NOTES TO THE INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Accounts have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Accounts should be read in conjunction with the annual accounts for the year ended 31st March 2005.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and HKASs (collectively known as "HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

This Interim Accounts has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be effective on 31st March 2006, including those that will be applicable on optional basis are not known with certainty at the time of preparing this Interim Accounts.

The relevant changes in the Group's accounting policies resulting from the adoption of these new and revised HKFRSs are set out in note 2 below.

2. IMPACT OF NEW AND REVISED HKFRSs

For the six months ended 30th September 2005, the Group adopted the new/revised HKFRSs that are applicable to its operations. The comparative figures have been restated as required.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases- Incentives
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 27, 33, 36 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary,

– HKAS 1 had affected certain presentation in the financial statements and disclosures of accounts;

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36 and HKAS-Int 15 had no material effect on the Group's policies; and

– HKAS 21 had no material effect on the Group's accounting policies. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. A majority of the Group entities have the same functional currency ("US Dollar") as the presentation currency for respective entity financial statements.

2. IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 31st March 2005 except for the followings:

– **Adoption of HKAS 17**

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating lease. The up-front prepayments made for the leasehold land are expensed in the profit and loss accounts on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss accounts. With the adoption of HKAS 17, leasehold land is reclassified as prepaid land lease payments which are carried at cost and amortized on a straight-line basis over the lease term which applied retrospectively. Amortization charge for the period is recognized in the consolidated profit and loss accounts. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment losses.

– **Adoption of HKASs 32 and 39**

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value.

– **Adoption of HKAS 40**

The adoption of HKAS 40 has resulted in a change in the accounting policy relating to investment properties, with any changes in fair value are dealt with in the profit and loss account. In prior years, changes in fair value of investment property are dealt with as movements in investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

The Group has applied the relevant transitional provisions and elected to apply HKAS 40 from 1st April 2005 onwards. The amount held in investment property revaluation reserve at 1st April 2005 has been transferred to retained profits.

2. **IMPACT OF NEW AND REVISED HKFRSs** *(Continued)*

– **Adoption of HKFRS 2**

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, no options was granted by the Company since the inception of the Share Option Scheme of the Company on 30th August 2002. This change in accounting policy has no financial effect for the six months ended 30th September 2005.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 that does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investment in securities for the comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1st April 2005;

– HKAS 40 that the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative figures;

– HKAS-Int 15 that does not require the recognition of incentives for leases beginning before 1st April 2005; and

– HKFRS 2 that no options was granted since the inception of the Company's share option scheme on 30th August 2002.

2. IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

Summary of the financial effect of above changes in accounting policies on the condensed consolidated balance sheet as at 1st April 2005/31st March 2005 and 30th September 2005 are as follows:

	Effect of adopting new HKFRSs				
	HKAS 1(a)	HKAS 17(a)	HKAS 39(b)	HKAS 40(b)	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 30th September 2005					
Investment properties	4,936	–	–	–	4,936
Property, plant and equipment	(4,936)	(1,270)	–	–	(6,206)
Prepaid land lease payments	–	1,270	–	–	1,270
Financial assets at fair value through profit and loss	–	–	68	–	68
Changes in net assets	–	–	68	–	68
Investment properties revaluation (c)	–	–	–	(3,233)	(3,233)
Retained profits (c)	–	–	68	3,233	3,233
Changes in total equity	–	–	68	–	68
At 1st April 2005/ 31st March 2005					
Investment properties	4,936		–		4,936
Property, plant and equipment	(4,936)	(1,287)	–	–	(6,223)
Prepaid land lease payments	–	1,287	–	–	1,287
Changes in net assets	–	–	–	–	–
Investment properties revaluation (c)	–	–	–	(3,233)	(3,233)
Retained profits (c)	–	–	–	3,233	3,233
Changes in total equity	–	–	–	–	–

Notes:

(a) adjustments take effect retrospectively

(b) adjustments take effect prospectively from 1st April 2005

(c) investment properties revaluation was transferred to retained profits upon the adoption of HKAS 40 on 1st April 2005

2. IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

Summary of the financial effect of above changes in accounting policies on the condensed consolidated income statement for the six months ended 30th September 2005 and 2004 are as follows:

	Effect of adopting new HKFRSs		
	HKAS 17(a)	**HKAS 39(b)**	**Total**
	US$'000	*US$'000*	*US$'000*
For the six months ended 30th September 2005			
Depreciation of property, plant and equipment	16	–	16
Amortisation for prepaid land lease payments	(17)	–	(17)
Fair value gain on foreign exchange forward contracts through profit and loss	–	68	68
Net effect on profit after taxation	(1)	68	67
For the six months ended 30th September 2004			
Depreciation of property, plant and equipment	16	–	16
Amortisation for prepaid land lease payments	(16)	–	(16)
Net effect on profit after taxation	–	–	–

Notes:

(a) adjustments take effect retrospectively

(b) adjustments take effect prospectively from 1st April 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture of athletic and sports leisure footwear products. Turnover represents gross invoiced sales of sports footwear net of returns and discounts. Revenues recognised during the period are as follows:

	Unaudited Six months ended 30th September	
	2005	2004
	US$'000	*US$'000*
Turnover		
Sales of goods	**56,009**	54,714
Other revenues		
Bank interest income	**193**	57
Gross rental income from investment properties	**271**	223
Gross rental income from other properties	**7**	8
Net gain on disposal of fixed assets	**3**	–
Fair value gain on forward exchange contracts through profit and loss	**68**	–
Subcontracting income	**244**	41
Others	**440**	327
	1,226	656
Total revenues	**57,235**	55,370

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

The Group is currently marketed to four major geographical segments based on the locations of its customers. An analysis of the Group's results by geographical segment based on the country in which the customer is located is as follows:

	Unaudited			
	Six months ended 30th September			
	2005	**2005**	2004	2004
		Segment		Segment
	Turnover	**result**	Turnover	result
	US$'000	***US$'000***	*US$'000*	*US$'000*
North America	**35,729**	**2,078**	33,089	1,343
Europe	**7,414**	**431**	7,092	288
Asia (other than Mainland China)	**2,587**	**150**	5,051	205
Mainland China	**8,453**	**492**	7,316	297
Others	**1,826**	**106**	2,166	87
		3,257		2,220
Unallocated costs		**(224)**		(213)
Operating profit		**3,033**		2,007
Finance cost		**(1)**		(1)
Profit before taxation		**3,032**		2,006
Taxation		**–**		–
Profit attributable to shareholders		**3,032**		2,006
Total	**56,009**		54,714	

No analysis of segment information by business segment is presented as the Group has been engaged in the manufacture and sale of footwear products only.

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	Unaudited Six months ended 30th September	
	2005	2004
	US$'000	*US$'000*
Depreciation	**1,077**	1,149
Amortisation of prepaid land lease payments	**17**	16
Staff costs (including directors' emoluments)	**9,238**	8,874
Exchange loss, net	**194**	32
Operating lease rentals for land and buildings	**299**	279

5. TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made in the accounts as the Group has no assessable profits for the period (2004: Nil).

There was no material unprovided deferred taxation for the period (2004: Nil).

As disclosed in the Company's 2005 annual report, Hong Kong Inland Revenue Department ("IRD") issued additional profits tax assessments for a taxation charge of HK$5,431,000 (equivalent to approximately US$696,000), relating to the year of assessment 1998/99, that is, for the financial year ended 31st March 1999, against a wholly-owned subsidiary of the Company in February 2005. The Group lodged objections with the IRD against the additional assessments. The IRD agreed to hold over the tax claimed completely subject to the Group's purchase of tax reserve certificates (the "TRC") of HK$5,431,000 (equivalent to approximately US$696,000) for the year of assessment 1998/99. The TRC were purchased by the Group on 7th March 2005.

In the opinion of the Board, the subsidiary in question did not carry on any business and derived no profit in or from Hong Kong and therefore, the IRD should conclude that no profits tax is in fact payable by the Group for that year of assessment and no provision for Hong Kong profits tax in respect of the additional assessment is considered necessary.

6. INTERIM DIVIDEND

	Unaudited Six months ended 30th September	
	2005	2004
	US$'000	*US$'000*
Interim dividend, proposed of HK$0.01 (2004: HK$0.01) per ordinary share *(Note)*	**437**	437

Note:

At the board meeting held on 23rd December 2005, the Board has resolved to declare the payment of an interim dividend of HK$0.01 per ordinary share for the year ending 31st March 2006. This proposed dividend is not reflected as a dividend payable in these accounts, but will reflected as an appropriation of retained earnings for the year ended 31st March 2006.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$3,032,000 (2004: US$2,006,000) and the weighted average number of 340,616,934 (2004: 340,616,934) shares in issue during the period.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 30th September 2005 and 2004.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US$290,000 (2004: US$605,000) on property, plant and equipment to expand its business and net book value of property, plants & equipment disposed of amounted to US$3,000 (2004: Nil).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Unlisted investments in Indonesia, at cost	**1,718**	1,718
Impairment loss	**(1,718)**	(1,718)
	–	–

10. ACCOUNTS RECEIVABLES AND DEPOSITS

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Accounts receivable *(Note)*	**9,532**	15,293
Prepayments and deposits	**1,573**	1,254
	11,105	16,547

Note:

The Group allows an average credit period of 30 to 60 days to its trade customers and the ageing analysis of trade receivables (net of provisions for bad and doubtful debts) was as follows:

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Current to 30 days	**6,805**	9,917
31-60 days	**2,485**	4,858
61-90 days	**163**	448
Over 90 days	**79**	70
	9,532	15,293

11. ACCOUNTS PAYABLE AND ACCRUALS

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Accounts payable *(Note)*	**7,577**	11,901
Accruals and other payables	**7,086**	5,913
	14,663	17,814

Note:

At 30th September 2005, the ageing analysis of accounts payable was as follows:

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Current to 30 days	**3,195**	6,024
31-60 days	**2,664**	4,500
61-90 days	**820**	925
Over 90 days	**898**	452
	7,577	11,901

12. SHARE CAPITAL

	Par value of shares *HK$*	Number of ordinary shares	Value *US$'000*
Authorised:			
At 1st April 2005 and 30th September 2005	0.01 each	36,000,000,000	46,452
Issued and fully paid:			
At 1st April 2005 and 30th September 2005	0.01 each	340,616,934	440

13. CONTINGENT LIABILITIES

	Company	
	Unaudited 30th September 2005 ***US$'000***	Audited 31st March 2005 *US$'000*
Guarantees executed in favour of banks to secure banking and loan facilities granted to subsidiaries	**391**	1,238

The Group did not have any other contingent liabilities as at 30th September 2005 and 31st March 2005.

14. OPERATING LEASE COMMITMENTS

At 30th September 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Not later than one year *(Note)*	**447**	468
Later than one year and not later than five years *(Note)*	**1,609**	1,728
Later than five years (Note)	**8,565**	11,752
	10,621	13,948

Note:

Included in the balances were operating lease commitments in respect of rentals payable to Bao An Xian provincial government for the use of factory premises by the Group pursuant to a non-cancellable operating lease for a lease term of fifty years from years 1998 to 2048. These balances, which are stated at the present value of the future aggregate minimum lease payments at the applicable prevailing prime rate of 7.25% (31st March 2005: 5.25%), are as follows:

	Unaudited 30th September 2005 *US$'000*	Audited 31st March 2005 *US$'000*
Not later than one year	**360**	380
Later than one year and not later than five years	**1,442**	1,520
Later than five years	**8,565**	11,752
	10,367	13,652

The Company did not have any commitments at 30th September 2005 and 31st March 2005.