

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report. The parent and ultimate holding company of the Company is Wonder Star Securities Limited, a company incorporated in the British Virgin Islands.

The consolidated financial statements are presented in United States Dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. These changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

(a) Financial instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP24”)

Prior to 1st April 2005, the Group has classified its investments securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

Equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP24") (continued)

2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively.

Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. At 1st April 2005, the Group has reclassified its investment securities which were fully impaired in previous years as available-for-sale investments. The adoption of the requirements of HKAS 39 in respect of equity investments has had no impact to the Group at 1st April 2005 nor has it has an impact on the current period.

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provision in HKAS 39. However, there has been no material effect on how the results for the current period are prepared and presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Financial instruments *(continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provision in HKAS 39. However, there has been no material effect on how the results for the current period are prepared and presented.

(b) Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (*Note 3*).

(c) Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and a revaluation surplus subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. As the Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st April 2005 onwards, this change in accounting policy does not have any impact on the Group's results for the prior years. The amount held in investment properties revaluation reserve at 1st April 2005 has been transferred to the Group's retained profits (*Note 3*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF FINANCIAL EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described in note 2 above on the Group's results are as follows:

	2006 US\$'000	2005 <i>US\$'000</i> (Restated)
Costs of good sold:		
Decrease in depreciation of property, plant & equipment	(34)	(32)
Increase in amortisation of prepaid lease payments	34	32
Net effect on profit for the year	—	—

The cumulative effects of the application of the new HKFRS on the Group's assets, liabilities and equity at 31st March 2005 and 1st April 2005 are summarised as follows:

	As at 31st March 2005 (As originally stated) <i>US\$'000</i>	Retrospective Adjustments		As at 31st March 2005/ 1st April 2005 (Restated) <i>US\$'000</i>	Prospective Adjustment <i>US\$'000</i>	As at 1st April 2005 (Restated) <i>US\$'000</i>
		HKAS 1 <i>US\$'000</i>	HKAS 17 <i>US\$'000</i>		HKAS 40 <i>US\$'000</i>	
Investment properties	—	4,936	—	4,936	—	4,936
Property, plant & equipment	15,549	(4,936)	(1,287)	9,326	—	9,326
Prepaid lease payments	—	—	1,287	1,287	—	1,287
Total effects on assets	15,549	—	—	15,549	—	15,549
Investment properties revaluation	3,233	—	—	3,233	(3,233)	—
Retained profits	36,991	—	—	36,991	3,233	40,224
Total effects on equity	40,224	—	—	40,224	—	40,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF FINANCIAL EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at 31st March 2006. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on how the Group's results of operations and financial position are presented.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ⁵
HKAS 21 (Amendment)	Net Investment in a Foreign Operation ⁵
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ⁵
HKAS 39 (Amendment)	The Fair Value Option ⁵
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts ⁵
HKFRS 6	Exploration for and Evaluation of Mineral Resources ⁵
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — INT 4	Determining whether an Arrangement Contains a Lease ⁵
HK(IFRIC) — INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ⁵
HK(IFRIC) — INT 6	Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment ⁶
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) — INT 8	Scope of HKFRS2 ³
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives ²

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st June 2006.

³ Effective for annual periods beginning on or after 1st May 2006.

⁴ Effective for annual periods beginning on or after 1st March 2006.

⁵ Effective for annual periods beginning on or after 1st January 2006.

⁶ Effective for annual periods beginning on or after 1st December 2005.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at revalued amounts or fair values as appropriate, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (the "Group") made up to 31st March.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Revenue recognition

Revenue from sales of sports footwear is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income from a financial asset is recognised on a time basis, taking into account the principal amounts outstanding and the interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Operating lease rental income is recognised on a straight-line basis over the term of relevant lease.

Subcontracting income is recognised when service is rendered.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided for write-off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

(e) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure.

(g) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and prepayments, bills receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial assets (continued)

Available-for-sale investments (continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar investments. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, bills payable and accruals subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Derecognition (continued)

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(h) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to the consolidated income statements on a straight-line basis over the lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i. e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i. e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

(j) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(k) Retirement benefits costs

The retirement benefits costs charged in the consolidated income statement represent the contribution paid or payable in respect of current year to the Group's retirement schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Contingent liabilities and contingent assets (continued)

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment (Note 16).

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

5. KEY SOURCE OF ESTIMATION OF UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation of property, plant and equipment

The Group's carrying values of property, plant and equipment as at 31st March 2006 were US\$7,687,000. The Group depreciates the property, plant and equipment, after taking into account their estimated residual value, on a straight-line basis over their estimated useful lives as set out in note 16. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(b) Inventory valuation method

The management of the Group reviews an aging analysis at each balance sheet date, and make allowances for obsolete and slow-moving inventories items identified that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank deposits, trade receivables and payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(a) Currency risk

The Group's sales and purchases traded mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85, the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar. In addition, certain bank balances and cash are denominated in Renminbi which were subject to foreign exchange control.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables and bank deposits.

It is the Group's policy to enter into transactions with creditworthy parties. Also, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The five largest customers of the Group constitute approximately 97% of the Group's sales. The directors are of the view that there is no significant concentration of credit risk since the financial background of the Group's customers is strong and they are credit trustworthy.

All banks deposits and bank balances of the Group are placed with reputable financial institutions.

(c) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. 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 year are as follows:

	2006 <i>US\$'000</i>	2005 <i>US\$'000</i>
Turnover		
Sales of goods	<u>102,245</u>	<u>112,666</u>
Other revenues		
Bank interest income	494	175
Gross rental income from investment properties	546	492
Gross rental income from other properties	21	18
Gain on disposal of property, plant and equipment	5	—
Subcontracting income	1,116	54
Others	<u>1,438</u>	<u>868</u>
	<u>3,620</u>	<u>1,607</u>
Total revenues	<u><u>105,865</u></u>	<u><u>114,273</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

An analysis of the Group's results by geographical segment based on the location of customers and geographical analysis on segment assets and liabilities based on the locations of assets are as follows:

	2006			
	Turnover US\$'000	Segment results US\$'000	Segment assets US\$'000	Segment liabilities US\$'000
North America	62,669	3,842	—	—
Europe	13,033	799	—	—
Asia (other than Mainland China)	5,692	349	15,493	266
Mainland China	17,432	1,069	47,792	17,039
Others	3,419	210	—	—
		6,269		
Unallocated costs		(561)		
Decrease in fair value of investment properties		(110)		
Finance cost		(1)		
Profit before taxation		5,597		
Taxation		—		
Profit attributable to shareholders		<u>5,597</u>		
Total	<u>102,245</u>		<u>63,285</u>	<u>17,305</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

	2005			
	Turnover US\$'000	Segment results US\$'000 (Restated)	Segment assets US\$'000	Segment liabilities US\$'000
North America	69,062	2,824	—	—
Europe	13,655	558	—	—
Asia (other than Mainland China)	10,030	410	10,042	371
Mainland China	16,059	657	50,140	17,681
Others	3,860	158	—	—
		4,607		
Unallocated costs		(380)		
Reversal of impairment loss in respect of leasehold buildings		1,703		
Finance cost		(1)		
Profit before taxation		5,929		
Taxation		—		
Profit attributable to shareholders		5,929		
Total	112,666		60,182	18,052

	Capital expenditure of property, plant and equipment		Depreciation of property, plant and equipment		Amortisation of prepaid lease payments	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000 (Restated)	2006 US\$'000	2005 US\$'000
Mainland China	447	1,241	2,032	2,278	34	32
Asia (other than Mainland China)	—	—	51	52	—	—
	447	1,241	2,083	2,330	34	32

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE COST

	2006 US\$'000	2005 US\$'000
Interest on bank overdrafts	<u>1</u>	<u>1</u>

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2006 US\$'000	2005 US\$'000 (Restated)
Amortisation of prepaid lease payments	34	32
Auditors' remuneration	85	95
Depreciation of property, plant and equipment	2,083	2,330
Net exchange loss	480	134
Operating lease rentals for land and buildings	584	583
Staff costs (including directors' emoluments) (Note 10)	18,794	18,737
Cost of inventories recognised as an expense	<u>94,366</u>	<u>104,065</u>

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 US\$'000	2005 US\$'000
Wages and salaries	18,331	18,177
Termination benefits	31	25
Contributions to retirement benefit scheme (Note)	<u>432</u>	<u>535</u>
	<u>18,794</u>	<u>18,737</u>

Note:

The Group has joined a Mandatory Provident Fund ("MPF Scheme") for its employees in Hong Kong. The Group's contributions to the MPF Scheme are expensed as incurred and are 100% vested in the employees as soon as they are paid to the MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employees reach the age of 65 subject to a few exceptions. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. The only obligation of the Group with respect to the MPF Scheme is to make the required contribution under the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

Note: (continued)

The Group had also operated a define contribution retirement scheme which was terminated on 28th February 2006. Contributions to the scheme by the Group and employees were calculated as a percentage of employees' basic salaries. The Group's contributions were reduced by contributions forfeited by those employees who leave the scheme or due to the aforesaid termination prior to vesting fully in the contributions. Forfeited contributions of US\$34,935 were utilised during the year (2005: US\$16,965).

As stipulated under the rules and regulations in Mainland China, the subsidiaries established in Mainland China require to contribute certain percentage of payroll costs of its employees to a state-management retirement scheme operated by the provisional governments for its employees in Mainland China. The only obligation of the Group is to pay the ongoing required contributions under these schemes.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the five directors of the Company were as follows:

2006

	Other emoluments			Total US\$'000
	Fees US\$'000	Basic salaries, other allowances and benefits in kinds US\$'000	Contributions to retirement benefit scheme US\$'000	
LEE Chi Keung, Russell	—	112	11	123
YU Mee See, Maria	—	1	—	1
NG Wai Hung	5	—	—	5
LEE Siu Leung	5	—	—	5
YUEN Sik Ming	5	—	—	5
	<u>15</u>	<u>113</u>	<u>11</u>	<u>139</u>
Total emoluments	<u>15</u>	<u>113</u>	<u>11</u>	<u>139</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

2005

	Other emoluments			Total US\$'000
	Fee US\$'000	Basic salaries, other allowances and benefits in kinds US\$'000	Contributions to retirement benefit scheme US\$'000	
LEE Chi Keung, Russell	—	155	5	160
YU Mee See, Maria	—	1	—	1
NG Wai Hung	5	—	—	5
LEE Siu Leung	5	—	—	5
YUEN Sik Ming	5	—	—	5
Total emoluments	<u>15</u>	<u>156</u>	<u>5</u>	<u>176</u>

No directors waived their emoluments in respect of the years ended 31st March 2006 and 2005.

(b) Senior management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the four individuals (2005: four) during the year, which fall within the range of HK\$Nil — HK\$1,000,000 (2005: HK\$Nil — HK\$1,000,000), are as follows:

	2006 US\$'000	2005 US\$'000
Basic salaries, other allowances and benefits-in-kind	273	275
Discretionary bonuses	48	35
Contributions to retirement benefit scheme	25	24
	<u>346</u>	<u>334</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TAXATION

- (a) Hong Kong profits tax is provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group has no assessable profit for the year (2005: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. No provision for overseas taxation has been made in the consolidated financial statements as the Group has no assessable overseas profit for the year.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2006 <i>US\$'000</i>	2005 <i>US\$'000</i>
Profit before taxation	<u>5,597</u>	<u>5,929</u>
Calculated at a taxation rate of 17.5% (2005: 17.5%)	979	1,038
Effect of different taxation rates in other countries	350	614
Income not subject to taxation	(1,445)	(1,900)
Expenses not deductible for taxation purposes	<u>116</u>	<u>248</u>
Taxation charge	<u>—</u>	<u>—</u>

- (b) Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of US\$2,046,000 (2005: US\$2,793,000) to carry forward against future taxable income in respect of PRC subsidiaries, of which US\$926,000 will expire in 31st December 2006 and the remaining balances of US\$1,120,000 will expire by 31st December 2010.

There was no other material unprovided deferred taxation for the year (2005: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TAXATION (continued)

- (c) In February 2005 and March 2006, Hong Kong Inland Revenue Department (“IRD”) issued additional profits tax assessments of approximately HK\$5,431,000 (equivalent to approximately US\$696,000) and HK\$3,385,000 (equivalent to approximately US\$434,000) relating to the years of assessment 1998/99 and 1999/2000, that is, for the financial years ended 31st March 1999 and 2000, respectively, against a wholly-owned subsidiary of the Company. The Group lodged objections with the IRD against the additional assessments. The IRD agreed to hold over the tax claimed completely subject to the subsidiary in question purchasing tax reserve certificates (the “TRCs”) in the above amounts, representing an aggregate of HK\$8,816,000 (equivalent to approximately US\$1,130,000). These TRCs have been purchased by the Group.

In the opinion of the directors, 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 these years of assessments and no provision for Hong Kong profits tax in respect of the additional assessments is considered necessary.

13. DIVIDENDS

	2006 <i>US\$'000</i>	2005 <i>US\$'000</i>
Interim dividend, paid of HK\$0.01 (2005: HK\$0.01) per ordinary share	437	437
Final dividend, proposed of HK\$0.03 (2005: HK\$0.03) per ordinary share (Note)	<u>1,310</u>	<u>1,310</u>
	<u>1,747</u>	<u>1,747</u>

Note:

The proposed final dividend has been proposed by the directors of the Company and is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group’s profit attributable to shareholders of US\$5,597,000 (2005: US\$5,929,000) and the weighted average number of 340,616,934 (2005: 340,616,934) shares in issue during the year.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 31st March 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INVESTMENT PROPERTIES

US\$'000

Fair value

At 1st April 2004	—
Reversal of impairment loss	1,703
Surplus arising on revaluation	3,233
	<hr/>
At 31st March 2005 and 1st April 2005	4,936
Decrease in fair value recognised in the consolidated income statement	(110)
	<hr/>
At 31st March 2006	4,826
	<hr/> <hr/>

The investment properties are situated in Mainland China and are held under medium-term lease.

The fair value of the Group's investment properties at 31st March 2006 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured at fair value model and are classified and accounted for as investment properties.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost						
At 1st April 2004						
As originally stated	8,056	891	15,285	404	263	24,899
Effect on adoption of HKAS 17	(1,617)	—	—	—	—	(1,617)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1st April 2004						
As restated	6,439	891	15,285	404	263	23,282
Additions	—	453	605	151	32	1,241
Disposals/written off	—	(91)	(944)	(54)	—	(1,089)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2005/ 1st April 2005	6,439	1,253	14,946	501	295	23,434
Additions	—	47	244	104	52	447
Disposals/written off	—	(200)	(3,792)	(78)	(26)	(4,096)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2006	6,439	1,100	11,398	527	321	19,785
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings <i>US\$'000</i>	Leasehold improvements <i>US\$'000</i>	Plant and machinery <i>US\$'000</i>	Furniture, fixtures and equipment <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Total <i>US\$'000</i>
Accumulated depreciation						
At 1st April 2004						
As originally stated	3,417	304	9,135	234	75	13,165
Effect on adoption of HKAS 17	(298)	—	—	—	—	(298)
At 1st April 2004						
As restated	3,119	304	9,135	234	75	12,867
Charge for the year	321	277	1,512	150	70	2,330
Disposals/written off	—	(91)	(944)	(54)	—	(1,089)
At 31st March 2005/ 1st April 2005	3,440	490	9,703	330	145	14,108
Charge for the year	322	307	1,213	161	80	2,083
Disposals/written off	—	(200)	(3,792)	(78)	(23)	(4,093)
At 31st March 2006	3,762	597	7,124	413	202	12,098
Net book value						
At 31st March 2006	2,677	503	4,274	114	119	7,687
At 31st March 2005	2,999	763	5,243	171	150	9,326

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	5%
Leasehold improvements	25%
Plant and machinery	10% — 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	2006 US\$'000	2005 US\$'000
The Group's property interests comprise:		
Properties situated on land in Mainland China held under medium-term leases	2,560	2,831
Property situated on land in Hong Kong held under medium-term lease	117	168
	<u>2,677</u>	<u>2,999</u>

17. PREPAID LEASE PAYMENTS

	2006 US\$'000	2005 US\$'000
The Group's prepaid lease payments comprise:		
Medium leasehold term land in Mainland China	<u>1,253</u>	<u>1,287</u>
Analysed for reporting purposes as:		
Non-current assets	1,219	1,253
Current assets	34	34
	<u>1,253</u>	<u>1,287</u>

18. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

On 1st April 2005, the following investment securities were reclassified to available-for-sale investments.

Available-for-sale investments/investment securities comprise:

	2006 US\$'000	2005 US\$'000
Unlisted equity securities outside Hong Kong	1,718	1,718
Less: Impairment loss recognised	<u>(1,718)</u>	<u>(1,718)</u>
	<u>—</u>	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES (continued)

The above unlisted investments represent investments in unlisted securities issued by private entities incorporated in Indonesia. They are measured at cost less impairment loss at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

19. INVENTORIES

	2006 US\$'000	2005 US\$'000
Raw materials	6,485	6,868
Work-in-progress	1,771	2,291
Finished goods	6,224	6,090
	<u>14,480</u>	<u>15,249</u>

At 31st March 2006 and 2005, all inventories were stated at cost.

20. TRADE AND BILLS RECEIVABLES

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

	2006 US\$'000	2005 US\$'000 (Restated)
Current to 30 days	9,611	10,163
31-60 days	3,286	4,858
61-90 days	173	448
Over 90 days	105	70
	<u>13,175</u>	<u>15,539</u>

The directors consider that the fair values of the Group's trade and bills receivables at 31st March 2006 approximate to their carrying amounts.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The directors consider that the fair values of the Group's deposits, prepayments and other receivables at 31st March 2006 approximate to their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits at prevailing market interest rates and at fixed interest rates. The directors consider that the fair values of the bank balances at 31st March 2006 approximate to their carrying amounts.

23. TRADE AND BILLS PAYABLES

At 31st March 2006, the ageing analysis of trade and bills payables was as follows:

	2006 US\$'000	2005 US\$'000 (Restated)
Current to 30 days	5,536	6,253
31-60 days	2,785	4,500
61-90 days	579	925
Over 90 days	1,000	452
	<u>9,900</u>	<u>12,130</u>

The directors consider that the fair values of the Group's trade and bills payables at 31st March 2006 approximate to their carrying amounts.

24. ACCRUALS AND OTHER PAYABLES

The directors consider that the fair values of the Group's accruals and other payables at 31st March 2006 approximate to their carrying amounts.

25. SHARE CAPITAL

	Par value of shares <i>HK\$</i>	Number of ordinary shares	Value <i>US\$'000</i>
Authorised:			
At 1st April 2004, 31st March 2005, 1st April 2005 and 31st March 2006	0.01 each	<u>36,000,000,000</u>	<u>46,452</u>
Issued and fully paid:			
At 1st April 2004, 31st March 2005, 1st April 2005 and 31st March 2006	0.01 each	<u>340,616,934</u>	<u>440</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. COMMITMENTS

- (a) Capital commitments outstanding at 31st March 2006 were as follows:

	2006 US\$'000	2005 US\$'000
Contracted but not provided for	<u>—</u>	<u>9</u>

- (b) **Commitments under operating leases**

The Group as a lessee

At 31st March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006 US\$'000	2005 US\$'000
Not later than one year (Note)	443	468
Later than one year and not later than five years (Note)	1,559	1,728
Later than five years (Note)	<u>7,749</u>	<u>11,752</u>
	<u>9,751</u>	<u>13,948</u>

Note:

Included in the balances were operating lease commitments in respect of rentals payable for the use of factory premises by the Group in Mainland China pursuant to a non-cancellable operating lease for a lease term of fifty years. These balances, which are stated at the present value of the future aggregate minimum lease payments at the applicable prevailing prime rate of 8% (2005: 5.25%), are as follows:

	2006 US\$'000	2005 US\$'000
Not later than one year	358	380
Later than one year and not later than five years	1,434	1,520
Later than five years	<u>7,749</u>	<u>11,752</u>
	<u>9,541</u>	<u>13,652</u>

The Group as a lessor

Property rental income earned during the year was approximately US\$546,000 (2005: US\$492,000). The properties held for rental purposes have committed tenant for the next four years.

The properties are expected to generate rental yields of 11% (2005: 10%) on an ongoing basis.

At 31st March 2006, the future aggregate minimum lease payments under non-cancellable operating lease receivables by the Group in respect of land and buildings as follows:

	2006 US\$'000	2005 US\$'000
Not later than one year	536	475
Later than one year and not later than five years	<u>839</u>	<u>1,346</u>
	<u>1,375</u>	<u>1,821</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006 US\$'000	2005 US\$'000
Property, plant and equipment	117	168
Investment in subsidiaries	50,214	62,029
Deposits and prepayments	4	6
Bank balances and cash	78	77
Accruals and other payables	(165)	(130)
	<u>50,248</u>	<u>62,150</u>
Share capital	440	440
Reserves	49,808	61,710
	<u>50,248</u>	<u>62,150</u>

28. PRINCIPAL SUBSIDIARIES

Particular of the principal subsidiaries at 31st March 2006 are as follows:

Name	Place of incorporation/ operations	Principal activity	Issued share capital/ registered capital	Group equity interest
KTP (BVI) Company Limited	British Virgin Islands/ Hong Kong	Investment holding	100 ordinary shares of US\$1 each	100%*
Kong Tai Shoes Manufacturing Company Limited	Hong Kong/ People's Republic of China	Manufacture of footwear	1,000 ordinary shares of HK\$1 each and 31,500,000 non-voting deferred shares of HK\$1 each	100%
Brave Win Industries Limited	Hong Kong/ People's Republic of China	Manufacture of sole units	21,000,000 ordinary shares of HK\$1 each and 9,000,000 non-voting deferred shares of HK\$1 each	100%
Choy Fung Industrial Limited	Hong Kong/ People's Republic of China	Provision of poly-clothing work	100 ordinary shares of HK\$1 each and 4,500,000 non-voting deferred shares of HK\$1 each	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. PRINCIPAL SUBSIDIARIES (continued)

Particular of the principal subsidiaries at 31st March 2006 are as follows: (continued)

Name	Place of incorporation/ operations	Principal activity	Issued share capital/ registered capital	Group equity interest
Dongguan Hung Yip Shoes Manufacturing Co. Ltd.	People's Republic of China	Manufacture of footwear	Registered capital of HK\$125,480,000	100%
Dongguan Hung Fa Shoes Materials Co. Ltd	People's Republic of China	Manufacture of sole units	Registered capital of HK\$86,290,000	100%

* directly held by the Company

Note:

As at 31st March 2006, the issued/registered capital of each of the above subsidiaries has been fully paid up except for Dongguan Hung Yip Shoes Manufacturing Co. Ltd. and Dongguan Hung Fa Shoes Materials Co. Ltd whose respective paid up capital is HK\$123,281,520 and HK\$76,331,226 (2005: HK\$123,281,520 and HK\$76,331,226) respectively.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors resulted in particular excessive length.

None of these subsidiaries had any debt securities subsisting at 31st March 2006 or at any time during the year.

The investments in the Group's non-consolidated subsidiaries, namely PT Kong Tai Indonesia Shoes Manufacturing ("KTI") and PT Worldbest Raya Industry ("WRI") were fully written off in last year. Both KTI and WRI have ceased operation since 1999 and 1998 respectively. Given the loss of control on these subsidiaries and the investments in these subsidiaries cannot be recovered in the foreseeable future, the directors are of the opinion that the inclusion of these subsidiaries in the accounts could be misleading and inappropriate.