 31 December 2007, if HK$/US$ had weakened/strengthened by 5% against RMB, with all other variables held constant, profit for the year would have been approximately RMB153,411,000 lower/higher.

Management considers that foreign exchange risk of the Group for the year ended 31 December 2006 is insignificant and therefore no sensitivity analysis is presented thereon.

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash at bank and term deposits, details of which have been disclosed in Note 27. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 29. Borrowings carry at floating rates expose the Group to cash flow interest-rate risk whereas those carry at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risks as management considers that the Group's borrowings are relatively insignificant to the Group; any reasonable changes in interest rate would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented for interest rate risk.

3 Financial risk management

3.1 Financial risk factors (continued)

(c) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade and other receivables, cash at bank and term deposits, derivative financial instruments and financial assets at fair value through profit or loss included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has policies in place to ensure that sales of products on credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while credit sales are generally on credit terms within 30 days. Normally the Group does not require collaterals from trade debtors. The existing debtors have no significant defaults in the past. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

As at 31 December 2007 and 2006, substantially all the bank balances and term deposits as detailed in Note 27 are held in major financial institutions located in Hong Kong and the PRC; all derivative financial instruments and financial assets at fair value through profit or loss are also entered into with these financial institutions, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any losses arising from non-performance by these counterparties.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group also used cash as consideration for settlement of its acquisition of businesses. The Group finances its acquisitions and working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Within 1 year	Between 1 to 5 years	Over 5 years	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at 31 December 2007				
Trade payables	**617,834**	**—**	**—**	**617,834**
Other payables, accruals and other current liabilities	**506,034**	**—**	**—**	**506,034**
Other non-current liabilities	**—**	**17,459**	**109,116**	**126,575**
Borrowings	**203,718**	**—**	**—**	**203,718**
	1,327,586	**17,459**	**109,116**	**1,454,161**

	Within 1 year	Between 1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2006				
Trade payables	448,274	—	—	448,274
Other payables, accruals and other current liabilities	330,099	—	—	330,099
Borrowings	691,463	108,550	74,799	874,812
	1,469,836	108,550	74,799	1,653,185

3 Financial risk management (continued)

3.2 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade receivables and other receivables, and the Group's financial liabilities, including trade payables, other payables, accruals and other current liabilities, current borrowings and amounts due to related parties, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets (such as available-for-sales securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or obtain new bank borrowings.

The Group also monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net (cash)/debt.

3 Financial risk management (continued)

3.3 Capital risk management (continued)

The table below analyzes the Group's capital structure as at 31 December 2007 and 2006:

	2007	2006
	RMB'000	*RMB'000*
Total borrowings	**200,000**	819,182
Less: Cash and cash equivalents	**(5,213,167)**	(302,095)
Net (cash) / debt	**(5,013,167)**	517,087
Total equity	**12,036,361**	2,633,964
Total capital	**7,023,194**	3,151,051
Gearing ratio	**(0.71)**	0.16

There is a significant increase in the Group's cash and cash equivalents at 31 December 2007 mainly a result of the cash proceeds received from the initial public offering of the Company's shares during the year and increase in net cash received from the Group's daily operations. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

4 Critical accounting estimates and judgments

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(a) Useful lives, residual values and depreciation charges of property, plant and equipment/ useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives, residual values and related depreciation/amortization charges for the Group's property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortization charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation/amortization expense in future periods.

4 Critical accounting estimates and judgments (continued)

(b) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 19). Other non-financial assets including property, plant and equipment, leasehold land and land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

(c) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(d) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. The assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

(e) Current and deferred income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such as differences will impact the income tax and deferred income tax provisions in the period in which such determination in made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 Segment information

The Group is principally engaged in the manufacturing, distribution and sales of shoes and footwear products, and the sales of sportswear products. Turnover represents sales of shoes and footwear products, and sportswear products of RMB11,659,163,000 (2006: RMB6,238,560,000).

Primary reporting format – business segments

- Shoes and footwear products – manufacturing, distribution and sales of shoes and footwear products.
- Sportswear products – distribution and sales of sportswear products.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated expenses.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables, deposits and prepayments, and operating cash. They exclude deferred income tax assets, investment properties and corporate assets.

Segment liabilities comprise operating liabilities. They exclude items such as current income tax liabilities, deferred income tax liabilities, corporate borrowings and other corporate liabilities.

Capital expenditure comprises mainly additions to property, plant and equipment, leasehold land and land use rights, investment properties and intangible assets.

5 Segment information (continued)

Primary reporting format – business segments (continued)

	Year ended 31 December 2007			
	Shoes and footwear products *RMB'000*	Sportswear products *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales of goods	6,201,823	5,457,340	—	11,659,163
Commisions from concessionaire sales	—	12,695	—	12,695
	6,201,823	5,470,035	—	11,671,858
Segment results	1,472,048	321,687	—	1,793,735
Unallocated income				93,398
Amortization of intangible assets	(1,786)	(42,916)	—	(44,702)
Unallocated expenses				(87,516)
Operating profit				1,754,915
Finance income				502,235
Finance costs				(235,333)
Profit before income tax				2,021,817
Income tax expense				(43,197)
Profit for the year				1,978,620
Capital expenditure				
- Allocated	484,453	562,988	—	1,047,441
- Unallocated				143,600
Depreciation on property, plant and equipment				
- Allocated	152,260	182,269	—	334,529
- Unallocated				1,894
Amortization of leasehold land and land use rights				
- Allocated	3,822	2,788	—	6,610
- Unallocated				3,878
Amortization of intangible assets	1,786	42,916	—	44,702
Depreciation on investment properties				711
Impairment losses on inventories	376	—	—	376

5 Segment information (continued)

Primary reporting format – business segments (continued)

	As at 31 December 2007			
	Shoes and footwear products	**Sportswear products**	**Inter-segment elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment assets	**3,997,461**	**4,495,826**	**(712,289)**	**7,780,998**
Goodwill	**—**	**505,927**	**—**	**505,927**
Other intangible assets	**19,613**	**588,562**	**—**	**608,175**
Unallocated assets				**4,582,268**
Investment properties				**24,382**
Deferred income tax assets				**37,493**
Total assets				**13,539,243**
Segment liabilities	**1,294,316**	**583,388**	**(712,289)**	**1,165,415**
Unallocated liabilities				**5,481**
Borrowings				**200,000**
Current income tax liabilities				**79,664**
Deferred income tax liabilities				**52,322**
Total liabilities				**1,502,882**

5 Segment information (continued)

Primary reporting format – business segments (continued)

	Year ended 31 December 2006			
	Shoes and footwear products *RMB'000*	Sportswear products *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue				
Sales of goods	4,661,788	1,576,772	—	6,238,560
Segment results	976,193	108,769	—	1,084,962
Unallocated income				8,912
Amortization of intangible assets	(1,152)	(19,444)	—	(20,596)
Unallocated expenses				(48,657)
Operating profit				1,024,621
Finance income				3,375
Finance costs				(24,651)
Profit before income tax				1,003,345
Income tax expense				(26,776)
Profit for the year				976,569
Capital expenditure	674,155	90,938	—	765,093
Depreciation on property, plant and equipment	129,819	53,563	—	183,382
Amortization of leasehold land and land use rights				
- Allocated	12,466	—	—	12,466
- Unallocated				888
Amortization of intangible assets	1,152	19,444	—	20,596
Depreciation on investment properties				194
Impairment losses on inventories	1,530	—	—	1,530

5 Segment information (continued)

Primary reporting format – business segments (continued)

	As at 31 December 2006			
	Shoes and footwear products	Sportswear products	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	3,035,246	1,323,142	(590,046)	3,768,342
Goodwill	—	485,261	—	485,261
Other intangible assets	15,320	155,556	—	170,876
Investment properties				11,636
Deferred income tax assets				9,057
Total assets				4,445,172
Segment liabilities	677,294	843,460	(590,046)	930,708
Borrowings				795,686
Current income tax liabilities				42,376
Deferred income tax liabilities				42,438
Total liabilities				1,811,208

Secondary reporting format – geographical segments

The Group's revenues are mainly derived from customers located in the PRC. An analysis of the Group's revenue by location of customers and an analysis of the Group's assets and capital expenditure by location of assets are as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Revenue		
The PRC	**11,276,256**	5,933,300
Hong Kong	**172,419**	131,820
Other locations	**223,183**	173,440
	11,671,858	6,238,560

5 Segment information (continued)

Secondary reporting format – geographical segments (continued)

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Total assets		
The PRC	**8,715,555**	4,212,176
Hong Kong	**4,799,544**	209,786
Other locations	**24,144**	23,210
	13,539,243	4,445,172

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Capital expenditure		
The PRC	**1,114,328**	614,554
Hong Kong	**72,809**	142,930
Other locations	**3,904**	7,609
	1,191,041	765,093

6 Other income

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Rental income	**4,762**	6,766
Others	**5,246**	2,146
	10,008	8,912

7 Other gains

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss *(note (a))*		
- fair value gain - realized	**5,343**	—
- fair value gain - unrealized	**6,703**	—
Derivative financial instruments *(note (b))*		
- forward foreign exchange contracts - realized	**28,679**	—
- forward foreign exchange contracts - unrealized	**42,665**	—
	83,390	—

Note:

(a) Financial assets at fair value through profit or loss represent investment in certain short-term managed funds in the PRC's financial institutions in order to manage short-term liquidity of the Group. The directors are of the opinion that the credit risk of these funds are minimal.

(b) Derivative financial instruments in respect of forward foreign exchange contracts were entered into by the Group during the year to manage foreign currency risk of the Group.

8 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Auditor's remuneration	**5,619**	4,103
Amortization of intangible assets	**44,702**	20,596
Amortization of leasehold land and land use rights	**10,488**	13,354
Costs of inventories recognized as expenses included in cost of sales	**5,768,288**	2,736,526
Depreciation on property, plant and equipment	**336,423**	183,382
Depreciation on investment properties	**711**	194
(Gain)/loss on disposal of property, plant and equipment	**(62)**	1,367
Gain on liquidation of a subsidiary	**—**	(777)
Impairment losses on inventories	**376**	1,530
Operating lease rentals (mainly including concessionaire fees) in respect of land and buildings	**2,262,233**	1,344,849
Staff costs (including directors' emoluments) *(Note 14)*	**1,258,156**	745,601

Costs of inventories recognized as expenses mainly include purchases, direct employee compensation costs, subcontracting costs and manufacturing overheads.

9 Finance income / (costs), net

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Interest income on bank deposits	**138,057**	3,375
Interest income from subscription money upon initial public offering	**364,178**	—
	502,235	3,375
Interest expense on bank borrowings		
- wholly repayable within 5 years	**(27,299)**	(17,799)
- not wholly repayable within 5 years	**—**	(2,095)
	(27,299)	(19,894)
Net foreign exchange losses	**(208,034)**	(4,757)
	(235,333)	(24,651)
Finance income / (costs), net	**266,902**	(21,276)

10 Income tax expense

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current income taxes		
- The PRC enterprise income tax *(note)*	**84,860**	31,333
- Hong Kong profits tax	**1,723**	2,137
- Macau income tax	**865**	513
Overprovision in prior years		
- The PRC enterprise income tax	**(5,003)**	—
Deferred income tax *(Note 22)*	**(39,248)**	(7,207)
	43,197	26,776

Note:

Pursuant to the relevant PRC corporate income tax rules and regulations, a special income tax rate of 15% has been granted to New Belle Footwear (Shenzhen) Company Limited ("New Belle") and Lai Kong Footwear (Shenzhen) Company Limited ("Lai Kong"), wholly-owned subsidiaries of the Group, as being wholly foreign-owned enterprises in Shenzhen, the PRC. In addition, these companies were entitled to a two-year exemption from income taxes followed by a 50% reduction in income taxes for the ensuing three years from their first profit-making year.

10 Income tax expense (continued)

New Belle commenced its operations towards the end of 2005 and has been exempted from enterprise income tax for the years 2006 and 2007. The company will be subject to a tax rate of 9%, 10% and 11% in the ensuing three years followed by tax rates gradually increased to 25% towards year 2012.

Lai Kong is subject to a tax rate of 15% during the year and will be subject to a tax rate gradually increased from 18% to 25% in the ensuing five years towards year 2012.

The tax charge on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated companies as follow:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**2,021,817**	1,003,345
Tax calculated at the domestic tax rate of respective companies	**303,298**	147,121
Effect of tax holidays of the PRC subsidaries	**(240,194)**	(138,606)
Non-taxable income	**(99,410)**	(3,741)
Expenses not deductible for tax purposes	**62,233**	10,050
Tax losses for which no deferred income tax asset was recognized	**21,352**	11,706
Overprovision in prior years	**(5,003)**	—
Others	**921**	246
	43,197	26,776

The weighted average applicable tax rate for the year ended 31 December 2007 is 15.0% (2006: 14.7%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

11 Profit attributable to shareholders

The profit attributable to shareholders for the year ended 31 December 2007 is dealt with in the financial statements of the Company to the extent of RMB805,784,000 (2006: RMB400,501,000).

12 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,979,106**	976,569
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousand of share)	**7,908,062**	6,619,910
Basic earnings per share (RMB cents per share)	**25.03**	14.75

The weighted average number of ordinary shares for the purposes of basic earnings per share for the years ended 31 December 2006 and 2007 have been retrospectively adjusted for the effects of the capitalization of the ordinary shares took place on 27 April 2007 as set out in Note 30(f).

Diluted

Diluted earnings per share is the same as there were no potential dilutive ordinary shares outstanding during the years.

13 Dividends

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Interim, paid *(note (i))*	**—**	400,001
Interim, paid, of RMB3 cents per ordinary share *(note (ii))*	**253,240**	—
Final, proposed, of RMB3.5 cents per ordinary share (2006 : Nil) *(note (iii))*	**295,447**	—
	548,687	400,001

Note:

(i) Pursuant to a resolution passed on 10 February 2007, the Company declared an interim dividend relating to 2006 to its then shareholders amounting to RMB400,001,000. The amount was paid on 30 April 2007.

(ii) At a meeting held on 25 August 2007, the directors declared an interim dividend of RMB3 cents per ordinary share, totaling RMB253,240,000 for the year ended 31 December 2007. The amount was paid on 19 September 2007.

(iii) At a meeting held on 26 March 2008, the directors recommended the payment of a final dividend for the year ended 31 December 2007 of RMB3.5 cents per ordinary share, totaling RMB295,447,000. This proposed dividend is not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

14 Staff costs (including directors' emoluments)

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**1,093,673**	662,236
Pensions costs - defined contribution plans *(note)*	**139,277**	68,124
Welfare and other expenses	**25,206**	15,241
	1,258,156	745,601

Note:

Hong Kong

The Group has two defined contribution pension schemes, the Mandatory Provident Fund Scheme (the "MPF Scheme") and the retirement scheme organised under the Hong Kong Occupational Retirement Schemes Ordinance ("ORSO Scheme"), for its employees in Hong Kong. The assets of the MPF Scheme and ORSO Scheme are held separately from those of the Group under independently administered funds.

Under the MPF Scheme, each of the Group (the employer) and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subject to a cap of HK$1,000 and thereafter contributions are voluntary. The contributions are fully and immediately vested in the employees.

Under the ORSO Scheme, each of the Group (the employer) and its Hong Kong employees makes monthly contributions to the scheme at 7% and 3% respectively of the employees' salary. The unvested benefits of employees who have terminated employment are utilized by the Group to reduce its future contributions. There were no unvested benefit so utilized under the scheme during the year ended 31 December 2007 (2006: Nil). At 31 December 2007, the Group had no unvested benefits available to reduce its future contributions (2006: Nil).

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme and ORSO Scheme.

The PRC

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its relevant employees in the PRC. The Group's relevant employees make monthly contributions to the schemes at 8% to 11% of the relevant income (comprising wages, salaries, allowances and bonus), while the Group contributes 11% to 35% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

15 Emoluments for directors and five highest paid individuals

(a) Directors' emoluments

	Year ended 31 December 2007				
	Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Tang Yiu	—	4,638	3,865	—	8,503
Sheng Baijiao	—	3,600	4,000	19	7,619
Yu Mingfang	—	2,400	2,580	35	5,015
Tang Ming Wai	—	623	440	12	1,075
Non-executive directors:					
Gao Yu	—	—	—	—	—
Hu Xiaoling	—	—	—	—	—
Independent non-executive directors:					
Chan Yu Ling, Abraham	145	—	—	—	145
Ho Kwok Wah, George	145	—	—	—	145
Xue Qiuzhi	145	—	—	—	145
	435	11,261	10,885	66	22,647

15 Emoluments for directors and five highest paid individuals (continued)

(a) Directors' emoluments (continued)

	Year ended 31 December 2006				
	Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Tang Yiu	—	4,884	4,000	—	8,884
Sheng Baijiao	—	3,600	4,000	17	7,617
Yu Mingfang	—	2,400	3,660	19	6,079
Tang Ming Wai	—	661	325	12	998
Non-executive directors:					
Gao Yu	—	—	—	—	—
Hu Xiaoling	—	—	—	—	—
Independent non-executive directors:					
Chan Yu Ling, Abraham	38	—	—	—	38
Ho Kwok Wah, George	38	—	—	—	38
Xue Qiuzhi	38	—	—	—	38
	114	11,545	11,985	48	23,692

15 Emoluments for directors and five highest paid individuals (continued)

(b) Five highest paid individuals

The five highest paid individuals included 3 (2006: 3) directors, whose emoluments are included in the above disclosure. The emoluments of the remaining two individuals during the year are as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**8,910**	10,380
Pensions costs - defined contribution plans	**51**	46
	8,961	10,426

	Number of individuals Year ended 31 December	
	2007	2006
HK$4,000,001 (equivalent to RMB3,730,000) to HK$4,500,000 (equivalent to RMB4,197,000)	**1**	—
HK$4,500,001 (equivalent to RMB4,197,000) to HK$5,000,000 (equivalent to RMB4,663,000)	**—**	1
HK$5,500,001 (equivalent to RMB5,129,000) to HK$6,000,000 (equivalent to RMB5,595,000)	**1**	—
HK$6,000,001 (equivalent to RMB5,595,000) to HK$6,500,000 (equivalent to RMB6,061,000)	**—**	1
	2	2

(c) During the year, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

16 Property, plant and equipment

	Buildings	Leasehold improve-ments	Plant and equipment	Furniture and fixtures and other equipment	Motor vehicles	Construc-tion-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 2006	31,172	99,203	84,477	28,633	21,094	10,042	274,621
Additions	182,090	197,245	76,068	24,842	17,648	9,808	507,701
Acquistion of subsidiaries *(Note 33 (b))*	—	47,781	—	11,580	3,325	—	62,686
Transfer upon completion	—	5,868	—	—	—	(5,868)	—
Disposals	—	(2,273)	(5,551)	(1,855)	(3,521)	—	(13,200)
Exchange differences	(747)	(1,045)	(186)	(212)	(68)	—	(2,258)
As at 31 December 2006	212,515	346,779	154,808	62,988	38,478	13,982	829,550
Additions	132,272	410,456	25,906	66,831	19,253	223,558	878,276
Acquistion of a business *(Note 33 (a))*	—	1,424	249	525	—	—	2,198
Disposals	—	(3,210)	(2,773)	(2,629)	(2,168)	—	(10,780)
Exchange differences	(2,255)	(3,002)	(516)	(731)	(175)	—	(6,679)
As at 31 December 2007	**342,532**	**752,447**	**177,674**	**126,984**	**55,388**	**237,540**	**1,692,565**
Accumulated depreciation							
As at 1 January 2006	8,150	37,637	20,956	7,176	5,302	—	79,221
Charge for the year	9,967	146,843	14,358	7,385	4,829	—	183,382
Disposals	—	(829)	(4,321)	(574)	(1,937)	—	(7,661)
Exchange differences	(77)	(619)	(116)	(177)	(24)	—	(1,013)
As at 31 December 2006	18,040	183,032	30,877	13,810	8,170	—	253,929
Charge for the year	9,599	282,689	12,826	22,522	8,787	—	336,423
Disposals	—	(2,684)	(2,274)	(1,918)	(1,018)	—	(7,894)
Exchange differences	(204)	(1,887)	(355)	(662)	(97)	—	(3,205)
As at 31 December 2007	**27,435**	**461,150**	**41,074**	**33,752**	**15,842**	**—**	**579,253**
Net book value							
As at 31 December 2007	**315,097**	**291,297**	**136,600**	**93,232**	**39,546**	**237,540**	**1,113,312**
As at 31 December 2006	194,475	163,747	123,931	49,178	30,308	13,982	575,621

16 Property, plant and equipment (continued)

Net book value of buildings are analyzed as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
In Hong Kong, held on:		
- Leases of between 10 to 50 years	**33,145**	24,293
Outside Hong Kong, held on:		
- Leases of between 10 to 50 years	**281,952**	170,182
	315,097	194,475

Property, plant and equipment pledged as securities for bank borrowings were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book value of property, plant and equipment pledged *(Note 29(d))*	**228,000**	23,140

17 Leasehold land and land use rights

	2007	2006
	RMB'000	*RMB'000*
Cost		
As at 1 January	**301,842**	58,033
Additions	**290,567**	245,850
Exchange differences	**(9,497)**	(2,041)
As at 31 December	**582,912**	301,842
Accumulated amortization		
As at 1 January	**22,945**	9,625
Amortization for the year	**10,488**	13,354
Exchange differences	**(224)**	(34)
As at 31 December	**33,209**	22,945
Net book amount as at 31 December	**549,703**	278,897

17 Leasehold land and land use rights (continued)

The net book amount of leasehold land and land use rights are analyzed as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
In Hong Kong, held on:		
- Leases of between 10 to 50 years	**150,836**	113,534
Outside Hong Kong, held on:		
- Leases of between 10 to 50 years	**398,867**	165,363
	549,703	278,897

Leasehold land and land use rights pledged as securities for bank borrowings were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book amount of leasehold land and land use rights pledged *(Note 29(d))*	**64,162**	113,534

18 Investment properties

	2007	2006
	RMB'000	*RMB'000*
Cost		
As at 1 January	**12,250**	938
Additions	**14,231**	11,542
Exchange differences	**(825)**	(230)
As at 31 December	**25,656**	12,250
Accumulated depreciation		
As at 1 January	**614**	438
Charge for the year	**711**	194
Exchange differences	**(51)**	(18)
As at 31 December	**1,274**	614
Net book value as at 31 December	**24,382**	11,636
At directors' valuation *(note)*	**27,611**	13,380

18 Investment properties (continued)

Note:

The valuations for the investment properties as at 31 December 2007 and 2006 were determined by the directors of the Group on an open market value basis.

The net book value of investment properties are analyzed as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
In Hong Kong, held on:		
- Leases of between 10 to 50 years	**10,566**	11,636
Outside Hong Kong, held on:		
- Leases of between 10 to 50 years	**13,816**	—
	24,382	11,636

Investment properties pledged as securities for bank borrowings were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book value of investment properties pledged *(Note 29(d))*	**—**	11,173

19 Intangible assets

	Goodwill	Distribution contracts	Trademarks	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2006	3,589	—	16,068	1,000	20,657
Arising from acquisition of subsidiaries *(Note 33(b))*	485,261	175,000	—	—	660,261
Exchange differences	—	—	(104)	—	(104)
As at 31 December 2006	488,850	175,000	15,964	1,000	680,814
Arising from acquisition of a business *(Note 33 (a))*	20,666	—	474,173	—	494,839
Additions	—	—	—	7,967	7,967
Exchange differences	—	—	(199)	—	(199)
As at 31 December 2007	**509,516**	**175,000**	**489,938**	**8,967**	**1,183,421**
Accumulated amortization and impairment					
As at 1 January 2006	3,589	—	307	200	4,096
Amortization for the year	—	19,444	952	200	20,596
Exchange differences	—	—	(15)	—	(15)
As at 31 December 2006	3,589	19,444	1,244	400	24,677
Amortization for the year	—	38,889	5,548	265	44,702
Exchange differences	—	—	(60)	—	(60)
As at 31 December 2007	**3,589**	**58,333**	**6,732**	**665**	**69,319**
Net book amount					
As at 31 December 2007	**505,927**	**116,667**	**483,206**	**8,302**	**1,114,102**
As at 31 December 2006	485,261	155,556	14,720	600	656,137

19 Intangible assets *(continued)*

A segment-level summary of the goodwill allocation at cost before impairment is presented below.

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
The PRC		
Fullbest Investments Limited and its subsidiaries ("Fullbest Group")	**485,261**	485,261
Full Prospect Limited and its subsidairies *(Note 33(a))*	**20,666**	—
	505,927	485,261
The US		
Belle Group USA LLC	**3,589**	3,589
	509,516	488,850

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period at an annual growth rate of 15%. The growth rate used is largely consistent and do not exceed the industry growth forecast. The annual discount rate of 12.3% is before tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin and net profit margin were determined by the management based on past performance and its expectation for market development. Management has considered the above assumptions and valuation and has also taken into account the business expansion plan going forward. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount. Judgment is required to determine key assumptions adopted in the cash flow projections and the changes to key assumptions can significantly affect these cash flow projections.

20 Interests in subsidiaries

	Company As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**1,329,146**	968,812
Loans to subsidiaries *(note (a))*	**3,828,337**	—
	5,157,483	968,812
Amounts due from subsidaries *(note (b))*	**4,845,182**	865,569

Note:

(a) Loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to the subsidiaries.

(b) Amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

(c) Particulars of the principal subsidiaries of the Group are set out in Note 38.

21 Long-term deposits, prepayments and other non-current assets

At 31 December 2007, included in long-term deposits, prepayments and other non-current assets was a deposit of RMB904,552,000 paid for the acquisition of certain assets, businesses and companies from Jiangsu Senda Group Co., Ltd. (2006:Nil) (See also Note 37 (ii)).

22 Deferred income taxes

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net deferred income tax assets recognized on the balance sheet	**37,493**	9,057
Net deferred income tax liabilities recognized on the balance sheet	**(52,322)**	(42,438)
	(14,829)	(33,381)

The net movement on the deferred income tax account is as follows:

	2007	2006
	RMB'000	*RMB'000*
Deferred income tax (liabilities)/assets, at beginning of the year	**(33,381)**	457
Acquisition of subsidiaries *(Note 33(b))*	**—**	6,715
Deferred income tax liabilities arising from recognition of trademarks *(Note 33 (a))*	**(20,666)**	—
Deferred income tax liabilities arising from recognition of distribution contracts *(Note 33 (b))*	**—**	(47,744)
Credited to the consolidated income statement *(Note10)*	**39,248**	7,207
Exchange differences	**(30)**	(16)
Deferred income tax liabilities, at end of the year	**(14,829)**	(33,381)

22 Deferred income taxes (continued)

The movement on the deferred income tax assets/(liabilities) account is as follows:

	Accelerated tax depreciation	Unrealized profit on closing inventories	Deferred income tax liabilities arising from recognition of distribution contracts	Deferred income tax liabilities arising from recognition of trademarks	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	457	—	—	—	—	457
Acquisition of subsidiaries	—	5,753	—	—	962	6,715
Deferred income tax liabilities arising from recognition of distribution contracts	—	—	(47,744)	—	—	(47,744)
Credited/(charged) to the consolidated income statement	—	2,863	5,306	—	(962)	7,207
Exchange differences	(16)	—	—	—	—	(16)
At 31 December 2006	441	8,616	(42,438)	—	—	(33,381)
Deferred income tax liabilities arising from recognition of trademarks	—	—	—	(20,666)	—	(20,666)
Credited to the consolidated income statement	—	27,585	10,610	172	881	39,248
Exchange differences	(30)	—	—	—	—	(30)
At 31 December 2007	**411**	**36,201**	**(31,828)**	**(20,494)**	**881**	**(14,829)**

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. At 31 December 2007, the Group had unrecognized tax losses to be carried forward against future taxable income amounted to RMB237,827,000 (2006: RMB79,118,000).

The expiry of unrecognized tax losses are as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Tas losses without expiry date	**120,144**	34,863
Tax losses expire after more than five years	**117,683**	44,255
	237,827	79,118

As at 31 December 2007, the potential deferred income tax assets in respect of the above tax losses which have not been recognized amounted to RMB58,251,000 (2006: RMB21,177,000).

23 Inventories

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**248,329**	231,420
Work in progress	**96,780**	72,872
Finished goods	**1,931,986**	1,263,458
Consumables	**8,092**	5,272
	2,285,187	1,573,022
Less: provision for impairment losses	**(3,536)**	(3,160)
	2,281,651	1,569,862

24 Trade receivables

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on credit terms ranging from 0 to 30 days. As at 31 December 2007, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
0 - 30 days	**1,316,312**	819,540
31 - 60 days	**50,680**	12,809
61 - 90 days	**13,809**	2,598
Over 90 days	**14,310**	1,802
	1,395,111	836,749

The carrying amounts of trade receivables approximate their fair values.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
RMB	**1,389,950**	835,422
HK$	**4,138**	1,248
US$	**952**	—
Other currencies	**71**	79
	1,395,111	836,749

24 Trade receivables (continued)

The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

As at 31 December 2007, trade receivables of RMB28,119,000 (2006: RMB4,400,000) were past due but for which the Group has not provided for impairment losses. These trade receivables relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these customers. The ageing analysis of the trade receivables which are past due but not impaired is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
61 to 90 days	**13,809**	2,598
91 to 150 days	**13,866**	1,802
Over 150 days	**444**	—
	28,119	4,400

During the year ended 31 December 2007, no trade receivables were impaired (2006: Nil).

25 Financial assets at fair value through profit or loss

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Unlisted managed funds in the PRC, at fair value	**396,703**	—

Financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the cash flow statement. Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains" in the consolidated income statement.

26 Derivative financial instruments

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Forward foreign exchange contracts		
- held for trading	**42,665**	—

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the maturity of the hedged item is less than 12 months.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 were RMB1,382,563,000 (2006: Nil).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated balance sheet.

27 Cash and cash equivalents

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**1,399,485**	302,095	**213**	39
Term deposits with initial term of				
less than three months	**3,813,682**	—	**—**	—
	5,213,167	302,095	**213**	39
Denominated in				
RMB	**745,201**	277,695	**—**	—
HK$	**4,337,636**	18,101	**213**	39
US$	**128,047**	5,530	**—**	—
Other currencies	**2,283**	769	**—**	—
	5,213,167	302,095	**213**	39

The weighted average effective interest rate of the Group on term deposits with initial term of less than three months at 31 December 2007 was 3.54% (2006: Nil).

Cash at bank earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

28 Trade payables

The credit periods granted by suppliers are generally ranges from 0 to 30 days. At 31 December 2007, the aging analysis of trade payables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
0 - 30 days	**616,733**	448,148
Over 30 days	**1,101**	126
	617,834	448,274

The carrying amounts of the trade payables approximate their fair values.

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
RMB	**606,320**	445,867
HK$	**2,908**	2,002
US$	**8,606**	405
	617,834	448,274

29 Borrowings

(a) Borrowings are analyzed as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current borrowings:		
Bank borrowings	**200,000**	609,900
Current portion of non-current borrowings	**—**	35,251
	200,000	645,151
Non-current borrowings:		
Bank borrowings	**—**	185,786
Less: current portion	**—**	(35,251)
	—	150,535
Total borrowings	**200,000**	795,686
Representing:		
Unsecured	**—**	448,900
Secured	**200,000**	346,786
	200,000	795,686

The exposure of the bank borrowings of the Group to interest rate changes and the weighted average effective interest rates are as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
At fixed rates	**200,000**	448,900
At floating rates	**—**	346,786
	200,000	795,686
Weighted average effective interest rates	**6.48%**	5.43%

29 Borrowings (continued)

(a) Borrowings are analyzed as follows: (continued)

The carrying amounts of bank borrowings by currencies are as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
RMB	**200,000**	448,900
HK$	**—**	346,786
	200,000	795,686

The carrying amounts of bank borrowings approximate their fair values.

(b) The repayment terms of the non-current bank borrowings are analyzed as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Wholly repayable within five years	**—**	93,507
Not wholly repayable within five years	**—**	92,279
	—	185,786

(c) The Group's non-current bank borrowings are repayable as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Within one year	**—**	35,251
In the second year	**—**	35,251
In the third to fifth year	**—**	54,646
After the fifth year	**—**	60,638
	—	185,786
Less: current portion	**—**	(35,251)
	—	150,535

29 Borrowings *(continued)*

(d) The Group's banking facilities, including borrowings, trade finance and other general banking facilities, were secured as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book value of property, plant and equipment pledged	**228,000**	23,140
Net book amount of leasehold land and land use rights pledged	**64,162**	113,534
Net book value of investment properties pledged	**—**	11,173
	292,162	147,847
Cross gurarantees among subsidaries of the Group	**249,196**	131,500
Guaranteed by the Company	**313,546**	291,232
Guaranteed by certain directors of the Company	**—**	165,700
Corresponding banking facilities utilized	**200,000**	819,182

The Group had the following undrawn committed borrowing facilities:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Expiring within one year		
- at floating rates	**272,248**	193,300
- at fixed rates	**50,000**	—
	322,248	193,300

30 Share capital and share premium

Share capital

	Ordinary shares of HK$0.01 each *(note a)*	Redeemable ordinary shares of HK$0.01 each *(note a)*	Total	Nominal value *RMB'000*
Authorized :				
As at 1 January 2006 and 31 December 2006	19,500,000	19,500,000	39,000,000	413
As at 1 January 2007	19,500,000	19,500,000	39,000,000	413
Redesignation of shares *(note b)*	19,500,000	(19,500,000)	—	—
Increase during the year *(note c)*	29,961,000,000	—	29,961,000,000	295,625
As at 31 December 2007	**30,000,000,000**	**—**	**30,000,000,000**	**296,038**
Issued and fully paid:				
As at 1 January 2006	50,000	196,470	246,470	3
Issue of ordinary shares for the acquisition of Fullbest Group *(note d)*	36,354	—	36,354	—
As at 31 December 2006	86,354	196,470	282,824	3
As at 1 January 2007	86,354	196,470	282,824	3
Redesignation of shares *(note e)*	196,470	(196,470)	—	—
Capitalization of shares *(note f)*	7,070,317,176	—	7,070,317,176	69,763
Issuance of ordinary shares *(note g)*	1,370,733,000	—	1,370,733,000	13,360
As at 31 December 2007	**8,441,333,000**	**—**	**8,441,333,000**	**83,126**

Note:

(a) Both ordinary shares and redeemable ordinary shares rank pari passu in all respects with each other except that the holders of redeemable ordinary shares had the right to redeem upon certain conditions. Such right to redeem lapsed in June 2006.

(b) Pursuant to a resolution passed on 27 April 2007, the entire 19,500,000 redeemable ordinary shares of HK$0.01 each of the Company were redesignated as ordinary shares of HK$0.01 each, resulting in the authorized share capital of the Company being 39,000,000 ordinary shares of HK$0.01 each.

(c) Pursuant to a resolution passed on 27 April 2007, the authorized share capital of the Company was increased from HK$390,000 (equivalent to RMB413,000) to HK$300,000,000 (equivalent to RMB296,038,000) by the creation of 29,961,000,000 new shares of HK$0.01 each. These shares rank pari passu in all respects with the then existing shares.

30 Share capital and share premium (continued)

Note: (continued)

(d) Pursuant to an agreement entered into between the Company and Mr. Tang Yiu, a shareholder and also a director of the Company ("Mr. Tang"), dated 30 June 2006, the Company agreed to acquire from Mr. Tang his 100% interest in Fullbest Investments Limited ("Fullbest") at a consideration of approximately RMB830,999,000 which was satisfied by the issuance of 36,354 new ordinary shares of HK$0.01 each of the Company at a premium of HK$22,193 (equivalent to RMB22,859) per share. The acquisition was completed on 1 July 2006 when Fullbest was accounted for as a direct wholly-owned subsidiary of the Company.

(e) Pursuant to a resolution passed on 27 April 2007, the 196,470 redeemable ordinary shares then issued were redesignated as ordinary shares.

(f) Pursuant to a resolution passed on 27 April 2007, the directors have been authorized to allot and issue a total of 7,070,317,176 shares of HK$0.01 each of the Company to the holders of shares on the register of members of the Company at the close of business on 8 May 2007 in proportion to their respective shareholdings by way of capitalization of the sum of HK$70,703,172 (equivalent to RMB69,762,820) standing to the credit of the share premium account of the Company.

(g) On 23 May 2007 and 31 May 2007, the Company issued 1,161,300,000 and 209,433,000 ordinary shares respectively of HK$0.01 each at an offer price of HK$6.2 each through the global offering for an aggregate consideration of approximately HK$8,498,545,000 (equivalent to approximately RMB8,283,182,000). These shares rank pari passu in all respects with the shares in issue.

Share premium

Company

	RMB'000
As at 1 January 2006	604,890
Issue of ordinary shares for acquisition of Fullbest Group *(Note 30(d))*	830,999
As at 31 December 2006	1,435,889
Capitalization issue	(69,763)
Issue of shares	8,269,822
Share issuance costs	(268,627)
As at 31 December 2007	**9,367,321**

Under the Companies Law. Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

30 Share capital and share premium (continued)

Share option scheme

Pursuant to a shareholders resolution passed on 27 April 2007, the Company has adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract calibres and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; ((i) and (ii) collectively "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in respect of which options may be granted under the Share Option Scheme or other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of shares in issue as of the Listing Date, unless such scheme mandate limited is renewed by shareholders of the Company in a general meeting.

During the year ended 31 December 2007, no options have been granted under the Share Option Scheme.

31 Reserves

Group

(a) Movements in the reserves of the Group are set out in the consolidated statements of changes in equity.

(b) Under the Company Law. Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the merge reserve is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The merger reserve of the Group mainly represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the reorganization of the Group that took place in 2005.

(c) Statutory reserves are non-distributable and the transfers of these funds are determined by the Board of Directors of the relevant PRC subsidiaries in accordance with the relevant laws and regulations in the PRC.

Company

	(Accumulated losses) / retained earnings
	RMB'000
As at 1 January 2006	(210)
Profit for the year	400,501
As at 31 December 2006	400,291
Profit for the year	805,784
Dividends paid	(653,241)
As at 31 December 2007	**552,834**

32 Consolidated cash flow statement

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit for the year	**1,978,620**	976,569
Adjustments for:		
Income tax expense	**43,197**	26,776
Amortization of leasehold land and land use rights and intangible assets	**55,190**	33,950
Depreciation on property, plant and equipment	**336,423**	183,382
Depreciation on investment properties	**711**	194
(Gain)/loss on disposal of property, plant and equipment	**(62)**	1,367
Gain on liquidation of a subsidiary	**—**	(777)
Impairment losses on inventories	**376**	1,530
Unrealized fair value gain on financial assets at fair value through profit or loss	**(6,703)**	—
Unrealized fair value gain on derivative financial instruments	**(42,665)**	—
Exchange differences	**182,033**	543
Interest income	**(502,235)**	(3,375)
Interest expense	**27,299**	19,894
	2,072,184	1,240,053
Changes in working capital:		
Increase in long-term deposits, prepayments and other non-current assets	**(135,398)**	(713)
Increase in inventories	**(700,607)**	(527,337)
Increase in trade receivables	**(556,854)**	(139,527)
Increase in other receivables, deposits and prepayments	**(116,174)**	(20,684)
Change in balances with related parties	**(128,839)**	(287,518)
Increase/(decrease) in trade payables	**169,353**	(432,423)
Increase in other payables, accurals and other current liabilities	**147,685**	196,152
Decrease in amount due to a shareholder	**—**	(1,049)
(Decrease)/increase in trust receipt loans	**(23,496)**	16,219
Increase in financial assets at fair value through profit or loss	**(390,000)**	—
Net cash generated from operations	**337,854**	43,173

32 Consolidated cash flow statement (continued)

(b) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book value *(Note 16)*	**2,886**	5,539
Gain/(loss) on disposal of property, plant and equipment *(Note 8)*	**62**	(1,367)
Proceeds from sale of property, plant and equipment	**2,948**	4,172

33 Business combination

(a) Acquisition of Fila business

Effective 1 September 2007, the Group acquired an 85% interest in the trademarks of "Fila" for the PRC, Hong Kong and Macau markets, together with certain related businesses, and a 100% interest in Fila Marketing (Hong Kong) Limited (collectively the "Acquired Business") from a third party. The Acquired Business is principally engaged in the distribution and sales of sporting shoes and apparel in Hong Kong and the PRC under the brandname of "Fila". The revenue and net results contributed by the Acquired Business during the period from 1 September 2007 to 31 December 2007 is not significant to the Group.

Details of net assets acquired and goodwill are as follows:

	As at 1 September 2007
	RMB'000
Purchase consideration	
- paid in cash	**368,788**
- payable *(note)*	**51,393**
Fair value of net assets acquired (shown as below)	**(399,515)**
Goodwill *(Note 19)*	**20,666**

33 Business combination (continued)

(a) Acquisition of Fila business (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquiree's carrying amount *RMB'000*
Intangible assets *(Note 19)*	474,173	—
Property, plant and equipment *(Note 16)*	2,198	2,198
Inventories	11,558	11,558
Trade receivables	1,508	1,508
Other receivables, deposits and prepayments	9,712	9,712
Cash and cash equivalents	8,541	8,541
Trade payables	(207)	(207)
Other payables, accruals and other current liabilities	(23,885)	(23,885)
Deferred income tax liabilities *(Note 22)*	(20,666)	—
	462,932	9,425
Minority interests	(63,417)	
Net asset acquried	399,515	
Purchase consideration settled in cash		368,788
Cash and cash equivalents acquired		(8,541)
Cash outflow on acquisition		360,247

Note:

In connection with the purchase of the Acquired Business, part of the consideration was deferred for settlement. As of 31 December 2007, the carrying amounts of the deferred consideration payable in the next twelve months and over the next twelve months were RMB4,100,000 and RMB47,293,000 respectively. The deferred consideration is not wholly repayable within five years.

(b) Acquisition of Fullbest Group

Effective 1 July 2006, the Group acquired 100% interest in Fullbest Group from Mr. Tang, a director and also a beneficial shareholder of the Company. The Fullbest Group is principally engaged in the distribution and sales of sporting shoes and apparel in the PRC and the acquired business contributed revenue of RMB1,576,772,000; and net profit of RMB87,805,000 to the Group for the period from 1 July 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Group's revenue would have been RMB7,458,104,000; profit before distributions would have been RMB1,063,225,000.

33 Business combination (continued)

(b) Acquisition of Fullbest Group (continued)

Details of net assets acquired and goodwill are as follows:

	As at 1 July 2006
	RMB'000
Purchase consideration	
- Fair value of new shares issued by the Company *(note)*	830,999
Fair value of net assets acquired (shown as below)	(345,738)
Goodwill *(Note 19)*	485,261

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	*RMB'000*
Intangible assets *(Note 19)*	175,000	—
Property, plant and equipment *(Note 16)*	62,686	62,686
Deferred income tax assets *(Note 22)*	6,715	6,715
Inventories	445,357	445,357
Accounts receivable	272,734	272,734
Other receivables, deposits and prepayments	103,496	103,496
Cash and cash equivalents	215,132	215,132
Trade payables	(687,609)	(687,609)
Other payables, accruals and other current liabilities	(46,011)	(46,011)
Short-term borrowing, secured	(130,000)	(130,000)
Current income tax liabilities	(24,018)	(24,018)
Deferred income tax liabilities *(Note 22)*	(47,744)	—
Net assets acquired	345,738	218,482
Cash and cash equivalents in subsidiaries acquired		215,132

Note:

The then fair value of shares of the Company was determined by an independent professional valuer using the income approach.

34 Commitments

(a) Capital commitments

As at 31 December 2007, the Group had the following capital commitments not provided for:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Acquisition of subsidiaries:		
- Contracted but not provided for	**1,689,888**	—
Acquistion of property, plant and equipment:		
- Authorized but not contracted for	**—**	300,000
- Contracted but not provided for	**139,130**	569
	139,130	300,569
Construction commitments:		
- Authorized but not contracted for	**—**	236
- Contracted but not provided for	**178,367**	312,280
	178,367	312,516
	2,007,385	613,085

(b) Operating lease commitments

As at 31 December 2007, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**624,239**	297,917
Later than one year and not later than five years	**524,311**	241,071
Later than five years	**350,117**	62,714
	1,498,667	601,702

Generally, the Group's operating leases are for terms of one to ten years.

The actual payments in respect of certain operating leases are calculated at a certain percentage of sales of the respective retail outlets or at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the related outlets.

The Company did not have any significant commitment at 31 December 2007 (2006: Nil).

35 Future minimum rental payments receivable

At 31 December 2007, the future aggregate minimum rental payments receivable in respect of land and buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**3,500**	3,431
Later than one year and not later than five years	**24**	1,716
	3,524	5,147

36 Related party transactions

During the year, the major related parties that had transactions with the Group were as follows:

Name of related parties	**Relationship with the Group**
Mirabell International Holdings Limited ("Mirabell")	A beneficial shareholder of the Group before 27 July 2007
Mirabell Footwear Limited	A subsidiary of Mirabell
宏裕貿易(深圳)有限公司 (Hong Yu Trading (Shenzhen) Company Limited	A subsidiary of Mirabell

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising form related party transactions in addition to the related party information shown elsewhere in the consolidated financial statements.

Profit and loss items:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Sales of goods		
- Mirabell Footwear Limited *(note a)*	**887**	284
Royalty expense		
- Hong Yu Trading (Shenzhen) Company Limited *(note b)*	**6,755**	4,399
Key management compensation		
- Salaries, bonuses and other welfare *(note c)*	**32,221**	37,785

36 Related party transactions

Profit and loss items: (continued)

Note:

(a) Sales of goods to Mirabell Footwear Limited were made at mutually agreed prices.

(b) Royalty expense paid to Hong Yu Trading (Shenzhen) Company Limited were calculated based on the relevant agreements.

(c) Key management includes directors and certain executives who have important roles in making operational and financial decisions.

Balance sheet items:

Amounts due to related parties were unsecured, interest free and repayable on demand.

Other items:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Guarantees obtained from		
- Certain directors of the Company	—	165,700

37 Subsequent events

(i) On 27 October 2007, Full Brand Limited, a wholly-owned subsidiary of the Group, as the purchaser, and Ossia International Limited, Ms. Shum Kan Fong Rosa and Mr. Wong Kin Shing, collectively as the sellers, entered into a sale and purchase agreement, pursuant to which the sellers have agreed to sell to the buyer the entire equity interests in Ossia Marketing (HK) Company Limited and Ossia International (HK) Limited. These companies are incorporated in Hong Kong and principally engaged in the distribution and retail sales of footwear products in Hong Kong, Macau and the PRC, mainly under the brandname of "Millie's". The initial consideration for the acquisition is HK$600,000,000 (equivalent to RMB559,600,000) and subject to a further payment of an amount not exceeding HK$200,000,000 (equivalent to RMB186,500,000), calculated with reference to certain performance conditions. The control of the companies was transferred to the Group in January 2008.

(ii) In November 2007, New Belle Footwear (Shenzhen) Company Limited ("New Belle"), a wholly-owned subsidiary of the Group, entered into a series of agreements with Jiangsu Senda Group Co., Ltd. ("Senda"), pursuant to which New Belle has agreed to acquire interests in certain assets, businesses and companies (collectively the "Senda Business") from Senda. The Senda Business is principally engaged in the manufacturing and retail sales of men's and ladies' footwear products in the PRC. The aggregate consideration for the acquisition of the Senda Business amounted to approximately RMB2,200,000,000. The control of the Senda Business has been gradually transferred to the Group since January 2008.

(iii) On 22 February 2008, a letter was sent by Belle Group Limited ("BGL"), a wholly-owned subsidiary of the Group, to inform Mirabell, that BGL is considering making a proposed voluntary conditional cash offer to acquire all of the issued and to be issued shares in the share capital, and for the cancellation of all the outstanding share options, of Mirabell (the "Offer").

37 Subsequent events (continued)

The making of the Offer is subject to approval from independent shareholders of the Company pursuant to an ordinary resolution to be passed at the Extra-ordinary General Meeting of the Company to be held on 11 April 2008.

The Offer, if and when made, will be based on a price of HK$6.0 (equivalent to RMB5.6) per ordinary share of Mirabell in issue (the "Offer Price"); and, for each outstanding share option of Mirabell, a price equivalent to the difference between the Offer Price and the exercise price of the relevant share option. Should the Offer be approved and completed, it is estimated that the maximum amount payable under the Offer to be approximately HK$1,600,000,000 (equivalent to RMB1,500,000,000).

Other than those disclosed above, the Group had no other significant events taken place subsequent to 31 December 2007 until the date of these financial statements.

38 Particulars of principal subsidiaries

At 31 December 2007, the Company had the following principal subsidiaries:

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Directly held:				
Bestfull International Limited	500,001 shares of HK$1 each	100%	Hong Kong	Investment holdings / Hong Kong
Full Speed Industrial Limited	10,000,000 shares of HK$1 each	100%	Hong Kong	Investment holdings / Hong Kong
Full Sport Holdings Limited	10,000,000 shares of HK$1 each	100%	Hong Kong	Investment holdings / Hong Kong
Lai Wah Footwear Trading Limited	20,000 shares of HK$100 each	100%	Hong Kong	Investment holdings / Hong Kong
Lead Chance Limited	1,000,000 shares of HK$1 each	100%	Hong Kong	Investment holdings / Hong Kong
Belle Group Limited	1 share of US$1	100%	British Virgin Islands ("BVI")	Investment holdings / Hong Kong
Famestep Management Limited	4 shares of US$1 each	100%	BVI	Investment holdings / Hong Kong
Fullbest Investments Limited	20,000 shares of US$1 each	100%	BVI	Investment holdings / Hong Kong
Full Prospect Limited	50,000 shares of US$1 each	85%	Cayman Islands	Investment holdings / Hong Kong

38 Particulars of principal subsidiaries (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held:				
Belle Worldwide Limited	3 shares of HK$1 each	100%	Hong Kong	Trading of shoes and footwear products/ Hong Kong
Fila Marketing (Hong Kong) Limited	79,800,000 shares of HK$1 each	100%	Hong Kong	Trading of sport shoes and apparel/ Hong Kong
Staccato Footwear Company Limited	300,000 shares of HK$1 each	100%	Hong Kong	Trading of shoes and footwear products/ Hong Kong
Staccato Footwear (Macau) Company Limited	2 shares of MOP 12,500 each	100%	Macau	Trading of shoes and footwear products/ Macau
Staccato (IP) Limited	100 shares of US$1 each	100%	Mauritius	Trademark holdings/ Macau
Full Prospect (IP) Pte Limited	100,000 shares of US$1 each	100%	Singapore	Trademark holdings / Singapore
Belle Group USA LLC	US$2,500,000	100%	US	Trading of shoes and footwear products/ US
合眾服飾（深圳）有限公司 (Hezhong Apparel (Shenzhen) Limited)#	US$10,000,000	100%	The PRC	Manufacturing and trading of apparel/ the PRC
廣州市滔搏體育發展商貿有限公司 (Guangzhou Taobo Sports Development Company Limited)#	US$11,142,300	100%	The PRC	Operation of sports complex business/ the PRC
滔搏商貿（瀋陽）有限公司 (Shenyang Taobo Trading Company Limited)#	US$5,000,000	100%	The PRC	Operation of sports complex business/ the PRC
百朗商貿（深圳）有限公司 (Bailang Trading (Shenzhen) Company Limited)#	US$5,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC

38 Particulars of principal subsidiaries (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation /establishment	Principal activities /place of operation
Indirectly held (continued):				
北京崇德商貿有限公司 (Beijing Chongde Trading Company Limited)#	US$11,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
法迅貿易（上海）有限公司 (Faxun Trading (Shanghai) Company Limited)#	US$12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
Lai Kong Footwear (Shenzhen) Company Limited#	US$8,771,368	100%	The PRC	Manufacturing and trading of footwear products/ the PRC
麗珂貿易（瀋陽）有限公司 (Li'ke Trading (Shenyang) Company Limtied)#	US$12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
New Belle Footwear (Shenzhen) Company Limited#	US$32,000,000	100%	The PRC	Manufacturing and trading of footwear products/ the PRC
青島傳承國際貿易有限公司 (Qingdao Chuancheng International Trading Company Limited)#	US$3,200,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
陝西滔搏體育商貿有限公司 (Shanxi Taobo Sports Trading Company Limited)@	RMB240,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
深圳市滔搏商貿有限公司 (Shenzhen Taobo Trading Company Limited)@	RMB180,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
成都市滔搏商貿有限公司 (Chengdu Taobo Trading Company Limited)@	RMB242,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
武漢市滔搏商貿有限公司 (Wuhan Taobo Trading Company Limited)@	RMB12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC

38 Particulars of principal subsidiaries (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation /establishment	Principal activities /place of operation
Indirectly held (continued):				
雲南立鋭體育用品有限公司 (Yunnan Lirui Sports Company Limited)@	RMB132,995,134	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
吉林市滔搏商貿有限公司 (Jilinshi Taobo Trading Company Limited)@	RMB1,000,000	100%	The PRC	Operation of sports complex business/ the PRC
哈爾濱滔搏商貿有限公司 (Harbin Taobo Trading Company Limited)@	RMB12,000,000	100%	The PRC	Operation of sports complex business/ the PRC
遼源市滔搏商貿有限公司 (Liaoyuan Taobo Trading Company Limited)@	RMB500,000	100%	The PRC	Operation of sports complex business/ the PRC
東莞市滔搏體育用品有限公司 (Dongguanshi Taobo Trading Company Limited)@	RMB1,800,000	100%	The PRC	Operation of sports complex business/ the PRC

The company is established as a wholly foreign-owned enterprise in the PRC.

@ The company is established as a limited liability company in the PRC.