# 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)

Interim Report 2008 中期業績報告

# Contents


| | | |
|---|---|---|
| I | Corporate Information | 2 |
| II | Financial Highlights | 4 |
| III | Statement from Chairman | 5 |
| IV | Statement from CEO | 6 |
| V | Management Discussion and Analysis | 13 |
| VI | Report on Review of Interim Financial Information | 18 |
| VII | Condensed Consolidated Interim Income Statement | 19 |
| VIII | Condensed Consolidated Interim Balance Sheet | 20 |
| IX | Condensed Consolidated Interim Statement of Changes in Equity | 22 |
| X | Condensed Consolidated Interim Cash Flow Statement | 24 |
| XI | Notes to the Condensed Consolidated Interim Financial Information | 25 |
| XII | General Information | 45 |

# 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

20/F Railway Plaza
39 Chatham Road South
Tsim Sha Tsui
Hong Kong

## Stock Code

1880

## Website

www.belleintl.com

## Legal Advisors

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

## Auditors

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2008** | 2007 |
| Revenue | RMB'000 | **8,228,341** | 5,131,204 |
| Operating profit | RMB'000 | **1,138,944** | 694,214 |
| Income tax expense (Note 1) | RMB'000 | **139,142** | 28,900 |
| Profit attributable to the Company's equity holders (Note 2) | RMB'000 | **988,061** | 1,002,402 |
| Gross profit margin | % | **50.8** | 51.6 |
| Operating profit margin | % | **13.8** | 13.5 |
| Net profit margin | % | **12.0** | 19.5 |
| Earnings per share – basic | RMB cents | **11.71** | 13.61 |
| – diluted | RMB cents | **11.71** | 13.61 |
| Interim dividend per share | RMB cents | **3.00** | 3.00 |

| | | As at | |
|---|---|---|---|
| | | **30 June 2008** | 31 December 2007 |
| Gearing ratio | % | **7.5** | 1.5 |
| Current ratio | times | **3.0** | 6.9 |
| Average trade receivables turnover period | days | **34.7** | 34.9 |
| Average trade payables turnover period | days | **33.5** | 33.7 |
| Average inventory turnover period | days | **128.1** | 121.8 |

Notes:

1. The significant increase in income tax expense was due to the expiration of a two-year exemption from enterprise income taxes in 2007 which will be followed by a 50% reduction in income tax from 2008 to 2010. New Belle Footwear (Shenzhen) Company Ltd ("New Belle"), our major domestic operating unit, is incorporated in Shenzhen (a special economic zone where the local enterprise income tax rate is 18% in 2008) and is subject to an enterprise income tax rate of 9% in 2008. On the other hand, the income tax rate for the Group's newly acquired businesses of Millie's, Senda and Mirabell in the mainland China is 25%.

2. Owing to the change in domestic enterprise income tax rate and the absence of the one-off interest income of RMB364.2 million earned from the tied-up fund during the listing in 2007, the profit attributable to equity holders dropped by 1.4% to RMB988.1 million.

## STATEMENT FROM CHAIRMAN

Dear Shareholders,

During the first half of 2008, the Group experienced a number of negative factors. One of the factors is the prevailing macroeconomic situation. At international level, the sub-prime mortgage crisis in United States had led to the global economic recession. At domestic level, economy in the mainland China has been under the pressure of persistent high inflation with the solid implementation of macroeconomic policy. Besides, natural disasters like the ice storm which attacked the south of China early this year and Sichuan's Wenchuan earthquake which took place in May as well as the rainy weather that persisted over several local cities in June did adversely affect the domestic consumption to a certain extent. Despite those negative factors, targets of the Group's business growth formulated at the beginning of the year had been achieved successfully with the joint effort made by our staff.

For the six months ended 30 June 2008, the Group has recorded a growth of 60.4% in sales and 64.1% in operating profit as compared with the same period of last year. During the first half of the year, 2,212 new company-managed retail outlets (including those retail outlets acquired from Millie's, Senda and Mirabell) were opened. As at 30 June 2008, the total number of company-managed retail outlets reached 8,355, of which 8,154 outlets are located in the mainland China and 201 outlets in Hong Kong, Macau and Taiwan.

Based on our comprehensive understanding of the overall development of the consumer market for footwear in mainland China and the full implementation of the market development strategy for the Group's footwear business, the Group had undertaken a series of acquisitions of footwear businesses since late last year till early this year. With a view to exploring and enhancing the intrinsic value of the newly acquired businesses, the Group will further invest its resources in strengthening business integrations. I trust that all such initiatives can help lay a solid foundation for the sustainable growth in our businesses in the years ahead.

**Tang Yiu**
*Chairman*

10 September 2008

## STATEMENT FROM CEO

Dear Shareholders,

In the first half of 2008, our revenue has recorded a rise of 60.4% to RMB8,228.3 million as compared to the corresponding period of last year, among which the revenue of our footwear business being RMB4,253.1 million while that of our sports business being RMB3,975.2 million. The footwear business has contributed 51.7% to the Group's revenue. There was no significant change in the Group's overall business structure in comparison with that of last year's.

The footwear business continued to make good progress in all operating benchmarks such as the gross profit margin, the expenses-to-sales ratio and the net profit margin while maintaining a steady and rapid growth in sales. Although time is required for improvements in these operating benchmarks in respect of the lastest acquired busineses (Millie's, Senda and Mirabell), all operating benchmarks of footwear business as a whole remained stable when compared to those of the corresponding period of last year.

The sportswear business has also been growing rapidly, in particular 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 laid down at the beginning of the year. As the Group has accelerated the opening of outlets for the second-tier sportswear brands such as Reebok, PUMA, Kappa, Mizuno and Converse last year, more than 700 new outlets for the second-tier sports brands were opened in 2007 and time was required for improvements in the performance of these outlets. Accordingly, the gross profit margin of sportswear business dropped. Yet, thanks to a rise in the reveune of our new sports complex business, the gross profit ratio of our sportwear business as a whole managed to remain steady. Furthermore, as there was still room for improvement in the performance of our second-tier sportswear brands and sports complex business, the operating profit of our sportswear business had declined in comparison with the corresponding period of last year. Nevertheless, the slight drop was still within acceptable range.

As the Chairman has mentioned above, the Group's operation was subject to a number of external negative factors during the first half of 2008. In addition, the business integration upon completion of various acquisitions which posed the most difficult challenge as the increase in businesses scale, brands portfolio as well as the number of staff had generated immense pressure on internal management. Despite these pressures, we had overcome the challenges where all the development plans formulated at the beginning of the year were successfully accomplished.

I am pleased to report the results for the first half of 2008 to you:

### Results for the first half of 2008

Our revenue increased by 60.4% to RMB8,228.3 million. This was mainly attributable to the continually steady growth of sales generated from the footwear business and the increase in contribution of the sportswear business as compared with the corresponding period of last year.

Operating profit for the year was RMB1,138.9 million, an increase of 64.1% from the corresponding period of last year. The increase in operating profit was attributable to the returns from the growth in the footwear and sportswear businesses. Owing to a change in domestic enterprise income tax rate (please refer to subsequent paragraphs for details) and the absence of the one-off interest income earned from the tied-up fund during the listing in 2007, there was a little decrease in net profit for the first half of 2008. Net profit for the period was RMB986.1 million, a decrease of 1.6% from the corresponding period of last year. The net profit attributable to shareholders was RMB988.1 million, a decrease of 1.4% from the corresponding period of last year.

Earnings per share was RMB11.71 cents and the board of directors (the "Board") has resolved to declare an interim dividend of RMB3 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

The company-owned brands include Belle, Staccato, Tata, Teenmix, Fato, JipiJapa, Millie's, Senda, Basto, Haorenyuan, Joy&Peace, Mirabell and Innet; where its distribution brands include Bata, BCBG, Elle, Scholl, Fiorucci, Clarks and Geox.

For footwear business, the Group mainly adopts the vertically integrated business model which covers product research and development, procurement, manufacturing, distribution and retailing. For some distribution brands, the Group adopts the business model of distribution and retailing.

Upon listing, the Group further implemented its market development strategy for its footwear business. Through the various acquisitions coupled with the increase in the franchised distribution business of some of the high-end international brands, the Group had basically completed the advancement of the business portfolio for the coverage of the medium-end and high-end footwear market segments. Based on the steady growth of our existing business and rapid growth of our new business, the Group will reasonably manage its pace of business development so as to achieve the goal of continual growth in the Group's footwear business in the few years ahead.

### Sportswear business

Fila, the first company-owned sportswear brand, is owned by Full Prospect Limited, a subsidiary of Belle International. The Group held an 85% stake in Full Prospect Limited.

Other 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). The business of such sportswear brands are primarily operated under a distribution and retail operation model.

The operation of our sports complex business is similar to that of department stores where the income mainly comes from rental income generated from sports complexes leased out.

Although the Beijing Olympic Games 2008 had concluded, based on our profound understanding of the development of the consumer market, we believe the consumer market for sportswear will continue to grow rapidly over the next couple of years.

## Footwear business

The table below sets out the revenue from our company-owned brands and distribution brands as well as the OEM revenue and their respective percentages of total sales and comparative growth rates.

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2008** | | 2007 | | |
| | **Turnover** | **% of total** | Turnover | % of total | % of Growth |
| Company-owned brands | **3,939.5** | **92.6%** | 2,651.1 | 94.6% | 48.6% |
| Distribution brands | **214.7** | **5.1%** | 59.4 | 2.1% | 261.4% |
| Sub-total | **4,154.2** | **97.7%** | 2,710.5 | 96.7% | 53.3% |
| OEM | **98.9** | **2.3%** | 92.3 | 3.3% | 7.2% |
| Total | **4,253.1** | **100.0%** | 2,802.8 | 100.0% | 51.7% |

Unit: RMB million

* Joy & Peace, formerly classified as a distribution brand, is reclassified as a company-owned brand after the acquisition of Mirabell.

** Certain footwear retail outlets are classified under company-owned brands but products sold in those outlets comprise both company-owned brands and distribution brands. To facilitate classification, the presentation of turnover is based on the classification of retail outlets.

## Sportswear business

The table below sets out the revenue from our first-tier sportswear brands, second-tier sportswear brands as well as other sportswear business (including the apparel business) and their respective percentages of total sales and comparative growth rates.

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2008** | | 2007 | | |
| | **Turnover** | **% of total** | Turnover | % of total | % of Growth |
| First-tier sportswear brands # | **3,238.1** | **81.5%** | 2,125.9 | 91.3% | 52.3% |
| Second-tier sportswear brands # | **712.0** | **17.9%** | 182.8 | 7.9% | 289.5% |
| Other sportswear business | **25.1** | **0.6%** | 19.7 | 0.8% | 27.4% |
| Total | **3,975.2** | **100.0%** | 2,328.4 | 100.0% | 70.7% |

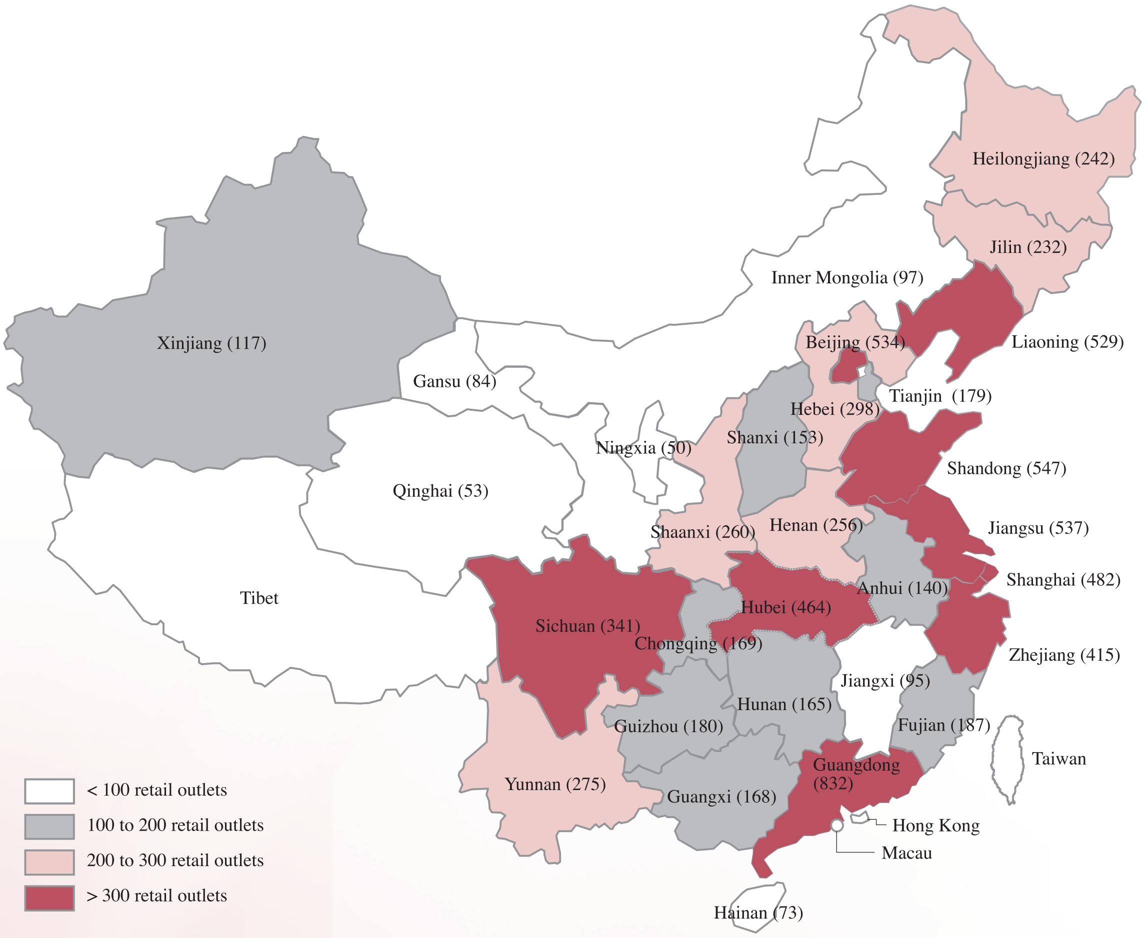
Unit: RMB million

# 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 30 June 2008.



## Expansion of company-managed retail network (continued)

The following table sets out the distribution of our company-managed retail outlets, by regions and business segments in mainland China as at 30 June 2008.

| | 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 | 878 | 128 | 1,006 | 401 | 167 | 0 | 568 | 1,574 |
| Northern China | 847 | 78 | 925 | 227 | 85 | 24 | 336 | 1,261 |
| Southern China** | 739 | 64 | 803 | 223 | 110 | 0 | 333 | 1,136 |
| North-eastern China | 559 | 39 | 598 | 241 | 164 | 0 | 405 | 1,003 |
| Shandong and Henan | 333 | 10 | 343 | 238 | 222 | 0 | 460 | 803 |
| Central China | 364 | 30 | 394 | 108 | 127 | 0 | 235 | 629 |
| South-western China | 324 | 21 | 345 | 141 | 24 | 0 | 165 | 510 |
| North-western China | 332 | 18 | 350 | 110 | 104 | 0 | 214 | 564 |
| Yunnan and Guizhou | 204 | 11 | 215 | 93 | 147 | 0 | 240 | 455 |
| Guangzhou** | 198 | 21 | 219 | 0 | 0 | 0 | 0 | 219 |
| Total | 4,778 | 420 | 5,198 | 1,782 | 1,150 | 24 | 2,956 | 8,154 |

* Joy & Peace, formerly classified as a distribution brand, is reclassified as a company-owned brand after the acquisitions of Mirabell.

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

*** In addition, the Group operates 201 company-managed outlets in Hong Kong, Macau and Taiwan.

## Overview of markets and management

### *Impacts of prevailing macroeconomic situation on the Group's business development*

Started from last year, there were substantial changes in the macroeconomic situation including the sub-prime mortgage crisis in the United States, the plummet in A shares of the mainland China and the tightened monetary policies in the mainland China. Even so, the mainland China is still an emerging market with rapid developments whose GDP growth rate is as high as 10%. Judging from the growth in our revenue and progress in all our operating benchmarks, the Group believes that all such changes in the prevailing macroeconomic situation had not given rise to any adverse impact on the Group's operating performance. Our businesses have been operated and developed on schedule.

### *Development trend of the sportswear business market in the Post-Olympic Games period*

We believe that the Olympic Games will have long-term instead of one-off impacts on the sportswear business market. The Olympic Games increase the awareness for sports among consumers in the mainland China and served to change their perception of consumption in sportswear and related products, thereby boosting the continual growth in sales of sportswear business.

*Change in enterprise income tax rate*

The tax environment for the Group had undergone substantial changes after the implementation of the new domestic enterprise income tax law in 2008. Under the new legislation, the new enterprise income tax rate is 25%. Foreign enterprises, being granted a standard tax rate reduction, which had been approved prior to the promulgation of the new law, are entitled to a 5 years' transitional period privilege. Impacts caused by specific changes in taxation on the Group's performance are discussed from two aspects as follows:

As for footwear business, a substantial portion of the business, which refers to the business being operated under New Belle, was entitled to a two-year exemption on enterprise income taxes in 2006 and 2007 which will be followed by a 50% reduction in local enterprise income tax for the ensuing three years, namely 2008, 2009 and 2010. As New Belle is incorporated in Shenzhen (a special economic zone where the local enterprise income tax rates being 18%, 20% and 22% for the years 2008, 2009 and 2010 respectively), the enterprise income tax rates for New Belle for the years 2008-2010 become 9%, 10% and 11% respectively. On the other hand, the enterprise income tax rate for the Group's newly acquired businesses of Millie's, Senda and Mirabell in the mainland China is 25%.

For sportswear business, the enterprise income tax rate in some regions was 33% and that for some other regions (including the Shenzhen Special Economic Zone) was 15% in the years 2006 and 2007. The average enterprise income tax rate for sportswear businesses was approximately 25%. There was no significant impact on the overall effective enterprise income tax rate for our sportswear business as resulted from implementation of the new domestic enterprise income tax rate of 25% in 2008.

*Change in the Group's overall business structure*

Revenue from the sportswear business of the Group contributed to 45.4% of the total revenue of the first half of 2007, and the percentage slightly increased to 48.3% for the first half of this year which was basically consistent with the 46.9% for the full year of 2007. The relative change in the percentages of the Group's revenue of the footwear business and that of the sportswear business reflected the fact that the consumer market for sportswear has been growing faster than that for footwear. Nevertheless, the Group will still take the footwear business as our core business in the long run.

For footwear business, after the acquisitions since IPO, there have been corresponding changes in the Group's footwear business structure, with middle-end brands such as Senda and Basto added. Certainly, it takes time to improve the profitability and inventory turnover and efficiency of the new businesses. Meanwhile, we progressively added more mid-to-high-end brands on top of our existing footwear business and started to engage in the distribution of high-end leisure brands. Accordingly, the revenue from middle-end brands including Senda and Basto and that from the high-end brands mentioned above is expected to take up a larger share in our footwear business. As a result of the structural changes, inventory turnover days of the Group's footwear business are expected to increase slightly.

For sportswear business, the Group's second-tier sports brands outlets have recorded a higher growth since last year as a result of the Group's solid implementation of business development strategies. Last year's revenue from second-tier sportswear business represented 12.5% of the total revenue of sportswear business. The percentage increased to 17.9% in the first half of this year due to the increase in number of outlets. In comparison with those first-tier brands, the performance of second-tier brands still has room for improvement in terms of profitability and inventory turnover days. The gross profit margin of the Group's overall sportswear business mildly dropped with a slightly prolonged inventory turnover days as dragged by the performance of second-tier sportswear brands.

*Adjustment of managerial focuses on different businesses*

In response to the increasing diversification of the Group's businesses, we placed different emphases on management of different businesses with regard to their respective stages of development as well as the charateristics of individual brands.

For footwear business, the Group will direct the growth of its existing footwear business by developing new sales channels in alignment with the operating benchmarks and focus on enhancing the effectiveness and efficiency. For the newly acquired businesses and the distribution businesses, the Group will actively expand their retailing network to achieve business growth on a basis of re-engineering their business models and management structures.

As for sportswear business, the Group has taken a considerable market share in the distribution businesses in the mainland China owing to the active expansion in its retailing network at an early stage and high sales growth. We believe that upon the formulation of basic business portfolio of distribution networks for sportswear business, the Group will focus on growth with improvement of various operating benchmarks.

*Integration of latest acquired businesses*

As the Fila business stands for one of the Group's long-term core strategies, it will not have significant impact on the Group's overall business in the next couple of years. Fila is expected to have a more significant contribution to the Group's revenue in 2010 or 2011.

For the businesses of Millie's and Jiangsu Senda, the Group has exercised measures from multiple aspects for the integration of these businesses. On the one hand, the Group proceeded with the nationwide expansion of retailing network for gaining their entries into the department stores of the similar market positioning so as to speed up the sales. On the other hand, the Group engaged in transforming their production models, strengthening inventory control and improving inventory management efficiency to minimize the discounts at season ends. Meanwhile, capitalizing on the synergetic support from regional sales management, logistics as well as office resources, the Group managed to enhance the profitability of the sales of products while minimizing selling and distribution expenses and administrative expenses. We expect that the operating benchmark of Millies and Senda will achieve the same level of our existing business within the next 2 to 3 years.

For Mirabell's business, the Group will leverage on the competitive edge of the brand while maintaining its healthy development in the Hong Kong market and work to further expand its operations in the mainland China.

## Prospect

In the past six months, we had recorded satisfactory operating results. Looking ahead, in face of a fast-growing economy of mainland, we will carry on with the steady development strategies. We believe the operations of the Group will continue to grow rapidly and maintain its leading position in the industry.

**Sheng Baijiao**
*CEO and Executive Director*

10 September 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial review

The Group continued to benefit from fast growth. During the six months ended 30 June 2008, the Group recorded revenue and operating profit of RMB8,228.3 million and RMB1,138.9 million respectively, achieving growth rate of 60.4% and 64.1% respectively. Owing to the change in domestic enterprise income tax rate and the absence of the one-off interest income of RMB364.2 million earned from the tied-up fund during the listing in 2007, the profit attributable to the Company's equity holders dropped by 1.4% to RMB988.1 million in first half of 2008.

## Revenue

The Group's revenue increased by 60.4% to RMB8,228.3 million in the six months ended 30 June 2008 from RMB5,131.2 million in the six months ended 30 June 2007. This was mainly attributable to the continually steady growth of sales generated from the footwear business and the increase in contribution of the sportswear business as compared with the corresponding period of last year. Sales from footwear business and sportswear business increased by RMB1,450.3 million and RMB1,646.8 million respectively, from RMB2,802.8 million and RMB2,328.4 million in the six months end 30 June 2007 to RMB4,253.1 million and RMB3,975.2 million in the six months ended 30 June 2008.

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2008** | | 2007 | | |
| | **Revenue** | **% of total** | Revenue | % of total | % of Growth |
| **Footwear** | | | | | |
| Company-owned brands | **3,939.5** | **47.9%** | 2,651.1 | 51.7% | 48.6% |
| Distribution brands | **214.7** | **2.6%** | 59.4 | 1.1% | 261.4% |
| OEM | **98.9** | **1.2%** | 92.3 | 1.8% | 7.2% |
| | **4,253.1** | **51.7%** | 2,802.8 | 54.6% | 51.7% |
| **Sportswear** | | | | | |
| First-tier sportswear brands | **3,238.1** | **39.3%** | 2,125.9 | 41.4% | 52.3% |
| Second-tier sportswear brands | **712.0** | **8.7%** | 182.8 | 3.6% | 289.5% |
| Other sportswear business | **25.1** | **0.3%** | 19.7 | 0.4% | 27.4% |
| | **3,975.2** | **48.3%** | 2,328.4 | 45.4% | 70.7% |
| Total | **8,228.3** | **100.0%** | 5,131.2 | 100.0% | 60.4% |

Unit: RMB million

* Joy & Peace, formerly classified as a distribution brand, is reclassified as a company-owned brand after the acquisition of Mirabell.

** Certain footwear retail outlets are classified under company-owned brands but products sold in those outlets comprise both company-owned brands and distribution brands. To facilitate classification, the presentation of revenue is based on the classification of retail outlets.

## Profitability

On account of the continuous growth of the Group's businesses, the operating profit increased by 64.1% to RMB1,138.9 million. Owing to a change in domestic enterprise income tax rate and in the absence of the one-off interest income of RMB364.2 million earned from the tied-up fund during the listing in 2007, the profit attributable to the Company's equity holders dropped by 1.4% to RMB988.1 million in first half of 2008.

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | Growth rate | |
| | **Footwear** | **Sportswear** | Footwear | Sportswear | Footwear | Sportswear |
| | **RMB million** | **RMB million** | RMB million | RMB million | % | % |
| Revenue | **4,253.1** | **3,975.2** | 2,802.8 | 2,328.4 | 51.7 | 70.7 |
| Cost of sales | **(1,487.2)** | **(2,559.9)** | (995.9) | (1,489.4) | 49.3 | 71.9 |
| Gross profit | **2,765.9** | **1,415.3** | 1,806.9 | 839.0 | 53.1 | 68.7 |
| Gross profit margin (%) | **65.0** | **35.6** | 64.5 | 36.0 | | |

Cost of sales increased by 62.8% from RMB2,485.3 million in the six months ended 30 June 2007 to RMB4,047.1 million in the six months ended 30 June 2008. The increase in cost of sales was in line with increase in sales.

Gross profit increased by 58.0 % to RMB4,181.2 million in the six months ended 30 June 2008 from RMB2,645.9 million in the six months ended 30 June 2007. Gross profit in our footwear segment increased by 53.1% to RMB2,765.9 million in the six months ended 30 June 2008 from RMB1,806.9 million in the six months ended 30 June 2007. Gross profit in our sportswear segment increased by 68.7% to RMB1,415.3 million in the six months ended 30 June 2008 from RMB839.0 million in the six months ended 30 June 2007.

During the review period, the gross profit margin of footwear business and sportswear business was 65.0% and 35.6% respectively. Comparing to the same period of last year, the gross profit margin of respective business segments has no material change. Owing to differences in the respective business models, sportswear products generally have lower gross profit margin than our footwear products. Compared to the corresponding period of last year, there has been a change in the proportional sales of the Group between the footwear business and the sportswear business. As a result, the Group's gross profit margin as a whole decreased to 50.8% in the six months ended 30 June 2008 from 51.6% in the six months ended 30 June 2007.

Selling and distribution expenses in the six months ended 30 June 2008 amounted to RMB2,448.7 million (2007: RMB1,517.9 million), primarily consisting of concessionaire fees and rental expenses, sales personnel salaries and commissions, depreciation charges on retails outlet decorations and advertising and promotional expenses. General and administrative expenses in the six months ended 30 June 2008 amounted to RMB633.8 million (2007: RMB384.0 million), primarily consisting of management and administrative personnel salaries and depreciation charges on office premises and office equipment. In terms of percentages, selling and distribution and general and administrative expenses to sales ratio was 29.8% (2007: 29.6%) and 7.7% (2007: 7.5%) respectively.

Finance income decreased to RMB42.7 million in the six months ended 30 June 2008 from RMB391.5 million in the six months ended 30 June 2007. The significant decrease is mainly due to the absence of the one-off interest income of RMB364.2 million earned from the tied-up fund during the listing in 2007.

### Profitability (continued)

During the six months ended 30 June 2008, Renminbi appreciated against Hong Kong dollar by 6.08% and the Group recorded an exchange loss of approximately RMB45.8 million, primarily due to depreciation of cash and cash equivalent, being denominated in Hong Kong dollar, during the first half year of 2008. 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 on the unused IPO proceeds. During the first half of 2008, the Group earned RMB38.1 million from the aforesaid foreign exchange contracts. The Group also recognised RMB42.7 million and RMB10.6 million interest income and interest expense respectively. Earning from the foreign exchange forward contracts and net interest income amounted to RMB70.2 million, which was well offset against the exchange loss for the period.

Income tax expense in the six months ended 30 June 2008 amounted to RMB139.1 million (2007: RMB28.9 million). The significant increase was due to the expiration of a two-year exemption from enterprise income taxes in 2007 which will be followed by a 50% reduction in enterprise income tax from 2008 to 2010. New Belle, our major domestic operating unit, is incorporated in Shenzhen (a special economic zone where the local enterprise income tax rate is 18% in 2008) and is subject to an enterprise income tax rate of 9% in 2008. On the other hand, the income tax rate for the Group's newly acquired businesses of Millie's, Senda and Mirabell and sportwear business in the mainland China is 25%.

### Liquidity and financial resources

The Group maintains a strong and healthy balance sheet. Cash and cash equivalents as at 30 June 2008 dropped by 76.4% to RMB1,231.6 million from RMB5,213.2 million as at 31 December 2007. It is primarily due to the payments of consideration for acquisitions of Millie's, Senda and Mirabell, amounting to RMB2,605.6 million. In term of treasury management, the Group purchased, amounting to RMB2,252.6 million, on financial products from major and reputable financial institutions in the mainland China. Instead of classifying as cash or cash equivalent in the balance sheet, such products were classified under available-for-sales financial assets, structured bank deposits and term deposits with initial terms of over three months. Maturity dates of those available-for-sale financial assets, structured bank deposits and term deposits with initial terms of over three months are October 2008, ranging from July 2008 to May 2009 and ranging from November 2008 to May 2009 respectively, and their corresponding expected returns are 5.50% per annum, ranging from 4.50% to 6.00% per annum and ranging from 3.78% to 4.14% per annum respectively. As at 30 June 2008, the working capital of the Group was RMB6,207.1 million, representing a decrease of 24.7% as compared with 31 December 2007.

As at 30 June 2008, the Group's current ratio was 2.9 times (31 December 2007: 6.9 times) and gearing ratio stood at a low level of 7.5% (31 December 2007: 1.5%). (Gearing ratio representing: Total borrowings / Total Assets). The Group's total borrowings as at 30 June 2008 increased by 507.5% to RMB1,215.0 million from RMB200.0 million as at 31 December 2007. During the period under review, the unused portion of IPO proceeds, which was denominated in Hong Kong dollar, was remitted back to the mainland China and converted into RMB. Since the finance cost of Hong Kong dollar borrowings is lower than the earnings on RMB short-term deposit with the mainland China financial institutions, the Group used Hong Kong dollar borrowings to settle a portion of acquisition considerations. Management will closely monitor the liquidity of our cash, being denominated in RMB, in the mainland China. The management will take instant and appropriate measures to minimize the Group's borrowing cost and foreign exchange risk when there are changes in Hong Kong dollar borrowing rate and exchange rate.

During the period under review, net cash inflow from operating activities increased by 50.0% from RMB584.4 milion to RMB876.8 million compared with the same period in last year. This reflects the Group's ability to generate solid earnings.

### Liquidity and financial resources (continued)

Net cash used in investing activities for the six months ended 30 June 2008 was RMB5,547.0 million (2007: RMB1,642.0 million). During the period under review, the Group invested approximately RMB2,605.6 million, RMB562.7 million, RMB1,000.0 million, RMB852.6 million and RMB400.0 million on acquisition of footwear businesses, purchase of property, plant and equipment, purchase of available-for-sales financial assets, deposit in structured bank deposits, and deposit in term deposits with initial terms over three months respectively.

Net cash generated from financing activities during the review period was RMB743.1 million (2007: RMB7,420.1 million), mainly attributable to the increase in net bank borrowings of RMB1,018.7 million and partially setoff by the 2007 final dividend payment of RMB295.4 million.

### 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 30 June 2008, the net proceeds from the new issue have been utilized as follows:

- approximately RMB2,102.8 million used to implement our expansion plans which include acquiring companies or forming alliances with strategic partners;
- approximately RMB1,690.0 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 RMB1,221.0 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 RMB123.2 million used to increase our promotional and marketing activities, as well as upgrade the brand image of our self-owned brands; and
- approximately RMB62.0 milion 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.

### Human resources

As at 30 June 2008, the Group had a total of 64,229 employees (31 December 2007: 48,495 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.

## Interim dividend

The Board has resolved to declare an interim dividend for the year ending 31 December 2008 of RMB3 cents per share, (2007 interim dividend: RMB3 cents) amounting to RMB253.2 million (2007 interim dividend: RMB253.2 million). The interim dividend will be paid on or about 21 October 2008 to members whose names appear on the register of members of the Company on 3 October 2008.

The actual exchange rate for the purpose of dividend payment in Hong Kong dollars will be the official exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 10 September 2008, being the date on which the interim dividend is declared by the Board at the rate of HK$1.00=RMB0.87698. Accordingly, the amount of the interim dividend is HKD3.42 cents per share.

## Closure of register of members

The interim dividend will be paid on or about 21 October 2008 to the shareholders whose names appear on the register of members of the Company on 3 October 2008. The register of members of the Company will be closed from Thursday, 2 October 2008 to Friday, 3 October 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned interim 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 Tuesday, 30 September 2008.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BELLE INTERNATIONAL HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 44, which comprises the condensed consolidated balance sheet of Belle International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 10 September 2008

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*For the six months ended 30 June 2008*

| | Note | Unaudited Six months ended 30 June 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| Revenue | 4 | **8,228,341** | 5,131,204 |
| Cost of sales | | **(4,047,055)** | (2,485,278) |
| Gross profit | | **4,181,286** | 2,645,926 |
| Selling and distribution expenses | | **(2,448,693)** | (1,517,863) |
| General and administrative expenses | | **(633,826)** | (384,025) |
| Other income | | **6,049** | 4,804 |
| Other gains, net | | **34,128** | — |
| Other expenses | | **—** | (54,628) |
| Operating profit | 5 | **1,138,944** | 694,214 |
| Finance income | | **42,702** | 391,503 |
| Finance costs | | **(56,442)** | (54,415) |
| Finance (costs)/income, net | 6 | **(13,740)** | 337,088 |
| Profit before income tax | | **1,125,204** | 1,031,302 |
| Income tax expense | 7 | **(139,142)** | (28,900) |
| Profit for the period | | **986,062** | 1,002,402 |
| Attributable to: | | | |
| Equity holders of the Company | | **988,061** | 1,002,402 |
| Minority interests | | **(1,999)** | — |
| | | **986,062** | 1,002,402 |
| Earnings per share for profit attributable to the equity holders of the Company | 8 | | |
| – basic | | **RMB11.71 cents** | RMB13.61 cents |
| – diluted | | **RMB11.71 cents** | RMB13.61 cents |
| Interim dividend | 9 | **253,240** | 253,240 |

The notes on pages 25 to 44 form an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

*As at 30 June 2008*

| | Note | **Unaudited 30 June 2008 *RMB'000*** | Audited 31 December 2007 *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **1,939,763** | 1,113,312 |
| Leasehold land and land use rights | 10 | **1,232,319** | 549,703 |
| Investment properties | 10 | **23,286** | 24,382 |
| Intangible assets | 10 | **3,445,122** | 1,114,102 |
| Long-term deposits, prepayments and other non-current assets | | **162,227** | 1,053,055 |
| Deferred income tax assets | | **49,633** | 37,493 |
| | | **6,852,350** | 3,892,047 |
| **Current assets** | | | |
| Inventories | | **3,414,195** | 2,281,651 |
| Trade receivables | 11 | **1,744,726** | 1,395,111 |
| Other receivables, deposits and prepayments | | **668,924** | 317,899 |
| Available-for-sale financial assets | 12 | **1,012,808** | — |
| Financial assets at fair value through profit or loss | | **36,059** | 396,703 |
| Derivative financial instruments | | **23,928** | 42,665 |
| Structured bank deposits | | **862,354** | — |
| Term deposits with initial terms of over three months | | **402,554** | — |
| Cash and cash equivalents | 13 | **1,231,611** | 5,213,167 |
| | | **9,397,159** | 9,647,196 |
| **Total assets** | | **16,249,509** | 13,539,243 |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

*As at 30 June 2008*

| | Note | Unaudited 30 June 2008 RMB'000 | Audited 31 December 2007 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 14 | **83,126** | 83,126 |
| Share premium | 14 | **9,249,510** | 9,249,510 |
| Reserves | | **3,304,484** | 2,640,794 |
| | | **12,637,120** | 11,973,430 |
| Minority interests | | **62,522** | 62,931 |
| **Total equity** | | **12,699,642** | 12,036,361 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **310,814** | 52,322 |
| Other non-current liabilities | | **49,028** | 47,293 |
| | | **359,842** | 99,615 |
| **Current liabilities** | | | |
| Trade payables | 15 | **872,323** | 617,834 |
| Other payables, accruals and other current liabilities | | **909,653** | 505,769 |
| Short-term borrowings | 16 | **1,215,013** | 200,000 |
| Current income tax liabilities | | **193,036** | 79,664 |
| | | **3,190,025** | 1,403,267 |
| **Total liabilities** | | **3,549,867** | 1,502,882 |
| **Total equity and liabilities** | | **16,249,509** | 13,539,243 |
| **Net current assets** | | **6,207,134** | 8,243,929 |
| **Total assets less current liabilities** | | **13,059,484** | 12,135,976 |

The notes on pages 25 to 44 form an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2008*

| | Unaudited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and reserves attributable to equity holders of the Company | | | | | | | | | |
| | Share capital | Share premium | Merger reserve | Statutory reserves | Exchange reserve | Available-for-sale financial assets revaluation reserve | Retained earnings | Subtotal | Minority interests | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 14)* | *(Note 14)* | | | | | | | | |
| **For the six months ended 30 June 2007** | | | | | | | | | | |
| As at 1 January 2007 | 3 | 1,318,078 | 3,531 | 19,068 | 534 | — | 1,292,750 | 2,633,964 | — | 2,633,964 |
| Exchange differences | — | — | — | — | 542 | — | — | 542 | — | 542 |
| Net income recognised directly in equity | — | — | — | — | 542 | — | — | 542 | — | 542 |
| Profit for the period | — | — | — | — | — | — | 1,002,402 | 1,002,402 | — | 1,002,402 |
| Total recognised income for the period | — | — | — | — | 542 | — | 1,002,402 | 1,002,944 | — | 1,002,944 |
| Transfer to reserves | — | — | — | 18,238 | — | — | (18,238) | — | — | — |
| 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) |
| Dividends | — | — | — | — | — | — | (400,001) | (400,001) | — | (400,001) |
| | 83,123 | 7,931,432 | — | 18,238 | — | — | (418,239) | 7,614,554 | — | 7,614,554 |
| As at 30 June 2007 | 83,126 | 9,249,510 | 3,531 | 37,306 | 1,076 | — | 1,876,913 | 11,251,462 | — | 11,251,462 |

The notes on pages 25 to 44 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Continued)

*For the six months ended 30 June 2008*

| | Unaudited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and reserves attributable to equity holders of the Company | | | | | | | | | |
| | Share capital RMB'000 (Note 14) | Share premium RMB'000 (Note 14) | Merger reserve RMB'000 | Statutory reserves RMB'000 | Exchange reserve RMB'000 | Available-for-sale financial assets revaluation reserve RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| **For the six months ended 30 June 2008** | | | | | | | | | | |
| As at 1 January 2008 | 83,126 | 9,249,510 | 3,531 | 37,306 | (420) | – | 2,600,377 | 11,973,430 | 62,931 | 12,036,361 |
| Exchange differences | – | – | – | – | (28,391) | – | – | (28,391) | – | (28,391) |
| Net fair value loss on available-for-sale financial assets | – | – | – | – | – | (533) | – | (533) | – | (533) |
| Net expense recognised directly in equity | – | – | – | – | (28,391) | (533) | – | (28,924) | – | (28,924) |
| Profit/(loss) for the period | – | – | – | – | – | – | 988,061 | 988,061 | (1,999) | 986,062 |
| Total recognised (loss)/ income for the period | – | – | – | – | (28,391) | (533) | 988,061 | 959,137 | (1,999) | 957,138 |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | 1,590 | 1,590 |
| Dividends | – | – | – | – | – | – | (295,447) | (295,447) | – | (295,447) |
| | – | – | – | – | – | – | (295,447) | (295,447) | 1,590 | (293,857) |
| As at 30 June 2008 | 83,126 | 9,249,510 | 3,531 | 37,306 | (28,811) | (533) | 3,292,991 | 12,637,120 | 62,522 | 12,699,642 |

The notes on pages 25 to 44 form an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

*For the six months ended 30 June 2008*

| | Note | Unaudited Six months ended 30 June 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| Net cash generated from operating activities | | **876,762** | 584,394 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(562,713)** | (458,877) |
| Payments for intangible assets and leasehold land and land use rights | | **(130,724)** | (241,588) |
| Purchase of investment properties | | **—** | (37,025) |
| Proceeds from sale of property, plant and equipment | | **4,708** | — |
| Acquisition of subsidiaries and businesses (excluded cash acquired from acqusitions) | 17(c) | **(2,605,577)** | — |
| Purchase of available-for-sale financial assets | | **(1,000,000)** | — |
| New structured bank deposits | | **(852,644)** | — |
| New term deposits with initial terms of over three months | | **(400,000)** | — |
| Net cash used in investing activities | | **(5,546,950)** | (737,490) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of shares, net of share issuance costs | | **—** | 8,014,555 |
| Dividends paid | | **(295,447)** | (400,001) |
| Interest paid | | **(10,643)** | (26,764) |
| Interest received | | **30,438** | 391,503 |
| Proceeds from borrowings | | **1,723,738** | 1,107,833 |
| Repayments of borrowings | | **(704,990)** | (1,667,063) |
| Net cash generated from financing activities | | **743,096** | 7,420,063 |
| Net (decrease)/increase in cash and cash equivalents | | **(3,927,092)** | 7,266,967 |
| Cash and cash equivalents at beginning of the period | | **5,213,167** | 302,095 |
| Effect on foreign exchange | | **(54,464)** | (32,130) |
| Cash and cash equivalents at end of the period | | **1,231,611** | 7,536,932 |

The notes on pages 25 to 44 form an integral part of this condensed interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 General information

Belle International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the manufacturing, distribution and sales of shoes and footwear products, and the sales of sportswear 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 Taiwan.

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.

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 23 May 2007. This condensed consolidated interim financial information is presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

This condensed consolidated interim financial information for the six months ended 30 June 2008 is unaudited and has been reviewed by the audit committee of the Company and approved for issue by the board of directors on 10 September 2008.

## 2 Basis of preparation

The Company has a financial year end date of 31 December. This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

## 3 Accounting policies

The accounting policies and method of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2007, except as mentioned below.

### (a) *Effect of adopting new standards, amendments to standards and interpretations*

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 December 2008.

| | |
|---|---|
| IFRIC Int 11 | IFRS 2 - Group and Treasury Share Transactions |
| IFRIC Int 12 | Service Concession Arrangements |
| IFRIC Int 14 | IFRS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction |

The adoption of the above interpretations did not have any material financial impact to the Group.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 3 Accounting policies (continued)

*(b) Standards, amendments to standards and interpretations that have been issued but are not effective*

The following new standards, amendments to standards and interpretations have been issued but are not effective for the period beginning on 1 January 2008 and have not been early adopted.

| | |
|---|---|
| IFRS 1 and IAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for annual periods beginning on or after 1 January 2009) |
| IFRS 2 (Amendment) | Share-based Payment - Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) |
| IFRS 3 (Revised) | Business Combinations (effective for annual periods beginning on or after 1 July 2009) |
| IFRS 8 | Operating Segments (effective for annual periods beginning on or after 1 January 2009) |
| IAS 23 (Revised) | Borrowing Costs (effective for annual periods beginning on or after 1 January 2009) |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) |
| IAS 32 and IAS 1 (Amendments) | Puttable Financial Instruments and Obligations arising on Liquidation (effective for annual periods beginning on or after 1 January 2009) |
| IAS 39 (Amendment) | Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) |
| IFRIC Int 13 | Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008) |
| IFRIC Int 15 | Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009) |
| IFRIC Int 16 | Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) |

The effect that the adoption of IFRS 3 (Revised) and IAS 27 (Revised) will have on the results and financial position of the Group will depend on the incidence and timing of business combinations occurring on or after 1 January 2010. The directors anticipate that the adoption of other new standards, amendments to standards and interpretations will not result in a significant impact on the results and financial position of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 4 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 RMB8,215,725,000 (2007: RMB5,126,565,000).

*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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

## 4 Segment information (continued)

*Primary reporting format - business segments (continued)*

| | Six months ended 30 June 2008 | | | |
|---|---|---|---|---|
| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Inter-segment elimination *RMB'000* | Total *RMB'000* |
| **Revenue** | | | | |
| Sales of goods | 4,253,168 | 3,962,557 | — | 8,215,725 |
| Commissions from concessionaire sales | — | 12,616 | — | 12,616 |
| | 4,253,168 | 3,975,173 | — | 8,228,341 |
| **Segment results** | 949,793 | 203,370 | — | 1,153,163 |
| Unallocated income | | | | 40,177 |
| Amortisation of intangible assets | (15,663) | (25,443) | — | (41,106) |
| Unallocated expenses | | | | (13,290) |
| **Operating profit** | | | | 1,138,944 |
| Finance income | | | | 42,702 |
| Finance costs | | | | (56,442) |
| **Profit before income tax** | | | | 1,125,204 |
| Income tax expense | | | | (139,142) |
| **Profit for the period** | | | | 986,062 |
| Capital expenditure | | | | |
| – Allocated | 466,639 | 230,952 | — | 697,591 |
| – Unallocated | | | | 2,971 |
| Depreciation on property, plant and equipment | | | | |
| – Allocated | 128,987 | 156,358 | — | 285,345 |
| – Unallocated | | | | 1,109 |
| Amortisation of leasehold land and land use rights | | | | |
| – Allocated | 8,654 | 3,324 | — | 11,978 |
| – Unallocated | | | | 1,885 |
| Amortisation of intangible assets | 15,663 | 25,443 | — | 41,106 |
| Depreciation on investment properties | | | | |
| – Allocated | — | 356 | — | 356 |
| – Unallocated | | | | 139 |
| Impairment loss on inventories | 196 | — | — | 196 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 4 Segment information (continued)

*Primary reporting format - business segments (continued)*

| | As at 30 June 2008 | | | |
|---|---|---|---|---|
| | Shoes and footwear products | Sportswear products | Inter-segment elimination | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment assets | **5,982,439** | **6,413,626** | **(2,297,123)** | **10,098,942** |
| Goodwill | **1,613,053** | **505,927** | **—** | **2,118,980** |
| Other intangible assets | **763,022** | **563,120** | **—** | **1,326,142** |
| Unallocated assets | | | | **2,632,526** |
| Investment properties | | | | **23,286** |
| Deferred income tax assets | | | | **49,633** |
| **Total assets** | | | | **16,249,509** |
| Segment liabilities | **3,441,519** | **668,907** | **(2,297,123)** | **1,813,303** |
| Unallocated liabilities | | | | **17,701** |
| Borrowings | | | | **1,215,013** |
| Current income tax liabilities | | | | **193,036** |
| Deferred income tax liabilities | | | | **310,814** |
| **Total liabilities** | | | | **3,549,867** |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 4 Segment information (continued)

*Primary reporting format - business segments (continued)*

| | Six months ended 30 June 2007 | | | |
|---|---|---|---|---|
| | Shoes and footwear products | Sportswear products | Inter-segment elimination | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Revenue** | | | | |
| Sales of goods | 2,802,841 | 2,323,724 | — | 5,126,565 |
| Commissions from concessionaire sales | — | 4,639 | — | 4,639 |
| | 2,802,841 | 2,328,363 | — | 5,131,204 |
| **Segment results** | 627,586 | 147,190 | — | 774,776 |
| Unallocated income | | | | 4,804 |
| Amortisation of intangible assets | (896) | (19,444) | — | (20,340) |
| Unallocated expenses | | | | (65,026) |
| **Operating profit** | | | | 694,214 |
| Finance income | | | | 391,503 |
| Finance costs | | | | (54,415) |
| **Profit before income tax** | | | | 1,031,302 |
| Income tax expense | | | | (28,900) |
| **Profit for the period** | | | | 1,002,402 |
| Capital expenditure | 212,901 | 397,589 | — | 610,490 |
| Depreciation on property, plant and equipment | 70,439 | 73,095 | — | 143,534 |
| Amortisation of leasehold land and land use rights | | | | |
| – Allocated | 3,034 | 147 | — | 3,181 |
| – Unallocated | | | | 710 |
| Amortisation of intangible assets | 896 | 19,444 | — | 20,340 |
| Depreciation on investment properties | | | | 305 |
| Reversal of impairment loss on inventories | (95) | — | — | (95) |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 4 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 |

*Secondary reporting format - geographical segments*

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | | |
| The PRC | **7,871,475** | 4,948,625 |
| Hong Kong | **233,635** | 68,944 |
| Other locations | **123,231** | 113,635 |
| | **8,228,341** | 5,131,204 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 4 Segment information (continued)

*Secondary reporting format - geographical segments (continued)*

| | As at | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***RMB'000*** | *RMB'000* |
| Total assets | | |
| The PRC | **13,762,769** | 8,715,555 |
| Hong Kong | **1,358,804** | 4,799,544 |
| Other locations | **62,352** | 24,144 |
| | **15,183,925** | 13,539,243 |
| Unallocated assets | **1,065,584** | — |
| | **16,249,509** | 13,539,243 |

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure | | |
| The PRC | **687,611** | 605,726 |
| Hong Kong | **11,856** | 2,161 |
| Other locations | **1,095** | 2,603 |
| | **700,562** | 610,490 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 5 Operating profit

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

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Costs of inventories recognised as expenses included in cost of sales | **4,046,513** | 2,484,456 |
| Depreciation on property, plant and equipment | **286,454** | 143,534 |
| Amortisation of leasehold land and land use rights | **13,863** | 3,891 |
| Depreciation on investment properties | **495** | 305 |
| Amortisation of intangible assets | **41,106** | 20,340 |
| Operating lease rentals (mainly including concessionaire fees) in respect of land and buildings | **1,569,043** | 984,586 |
| Staff costs (including directors' emoluments) | **925,673** | 614,887 |
| Fair value loss on financial assets at fair value through profit or loss | **3,941** | — |
| Fair value gain on derivative financial instruments | **(38,069)** | — |
| Loss on disposal of property, plant and equipment | **7,236** | 450 |
| Provision for/(reversal of) impairment loss on inventories | **196** | (95) |

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 6 Finance (costs)/income, net

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Interest income on bank deposits | **32,992** | 27,325 |
| Interest income from subscription money upon initial public offering | **—** | 364,178 |
| Interest income from structured bank deposits | **9,710** | — |
| | **42,702** | 391,503 |
| Interest expense on bank borrowings | | |
| – wholly repayable within 5 years | **(10,643)** | (24,553) |
| – not wholly repayable with 5 years | **—** | (2,211) |
| | **(10,643)** | (26,764) |
| Net foreign exchange losses | **(45,799)** | (27,651) |
| | **(56,442)** | (54,415) |
| Finance (costs)/income, net | **(13,740)** | 337,088 |

### 7 Income tax expense

Hong Kong profits tax and overseas income tax have been provided at the rate of 16.5% (2007: 17.5%) and at the rates of taxation prevailing in the jurisdictions in which the Group operates respectively.

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – PRC enterprise income tax | **146,156** | 38,332 |
| – Hong Kong profits tax | **561** | 889 |
| – Macau income tax | **772** | 341 |
| Deferred income tax | **(8,347)** | (10,662) |
| | **139,142** | 28,900 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 8 Earnings per share

*Basic*

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| Profit attributable to equity holders of the Company (RMB'000) | **988,061** | 1,002,402 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (thousand of shares) *(note)* | **8,441,333** | 7,365,951 |
| Basic earnings per share (RMB cents per share) | **11.71** | 13.61 |

*Note:*

The weighed average number of ordinary shares for the purposes of basic earnings per share for the six months ended 30 June 2007 has been retrospectively adjusted for the effects of the capitalisation of the ordinary shares took place on 27 April 2007 (Note 14(d)).

*Diluted*

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

### 9 Dividends

(a) At a meeting held on 10 September 2008, the directors declared an interim dividend of RMB3 cents per share, totaling RMB 253,240,000 for the year ending 31 December 2008. This dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

(b) At a meeting held on 26 March 2008, the directors recommended a final dividend for the year ended 31 December 2007 of RMB3.5 cents per ordinary share, totaling 295,447,000, which was paid during the period and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2008.

(c) At a meeting held on 25 August 2007, the directors declared an interim dividend of RMB3 cents per share, totaling RMB253,240,000 for the year ended 31 December 2007.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 10 Capital expenditure

| | Property, plant and equipment | Leasehold land and land use rights | Investment properties | Intangible assets: Goodwill | Intangible assets: Other intangible assets *(note)* | Intangible assets: Total intangible assets | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Net book value as at 1 January 2008 | **1,113,312** | **549,703** | **24,382** | **505,927** | **608,175** | **1,114,102** | **2,801,499** |
| Acquisitions | **566,432** | **566,771** | **—** | **1,613,053** | **759,307** | **2,372,360** | **3,505,563** |
| Additions | **562,713** | **137,849** | **—** | **—** | **—** | **—** | **700,562** |
| Depreciation/amortisation | **(286,454)** | **(13,863)** | **(495)** | **—** | **(41,106)** | **(41,106)** | **(341,918)** |
| Disposals | **(11,944)** | **—** | **—** | **—** | **—** | **—** | **(11,944)** |
| Exchange differences | **(4,296)** | **(8,141)** | **(601)** | **—** | **(234)** | **(234)** | **(13,272)** |
| Net book value as at 30 June 2008 | **1,939,763** | **1,232,319** | **23,286** | **2,118,980** | **1,326,142** | **3,445,122** | **6,640,490** |
| Net book value as at 1 January 2007 | 575,621 | 278,897 | 11,636 | 485,261 | 170,876 | 656,137 | 1,522,291 |
| Additions | 331,877 | 241,203 | 37,025 | — | 385 | 385 | 610,490 |
| Depreciation/amortisation | (143,534) | (3,891) | (305) | — | (20,340) | (20,340) | (168,070) |
| Disposals | (450) | — | — | — | — | — | (450) |
| Exchange differences | (1,238) | (3,365) | (345) | — | (68) | (68) | (5,016) |
| Net book value as at 30 June 2007 | 762,276 | 512,844 | 48,011 | 485,261 | 150,853 | 636,114 | 1,959,245 |

*Note:*

Other intangible assets mainly include trademarks, distribution contracts and computer software.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

## 11 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 30 June 2008, the aging analysis of trade receivables, based on invoice date, is as follows:

| | As at | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***RMB'000*** | *RMB'000* |
| 0-30 days | **1,552,310** | 1,316,312 |
| 31-60 days | **94,619** | 50,680 |
| 61-90 days | **26,775** | 13,809 |
| Over 90 days | **71,022** | 14,310 |
| | **1,744,726** | 1,395,111 |

The carrying amounts of trade receivables approximate their fair values.

## 12 Available-for-sale financial assets

Available-for-sale financial assets of the Group represent certain unlisted financial instruments entered into between the Group and a commercial bank in the PRC. These investments are carried at their fair values and are denominated in RMB.

## 13 Cash and cash equivalents

| | As at | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***RMB'000*** | *RMB'000* |
| Cash and bank balances | **1,141,599** | 1,399,485 |
| Term deposits with initial term of less than three months | **90,012** | 3,813,682 |
| | **1,231,611** | 5,213,167 |
| Denominated in: | | |
| – RMB | **994,108** | 745,201 |
| – HK$ | **173,991** | 4,337,636 |
| – US$ | **7,212** | 128,047 |
| – Other currencies | **56,300** | 2,283 |
| | **1,231,611** | 5,213,167 |

The weighted average effective interest rate of the Group on term deposits with initial term of less than three months at 30 June 2008 was 3.33% (31 December 2007: 3.54%).

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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 14 Share capital and share premium

*Share capital*

| | No. of shares | | | |
|---|---|---|---|---|
| | Ordinary shares of HK$0.01 each | Redeemable ordinary shares of HK$0.01 each | Total | Share capital |
| | | | | *RMB'000* |
| **For the six months ended 30 June 2008** | | | | |
| Authorised: | | | | |
| As at 1 January 2008 and 30 June 2008 | 30,000,000,000 | — | 30,000,000,000 | 296,038 |
| Issued and fully paid: | | | | |
| As at 1 January 2008 and 30 June 2008 | 8,441,333,000 | — | 8,441,333,000 | 83,126 |
| **For the six months ended 30 June 2007** | | | | |
| Authorised: | | | | |
| As at 1 January 2007 | 19,500,000 | 19,500,000 | 39,000,000 | 413 |
| Redesignation of shares *(note a)* | 19,500,000 | (19,500,000) | — | — |
| Increase during the period *(note b)* | 29,961,000,000 | — | 29,961,000,000 | 295,625 |
| As at 30 June 2007 | 30,000,000,000 | — | 30,000,000,000 | 296,038 |
| Issued and fully paid: | | | | |
| As at 1 January 2007 | 86,354 | 196,470 | 282,824 | 3 |
| Redesignation of shares *(note c)* | 196,470 | (196,470) | — | — |
| Capitalisation of shares *(note d)* | 7,070,317,176 | — | 7,070,317,176 | 69,763 |
| Issuance of ordinary shares *(note e)* | 1,370,733,000 | — | 1,370,733,000 | 13,360 |
| As at 30 June 2007 | 8,441,333,000 | — | 8,441,333,000 | 83,126 |

*Notes:*

(a) Pursuant to a resolution passed on 27 April 2007, 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 authorised share capital of the Company being 39,000,000 ordinary shares of HK$0.01 each.

(b) Pursuant to a resolution passed on 27 April 2007, the authorised 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 shares in issue.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

## 14 Share capital and share premium (continued)

### *Share capital (continued)*

*Notes: (continued)*

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

(d) Pursuant to a resolution passed on 27 April 2007, the directors have been authorised 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 2008 in proportion to their respective shareholdings by way of capitalisation of the sum of HK$70,703,000 (equivalent to RMB69,763,000) standing to the credit of the share premium account of the Company.

(e) 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$6.20 through the global offering for an aggregated 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*

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.

### *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) 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 commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in 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 of the Listing Date, unless such scheme mandate limited is renewed by shareholders of the Company in a general meeting.

No options have been granted under the Share Option Scheme since its adoption.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 15 Trade payables

The normal credit period for trade payables generally ranges from 0 to 30 days. As at 30 June 2008, the aging analysis of trade payables is as follows:

| | As at | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***RMB'000*** | *RMB'000* |
| 0-30 days | **825,827** | 616,733 |
| Over 30 days | **46,496** | 1,101 |
| | **872,323** | 617,834 |

The carrying amounts of trade payables approximate their fair values.

### 16 Borrowings

| | As at | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current borrowings: | | |
| Bank borrowings | **1,215,013** | 200,000 |
| Representing: | | |
| Unsecured | **1,215,013** | — |
| Secured *(note)* | **—** | 200,000 |
| | **1,215,013** | 200,000 |

*Note:*

As at 31 December 2007, the aggregate net book value of property, plant and equipment, and leasehold land and land use rights pledged as securities for bank borrowings amounted to RMB292,162,000.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17 Business combinations

*(a) During the six months period ended 30 June 2008, the Group acquired the following subsidiaries and businesses:*

(i) *Acquisition of Millie's business*

Effective from 1 January 2008, Full Brand Limited, a wholly-owned subsidiary of the Group, acquired the entire equity interests in Ossia Marketing (HK) 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 RMB559,224,000) 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.

(ii) *Acquisition of Senda business*

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 RMB2,108,602,000. The control of the Senda Business has been gradually transferred to the Group during the period from 1 January 2008 to 31 May 2008.

(iii) *Acquisition of Mirabell business*

Effective from 1 June 2008, Belle Group Limited, a wholly-owned subsidiary of the Group, acquired 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 Holdings Limited. Total consideration for the acquisition was HK$1,615,656,000 (equivalent to RMB1,475,950,000).

*(b) The net assets acquired in the above transactions and the relevant goodwill arising are as follows:*

| | **Millie's business** *RMB'000* | **Senda's business** *RMB'000* | **Mirabell's business** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| Purchase considerations | | | | |
| – paid in cash | 383,390 | 2,025,583 | 1,454,004 | 3,862,977 |
| – payable | 175,834 | 83,019 | 21,946 | 280,799 |
| – direct expenses relating to the acquisitions | 388 | — | 5,590 | 5,978 |
| | 559,612 | 2,108,602 | 1,481,540 | 4,149,754 |
| Fair value of net identifiable assets acquired | (143,830) | (1,561,133) | (831,738) | (2,536,701) |
| Goodwill | 415,782 | 547,469 | 649,802 | 1,613,053 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 17 Business combinations (continued)

*(b) The net assets acquired in the above transactions and the relevant goodwill arising are as follows: (continued)*

| | Millie's business | | Senda's business | | Mirabell's business | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Acquiree's carrying amount | Fair value | Acquiree's carrying amount | Fair value | Acquiree's carrying amount | Fair value | Acquiree's carrying amount | Fair value |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Property plant and equipment and leasehold land and land use rights | 19,914 | 19,914 | 605,946 | 1,037,218 | 36,516 | 76,071 | 662,376 | 1,133,203 |
| Intangible assets | — | 144,331 | — | 302,849 | 10,135 | 312,127 | 10,135 | 759,307 |
| Inventories | 110,661 | 110,661 | 311,659 | 311,659 | 234,539 | 234,539 | 656,859 | 656,859 |
| Cash and cash equivalents | 7,195 | 7,195 | 126,306 | 126,306 | 225,325 | 225,325 | 358,826 | 358,826 |
| Other assets | 72,452 | 72,452 | 88,077 | 88,077 | 153,810 | 153,810 | 314,339 | 314,339 |
| Net deferred tax assets/(liabilities) | 966 | (22,849) | — | (183,530) | 8,417 | (47,939) | 9,383 | (254,318) |
| Other liabilities | (186,284) | (186,284) | (121,446) | (121,446) | (122,195) | (122,195) | (429,925) | (429,925) |
| | 24,904 | 145,420 | 1,010,542 | 1,561,133 | 546,547 | 831,738 | 1,581,993 | 2,538,291 |
| Minority interests | (1,590) | (1,590) | — | — | — | — | (1,590) | (1,590) |
| Net identifiable assets acquired | 23,314 | 143,830 | 1,010,542 | 1,561,133 | 546,547 | 831,738 | 1,580,403 | 2,536,701 |

*Note:*

During the period, the above acquisitions were completed and the Group commenced to account for these business combinations from the effective dates when the Group gained control over the relevant companies and businesses. As at the date of this interim report, the initial accounting for the acquisitions is determined on a provisional basis as the allocation of fair value to the identifiable assets and liabilities of the acquisitions are still progressing. Adjustments to those provisional values of identifiable assets and liabilities, including any additional depreciation, amortisation, and other profit or loss effect, if any, will be recognised on completion of the initial accounting.

Senda's businesses contributed revenues of RMB542,765,000 and profit of RMB50,361,000 to the Group for the period ended 30 June 2008 since acquisition. The revenues and results contributed by Millie's and Mirabell's businesses to the Group for the period ended 30 June 2008 since their respective acquisition dates, individually or in aggregate, are not material to the Group. The Group's revenues and profit for the period ended 30 June 2008 would not be materially different if all these acquisitions had occurred on 1 January 2008.

There were no acquisitions during the six months period ended 30 June 2007.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

## 17 Business combinations (continued)

(c) *In the cash flow statement, payments for acquisition of subsidiaries and businesses (excluded cash acquired from acqusitions) comprise:*

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Total purchase considerations | **4,149,754** | — |
| Prepayments made in 2007 | **(904,552)** | — |
| Considerations payable as at 30 June | **(280,799)** | — |
| Total purchase considerations paid during the period | **2,964,403** | — |
| Cash and cash equivalents acquired | **(358,826)** | — |
| Net cash outflow during the period | **2,605,577** | — |

## 18 Capital commitments

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Acquisition of subsidiaries: | | |
| – Contracted but not provided for | **—** | 1,689,888 |
| Acquisition of property, plant and equipment: | | |
| – Contracted but not provided for | **3,396** | 139,130 |
| Construction commitments: | | |
| – Contracted but not provided for | **72,526** | 178,367 |
| | **75,922** | 2,007,385 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

## 19 Related party transactions

During the period, 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 and a subsidiary of the Group effective from 1 June 2008 |
| 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 in addition to the related party information shown elsewhere in the condensed consolidated interim financial information.

*Profit and loss items:*

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Sales of goods | | |
| – Mirabell Footwear Limited *(note a)* | **568** | 319 |
| Royalty expenses | | |
| – Hong Yu Trading (Shenzhen) Company Limited *(note b)* | **2,870** | 2,965 |
| Key management compensation | | |
| – Salaries, bonuses and other welfares *(note c)* | **8,931** | 9,211 |

*Notes:*

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

(b) Royalty expenses 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.

# GENERAL INFORMATION

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

As at 30 June 2008, 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 SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") 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) | 33.95% |
| | Interest in controlled corporation (Note 3) | 183,169,000 (L) | 2.17% |
| | Interest in controlled corporation (Note 4) | 337,500,000 (L) | 4.00% |
| Mr. Sheng Baijiao | Interest in controlled corporation (Note 5) | 694,675,000 (L) | 8.23% |
| | Interest in controlled corporation (Note 6) | 25,000,000 (L) | 0.30% |
| | Beneficial Interest | 75,000,000 (L) | 0.89% |

Notes:

(1) The letter "L" denotes a long position in the ordinary share of HK0.01 each in the issued share capital of the Company (the "Share").

(2) These Shares were 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, were together beneficially interested in the entire issued share capital of Merry Century Investments Limited ("Merry Century"), which was interested in 51.1% of the issued share capital of Profit Leader. Golden Coral Holdings Limited ("Golden Coral") was interested in 38.9% of the issued share capital of Profit Leader.

(3) These Shares were held by Profit Discovery Limited ("Profit Discovery"), a limited liability company incorporated in the British Virgin Islands. Mr. Tang was interested in the entire issued share capital of Profit Discovery.

(4) These Shares were held by High Summit Group Limited ("High Summit"), a limited liability company incorporated in the British Virgin Islands. Mr. Tang was interested in the entire issued share capital of High Summit.

(5) These Shares were held by Handy Limited ("Handy"), a limited liability company incorporated in the British Virgin Islands. Mr. Sheng was interested in 56.4% of the issued share capital of Handy.

(6) These Shares were held by Best Castle Group Limited ("Best Castle"), a limited liability company incorporated in the British Virgin Islands. Mr. Sheng was interested in the entire issued share capital of Best Castle.

## Directors' interests and short positions in shares, underlying shares and debentures (continued)

### *(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" of note 14 to the Condensed Consolidated Interim Financial Information.

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.

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

As at 30 June 2008, 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 |
|---|---|---|---|
| Handy | Beneficial Interest | 694,675,000 (L) | 8.23% |
| Essen Worldwide Limited | Beneficial Interest | 689,700,000 (L) | 8.17% |
| Profit Leader | Beneficial Interest | 2,865,625,000 (L) | 33.95% |
| Merry Century | Interest in controlled corporation (Note 2) | 2,865,625,000 (L) | 33.95% |
| Golden Coral | Interest in controlled corporation (Note 2) | 2,865,625,000 (L) | 33.95% |
| Ms. WS Tang | Interest in controlled corporation (Note 2) | 2,865,625,000 (L) | 33.95% |
| JPMorgan Chase & Co. | Interest in controlled corporation (Note 3) | 586,134,311 (L)<br>1,325,000 (S)<br>121,151,826 (P) | 6.94%<br>0.02%<br>1.44% |

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 30 June 2008.

## Substantial shareholders' and other persons' interests and short positions in shares and underlying shares (continued)

Notes:

(1) The letter "L" and "S" denote a long position and short position in the Shares, respectively, and the letter "P" denotes a lending pool in the Shares.

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

(3) JPMorgan Chase & Co. was interested in 4,743,404 Shares, 460,239,081 Shares and 121,151,826 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, 123,854,826 Shares were held by JPMorgan Chase Bank, N.A., 319,121,081 Shares were held by JF Asset Management Limited, 4,743,404 Shares were held by J.P. Morgan Whitefriars Inc., 11,128,000 Shares were held by J.P. Morgan Investment Management Inc., 63,146,000 Shares were held by JF Asset Management (Singapore) Limited, 25,244,000 Shares were held by JPMorgan Asset Management (UK) Limited, 17,877,000 Shares were held by JF Asset Management (Taiwan) Limited, 21,020,000 Shares were held by China International Fund Management Ltd, all of which were either controlled by or indirectly controlled corporations of JPMorgan Chase & Co.. JPMorgan Chase & Co. also had short position of 1,325,000 Shares in the capacity as beneficial owner. Such short position in Shares was held by J.P. Morgan Structured Products B.V., which was indirectly controlled corporation of JPMorgan Chase & Co.

## Purchase, sale and redemption of securities

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaires has purchased, sold or redeemed any of the Company's listed securities.

## Corporate governance

The Company had compiled with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008.

## Model code for securities transactions by directors

The Company has adopted a Securities Dealing Code regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and its Securities Dealing Code throughout the period under review.

## Audit committee

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 the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board of the Company.

The audit committee shall comprise at least three members with the majority being independent non-executive directors. Currently, it comprises three independent non-executive directors of the Company, Mr. Ho Kwok Wah, George, Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi. The chairman of the audit committee is Mr. Ho Kwok Wah, George who has a professional qualification in accountancy.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim report for the six months ended 30 June 2008.

## Remuneration committee

The primary duties of the remuneration committee include (but without limitation) making recommendations to our 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 development 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 has three members comprising Mr. Chan Yu Ling, Abraham, Mr. Sheng and Dr. Xue Qiuzhi, two of whom are independent non-executive directors. The chairman of the remuneration committee is Mr. Chan Yu Ling, Abraham.

## Sufficiency of public float

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