NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

1. GENERAL

The Company is incorporated in the Cayman Islands 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 section to the annual report.

Its immediate holding company is Micon Limited, a company incorporated in Hong Kong with limited liability. Its intermediate and ultimate holding companies are South China Industries Limited and South China Holdings Limited, companies incorporated in the Cayman Islands and the issued shares of which are listed on the Stock Exchange respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Group is principally engaged in the manufacture and export of athletic, athletic-style leisure footwear and golf shoes.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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 December 2006. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard "HKAS" 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK (IFRIC) – Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC) – Int 8	Scope of HKFRS 2[4]
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK (IFRIC) – Int 12	Service Concession Arrangements[8]

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

[2] Effective for annual periods beginning on or after 1st January 2009.

[3] Effective for annual periods beginning on or after 1st March 2006.

[4] Effective for annual periods beginning on or after 1st May 2006.

[5] Effective for annual periods beginning on or after 1st June 2006.

[6] Effective for annual periods beginning on or after 1st November 2006.

[7] Effective for annual periods beginning on or after 1st March 2007.

[8] Effective for annual periods beginning on or after 1st January 2008.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, 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 and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 year in which they arise.

Property, plant and equipment

Property, plant and equipment other than freehold land and contruction-in-progress are stated at cost less accumulated depreciation and impairment losses.

Freehold land is stated at cost less accumulated impairment losses.

Depreciation is provided to 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 values, 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.

Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment when they are ready for their intended use.

No depreciation is provided on construction-in-progress until the asset is completed and put into use.

Prepaid lease payments on land use rights

Prepaid lease payments on land use rights are stated at cost less accumulated amortisation and impairment losses. Land use rights are amortised on a straight-line basis over the terms of relevant leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis and are arrived at as follows:–

(i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.

(ii) Work-in-progress and finished manufactured goods – cost of direct materials and an appropriate proportion of direct labour and production overheads including depreciation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Employee benefits

Employee leave entitlements

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

Employee entitlements to sick leave, maternity leave and other non-accumulating compensated absences are not recognised until the time of leave.

Retirement benefit obligations

The Group's payments to the defined contribution retirement benefit plan/stated-managed retirement benefit schemes are expensed when employees have rendered service entitling them to the contributions.

For defined retirement benefit plan, retirement benefit costs are assessed using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Under this method, the costs of providing benefit are charged to the consolidated income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan annually. The retirement benefit obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximately the terms of the related liability. Actuarial gains and losses of the amount in excess of 10% of the present value of the retirement benefit plan obligations are recognised in the consolidated income statement over the average remaining service lives of employees. Past service cost is recognised as expense on a straight-line basis over the average period until the benefit becomes vested.

The Group's contributions to defined benefit retirement plan are charged to the consolidated income statement in the period to which the obligation of the contribution is established.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("Equity-settled Transactions").

The cost of Equity -settled Transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing Equity-settled Transactions, no account is taken of any performance conditions, other than conditions, linked to the price of the shares of the Company ("Market Conditions"), if applicable.

The cost of Equity-settled Transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "Vesting Date"). The cumulative expense recognised for Equity-settled Transactions at each balance sheet date until the Vesting Date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for the year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a Market Condition, which are treated as vesting irrespective of whether or not the Market Condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases. 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 terms.

The Group as lessee

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

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 year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, 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 exchange translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

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 bills receivables and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 years 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. 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 estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the 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 financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). 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.

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. 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 financial asset. Such impairment losses will not reverse in subsequent years.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

Other financial liabilities

Other financial liabilities including trade and bills payables, accruals and other payables, retirement benefit obligations and amount due to an intermediate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

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

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

Revenue recognition

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

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed to the customers.

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Subcontracting fee income

Subcontracting fee income is recognised upon the delivery of goods to the customers.

Rental income

Rental income under operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant lease.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 the outflow becomes 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 be the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

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.

Segment reporting

As the entire revenues, expenses, assets, liabilities and capital expenditure of the Group are derived from the manufacture and export of athletic, athletic-style leisure footwear and golf shoes, an analysis of the business segment is not presented.

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

The Group operates in the People's Republic of China (the "PRC"), Hong Kong and Taiwan. In respect of geographical segment reporting, sales are based on the countries in which the customers are located. Total assets, liabilities, capital expenditure, amortisation and depreciation are based on where the assets and liabilities are located.

Unallocated revenue represents interest income, subcontracting fee income, rental income and dividend income. Unallocated expenses represent corporate expenses.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value costs to sell.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3 above, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions 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 also discussed below.

Depreciation of property, plant and equipment

The Group's net book value of property, plant and equipment as at 31st December 2006 was approximately HK$20,567,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of five to twenty years, and after taking into account of their estimated residual value, at the rate of 2.5% – 50% per annum, commencing from the date the property, plant and equipment when they are available for use or put into use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Estimate of fair value of investment properties

As described in notes 16 and 24, the investment properties were revalued at the balance sheet date on an open market value, existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables and, other receivables, trade and bills payables, accruals and other payables, amount due to an intermediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in PRC operations. 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 be need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Concentration risk

During the year ended 31st December 2006, the Group's sales to top 5 customers accounted for approximately by 76% (2005: 82%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

Liquidity risk

The Group's objective is to maintain a balance between continuing funding through its holding company. The Group's exposure to liquidity risk is minimal.

Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity. The fair values of non-current liabilities were not disclosed because their carrying values are not materially different from their fair values.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

(a) Turnover and revenue

The Group is principally engaged in the manufacture and export of athletic, athletic-style leisure footwear and golf shoes. Revenue recognised during the year was as follows:

	2006 HK$'000	2005 HK$'000
Turnover – sales of goods	**132,418**	297,638
Other revenue		
Interest income	**269**	290
Subcontracting fee income	**513**	1,101
Rental income	**447**	526
Dividend income	**3**	3
	1,232	1,920
Total revenue	**133,650**	299,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

An analysis of the Group's turnover, revenue and results for the years ended 31st December 2006 and 2005 by geographical market is as follows:–

For the year ended 31st December:

	North America		Europe		Other countries		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue								
External Sales	**62,868**	94,115	**46,409**	157,917	**23,141**	45,606	**132,418**	297,638
Results								
Segment results	**(11,497)**	(6,522)	**(13,100)**	(14,821)	**(6,784)**	7,577	**(31,381)**	(13,766)
Unallocated revenue							**1,232**	1,920
Other operating income, net							**2,490**	769
Unallocated expenses							**(24,467)**	(27,284)
Impairment loss reversed/ (recognised) on freehold land and buildings in Taiwan							**7,904**	(20,593)
Finance costs							**(46)**	(110)
Loss before taxation							**(44,268)**	(59,064)
Taxation							**(9,645)**	6,678
Loss for the year							**(53,913)**	(52,386)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Other Segment information

For the year ended 31st December:

	PRC and Hong Kong		Taiwan		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditure	**3,748**	12,839	**18**	–	**3,766**	12,839
Amortisation of prepaid lease payments on land use rights	**326**	326	**–**	–	**326**	326
Depreciation on property, plant and equipment	**11,160**	12,108	**117**	525	**11,277**	12,633
Impairment loss (reversed)/ recognised on freehold land and buildings in Taiwan	**–**	–	**(7,904)**	20,593	**(7,904)**	20,593
Decrease/(increase) in fair value of investment properties	**–**	–	**685**	(58)	**685**	(58)
(Recovery of)/allowance for bad and doubtful debts	**(954)**	533	**–**	–	**(954)**	533
Allowance for inventories	**7,740**	2,067	**10**	–	**7,750**	2,067
Impairment loss recognised on available-for-sale investments	**–**	–	**751**	1,460	**751**	1,460
Impairment loss recognised on financial assets at fair value through profit or loss	**–**	–	**406**	143	**406**	143
Gain on disposal of financial assets at fair value through profit or loss	**–**	–	**(1)**	–	**(1)**	–
Impairment loss recognised on loans and receivables	**–**	–	**711**	–	**711**	–
(Gain)/loss on disposal/written off of property, plant and equipment	**2,594**	292	**(180)**	(271)	**2,414**	21
(Gain)/loss on disposal of available-for-sale investments	**–**	–	**(41)**	177	**(41)**	177

There are no sales between the geographical segments during the years ended 31st December 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Other Segment information *(Continued)*

	PRC and Hong Kong As at 31 December		Taiwan As at 31 December		Total As at 31 December	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Total assets	**122,839**	201,103	**23,857**	20,830	**146,696**	221,933
Total liabilities	**52,843**	59,667	**186**	12,910	**53,029**	72,577
Minority interests	**1,791**	7,413	**–**	–	**1,791**	7,413

7. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank overdraft	**46**	110

No interest was capitalised in construction-in-progress during the year (2005: Nil).

8. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):–

	2006 HK$'000	2005 HK$'000
Auditors' remuneration	649	547
Cost of inventories recognised as an expenses	90,773	209,782
Staff costs, including directors' emoluments and retirement benefit costs *(note 9)*	38,653	67,651
Net exchange loss	879	1,314
Operating lease payments in respect of rented premises	992	1,473
Amortisation of prepaid lease payments on land use rights	326	326
Depreciation on property, plant and equipment	11,277	12,633
Loss disposal/written off of property, plant and equipment	2,414	21
Impairment loss recognised on available-for-sale investments	751	1,460
Impairment loss recognised on financial assets at fair value through profit or loss	406	143
Impairment loss recognised on loans and receivables	711	–
Allowance for inventories	7,750	2,067
(Recovery of)/allowance for bad and doubtful debts	(954)	533
Decrease/(increase) in fair value of investment properties	685	(58)
(Gain)/loss on disposal of available-for-sale investments	(41)	177
Gain on disposal of financial assets at fair value through profit or loss	(1)	–

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS AND RETIREMENT BENEFIT COSTS *(NOTE 10a)*)

	2006 HK$'000	2005 HK$'000
Wages and salaries	37,003	62,368
Unutilised annual leave	20	43
Termination benefits	158	105
Retirement benefit costs		
– defined contribution retirement benefit plans *(note 26a)*	1,510	2,170
– defined retirement benefit plan *(note 26b)*	(1,652)	459
Other employee benefits	1,614	2,506
	38,653	67,651

Included in staff costs were the costs related to the employees of the relevant factories which provide sub-contracting services to the Group as the Group has undertaken to bear all the costs related to their employment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:–

	2006	2005
	HK$'000	HK$'000
Fees	**355**	618
Other emoluments:–		
Basic salaries, other allowance and benefits in kind	**743**	2,165
Retirement benefit costs		
– defined contribution retirement benefit plans	**11**	52
– defined retirement benefit plan	**35**	153
	789	2,370
Total emoluments	**1,144**	2,988

Directors' fees disclosed above include approximately HK$236,000 (2005: HK$348,000) paid to the independent non-executive directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

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

(b) Directors' emoluments

The emoluments paid or payable to each of the fourteen (2005: nine) directors were as follows:–

		Other emoluments			
	Directors' fees	Basic salaries, other allowance and benefits in kind	Defined contribution retirement benefits plans	Defined retirement benefit plan	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cheung Choi Ngor[1]	7	–	–	–	7
Richard Howard Gorges[1]	7	–	–	–	7
Ng Yuk Fung, Peter[1]	7	–	–	–	7
Cheung Lai Lin, Pealin[1]	7	–	–	–	7
Chiu Sin Chun[1]	33	–	–	–	33
Li Yuen Yu, Alice[1]	33	–	–	–	33
Wong Siu Yin, Elizabeth[1]	33	–	–	–	33
Feng Yung Chuan[2]	24	–	2	–	26
Kuo Shu Chen[2]	24	100	1	12	137
Wu Xiaoqin[2]	24	90	1	–	115
Feng Shen Chuan[2]	24	553	2	23	602
Au Wing Kit[2]	48	–	–	–	48
Eugenia Yang[2]	24	–	1	–	25
Lo Kwok Kwei, David[3]	60	–	4	–	64
Total for 2006	355	743	11	35	1,144

1. Appointed on 2nd May 2006.
2. Resigned on 25th May 2006.
3. Resigned on 30th June 2006.

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

(b) Directors' emoluments *(Continued)*

		Other emoluments			
	Directors' fees	Basic salaries, other allowance and benefits in kind	Defined contribution retirement benefit plans	Defined retirement benefit plan	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Feng Shen Chuan	65	1,394	15	56	1,530
Hung Kun Fu	10	357	6	68	441
Feng Yung Chuan	65	–	3	–	68
Kuo Shu Chen	65	206	3	29	303
Wu Xiaoqin	65	208	14	–	287
Lo Kwok Kwei, David	130	–	7	–	137
Au Wing Kit	120	–	–	–	120
Eugenia Yang	26	–	–	–	26
Lam Tak Yee	72	–	4	–	76
Total for 2005	618	2,165	52	153	2,988

No director waived or agreed to waive any emoluments during the two years ended 31st December 2006 and 2005.

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(c) During the year, of the five highest paid individuals in the Group, one (2005: four) were executive directors of the Company whose emoluments are set out above. The emoluments of the remaining four (2005: one) highest paid individuals were as follows:–

	2006	2005
	HK$'000	HK$'000
Basic salaries, other allowance and benefits in kind	**870**	451
Retirement benefit costs		
– defined contribution retirement benefit plans	**23**	12
– defined retirement benefit plan	**–**	33
	893	496

The emoluments of the aforementioned four (2005: one) highest paid individuals were within the band of nil to HK$1,000,000 for both years.

No emoluments were paid to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31st December 2006 and 2005.

11. TAXATION

	2006 HK$'000	2005 HK$'000
Current taxation		
– Hong Kong profits tax	–	–
– Overseas taxation	–	18
– Over-provision in previous years	(1,011)	(1,113)
	(1,011)	(1,095)
Deferred tax *(note 27)*		
– relating to origination and reversal of temporary differences	10,656	(5,583)
Tax charge/(credit) for the year	9,645	(6,678)

Hong Kong profits tax has not been provided as the Group's income neither arises in nor is derived from Hong Kong for both years.

No provision for the PRC income tax has been made in the consolidated financial statements as the Group does not have any assessable profits in the PRC.

Taxation on other overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the country in which subsidiaries operate.

The taxation for the both years can be reconciled to the loss before taxation per the consolidated income statement as follows:–

	2006 HK$'000	2005 HK$'000
Loss before taxation	(44,268)	(59,064)
Tax at the domestic income tax rate of 17.5%	(7,746)	(10,336)
Effect of different tax rates of subsidiaries operating in other jurisdictions	823	(1,414)
Tax effect of expenses not deductible for tax purpose	49,330	52,837
Tax effect of income not taxable for tax purpose	(32,366)	(46,652)
Over-provision in previous years	(1,011)	(1,113)
Tax effect of unrecognised tax losses	615	–
Taxation for the year	9,645	(6,678)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

12. DIVIDENDS

No final dividends was paid or proposed during the years ended 31st December 2006 and 2005.

Subsequent to the balance sheet date, the board of directors announced that, subject to the completion of the disposal of the entire interest in Nority (BVI) Limited and its subsidiaries as detailed in note 24, a special dividend of HK$0.207 per share totalling approximately HK$55,553,000 has been declared on 3rd January 2007 and paid on 9th January 2007.

13. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$50,791,000 (2005: HK$51,974,000) and the number of ordinary shares of 268,372,612 (2005: 268,372,612) in issue during the year.

No diluted loss per share has been presented for the two years ended 31st December 2006 and 2005 as there were no dilutive potential ordinary shares for both years.

14. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**11,894**	12,220
Amortisation charge for the year	**(326)**	(326)
Classified as held for sale *(Note 24)*	**(8,449)**	–
Carrying amount at 31 December	**3,119**	11,894

The Group's carrying value of prepaid lease payments shown above comprises:

Medium term leasehold land in Hong Kong	**3,119**	3,220
Medium term leasehold land in the PRC	**–**	8,674
	3,119	11,894

Analysed for reporting purposes as:

Current asset	**101**	326
Non-current asset	**3,018**	11,568
	3,119	11,894

15. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

	Freehold land and buildings in Taiwan HK$'000	Leasehold buildings in the PRC HK$'000	Leasehold buildings in Hong Kong HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
COST								
At 1st January 2005	44,417	40,228	3,352	39,577	256,169	5,659	9,957	399,359
Transfer to investment properties	–	(1,336)	–	–	–	–	–	(1,336)
Additions	–	–	–	3,580	8,333	–	926	12,839
Disposals/written off	–	–	–	(5,529)	(58,148)	(873)	(473)	(65,023)
Exchange difference	(7,020)	–	–	(553)	19	(654)	–	(8,208)
At 31st December 2005 and 1st January 2006	37,397	38,892	3,352	37,075	206,373	4,132	10,410	337,631
Transfer to investment properties	(34,834)	–	–	–	–	–	–	(34,834)
Additions	–	–	–	478	2,038	–	1,250	3,766
Disposals/written off	(48)	–	–	(3,529)	(7,218)	(1,565)	–	(12,360)
Reclassified as held for sale *(note 24)*	(3,258)	(38,892)	–	(149)	–	(136)	(12,016)	(54,451)
Exchange difference	743	–	–	25	–	46	356	1,170
At 31st December 2006	–	–	3,352	33,900	201,193	2,477	–	240,922
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES								
At 1st January 2005	4,193	10,358	1,069	36,342	229,389	4,104	–	285,455
Charge for the year	319	612	84	1,429	9,812	377	–	12,633
Eliminated on disposals/ written off	–	–	–	(5,488)	(57,021)	(575)	–	(63,084)
Impairment loss recognised	20,593	–	–	–	–	–	–	20,593
Exchange difference	(393)	–	–	(90)	18	(212)	–	(677)
At 31st December 2005 and 1st January 2006	24,712	10,970	1,153	32,193	182,198	3,694	–	254,920
Transfer to investment properties	(15,089)	–	–	–	–	–	–	(15,089)
Charge for the year	35	972	83	1,173	8,831	183		11,277
Eliminated on disposals/written off	(48)	–	–	(1,354)	(6,215)	(1,379)	–	(8,996)
Impairment loss reversed	(7,904)	–	–	–	–	–		(7,904)
Reclassified as held for sale *(note 24)*	(2,098)	(11,942)	–	(133)	–	(134)	–	(14,307)
Exchange difference	392	–	–	23	–	39	–	454
At 31st December 2006	–	–	1,236	31,902	184,814	2,403	–	220,355
NET CARRYING VALUES								
At 31st December 2006	–	–	2,116	1,998	16,379	74	–	20,567
At 31st December 2005	12,685	27,922	2,199	4,882	24,175	438	10,410	82,711

15. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS *(Continued)*

In 2006, impairment test on freehold land and buildings in Taiwan was assessed on the basis of their open market value by an independent firm of valuers in Hong Kong. Reversal of impairment loss of approximately HK$7,904,000 had been dealt with in the consolidated income statement.

In 2005, impairment test on freehold land and buildings in Taiwan was assessed on the basis of their open market value by an independent firm of valuers in Taiwan. Impairment loss of approximately HK$20,593,000 had been dealt with in the consolidated income statement.

At 31st December 2006, freehold land and buildings in Taiwan and leasehold buildings in Hong Kong with an aggregate net book value of approximately HK$5,235,000 (2005: HK$14,884,000) were pledged to certain banks to secure banking facilities granted to certain subsidiaries of the Company (note 29).

Construction-in-progress represents a manufacturing plant under construction located in Kunshan, Jiangsu Province, the PRC.

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

Freehold land	Nil
Buildings	2.5%-4%
Leasehold improvements, furniture and fixtures	12.5%-33.33%
Machinery and equipment	10%-50%
Motor vehicles	20%-25%

16. INVESTMENT PROPERTIES

	Taiwan	PRC	Total
	HK$'000	HK$'000	HK$'000
FAIR VALUE			
At 1st January 2005	2,601	–	2,601
Reallocation of land use rights with undetermined use from leasehold buildings in the PRC	–	1,336	1,336
Net increase in fair value recognised in the consolidated income statement	58	–	58
Exchange difference	202	–	202
At 31st December 2005 and 1st January 2006	2,861	1,336	4,197
Reallocation from freehold land and buildings in Taiwan	19,745	–	19,745
Net decrease in fair value recognised in the consolidated income statement	(685)	–	(685)
Exchange difference	119	–	119
Classified as held for sale *(Note 24)*	(22,040)	(1,336)	(23,376)
At 31st December 2006	–	–	–

In 2006, investment properties were revalued on the basis of their open market value by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties. This valuation gave rise to a decrease in fair value of approximately HK$566,000 of which approximately HK$685,000 has been dealt with in the consolidated income statement and approximately HK$119,000 has been dealt within the exchange translation reserve.

In 2005, investment properties were revalued on the basis of their open market value by Taiwan Dawa Real Estate Appraiser Office, an independent firm of professional valuers. This valuation gave rise to increase in fair value of approximately HK$260,000 of which approximately HK$58,000 had been dealt with in the consolidated income statement and approximately HK$202,000 had been dealt within the exchange translation reserve.

At 31st December 2006, the carrying amount of investment properties would have been nil (2005: HK$4,457,000) had they been stated at cost.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006	2005
	HK$'000	HK$'000
Unlisted securities:		
– equity securities unlisted outside Hong Kong	–	628
Listed securities:		
– equity securities listed outside Hong Kong	–	11
Shares in golf club, at valuation	–	1,419
Less: Impairment loss recognised	–	(744)
Total	–	1,314
Analysed for reporting purposes as:		
Non-current asset	–	1,314

As at 31st December 2005, all available-for-sale investments were stated at fair values, except for those unlisted equity investments of which their fair values could not be measured reliably. Fair values of listed investments have been determined by reference to bid prices quoted in active market.

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

In the current year, the Group disposed of all available-for-sale investments. Unlisted equity securities with carrying amount of approximately HK$599,000 had been carried at cost less impairment before the disposal. A gain on disposal of approximately HK$41,000 was recognised in the consolidated income statement.

18. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments as at 31st December 2006 represent golf clubs debentures and are carried at amortised cost using effective interest method.

The directors consider that the carrying amounts of held-to-maturity investments approximate their fair values.

19. LOANS AND RECEIVABLES

During the year, all loans and receivables were disposed of to an independent third party. Loans and receivables as at 31st December 2005 represented refundable deposits placed with golf clubs and were carried at amortised cost using effective interest method.

The directors consider that the carrying amounts of loans and receivables approximate their fair values.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
At cost		
Raw materials	13,842	18,333
Work-in-progress	7,122	8,878
Finished goods	7,952	13,072
	28,916	40,283

21. TRADE AND BILLS RECEIVABLES

At the balance sheet date, trade and bills receivables comprise:

	2006	2005
	HK$'000	HK$'000
Trade and bills receivable	14,528	43,624
Less: Allowance for bad and doubtful debts	(919)	(1,873)
	13,609	41,751

21. TRADE AND BILLS RECEIVABLES *(Continued)*

The ageing analysis of the trade and bills receivables net of allowance for bad and doubtful debts at the balance sheet date was as follows:

	2006	2005
	HK$'000	HK$'000
0-30 days	**9,467**	30,136
31 to 60 days	**1,419**	8,901
61 to 90 days	**2,720**	1,366
Over 90 days	**3**	1,348
	13,609	41,751

The fair values of the Group's trade and bills receivables at 31st December 2006 approximate to the corresponding carrying amounts.

The majority of the Group's turnover is on open account terms with a general credit period of 30 to 90 days.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	2006	2005
	HK$'000	HK$'000
Equity securities, listed outside Hong Kong, at open market value	**–**	396

23. FROZEN BANK BALANCES

Frozen bank balances represent bank balances of a wholly-owned subsidiary incorporated in the PRC which have been frozen by the local government of Kunshan due to a litigation claim in respect of a dispute on the construction costs of a factory in Kunshan. Subsequent to the balance sheet date, the frozen bank balances, which had been included as held for sale (note 24), were disposed of to Micon Limited ("Micon").

24. ASSETS CLASSIFIED AS HELD FOR SALE

On 6th November 2006, the Group entered into a disposal agreement with Micon and South China Industries Limited ("South China Industries") to dispose of the entire interest in Nority (BVI) Limited and its subsidiaries to Micon at a total consideration of approximately HK$75,555,000 in cash. The disposal has been completed on 5th January 2007. The net proceeds of the disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

24. ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

The major classes of assets and liabilities which have been presented separately in the consolidated balance sheet are as follows:–

	2006	2005
	HK$'000	HK$'000
Property, plant and equipment and construction-in-progress	**40,144**	–
Investment properties	**23,376**	–
Prepaid lease payments on land use rights	**8,449**	–
Deposits, prepayments and other receivables	**128**	–
Frozen bank balances *(Note 23)*	**2,079**	–
Assets classified as held for sale	**74,176**	–
Trade and bills payables	**292**	–
Accruals and other payables	**1,208**	–
Liabilities associated with assets classified as held for sale	**1,500**	–

25. TRADE AND BILLS PAYABLES

The aging analysis of the trade and bills payables at the balance sheet date was as follows:–

	2006	2005
	HK$'000	HK$'000
0-30 days	**14,193**	33,797
31 to 60 days	**8,433**	3,826
61 to 90 days	**1,223**	944
Over 90 days	**1,719**	3,568
	25,568	42,135

The fair values of the Group's trade and bills payables at 31st December 2006 approximate to the corresponding carrying amounts.

The trade payables are non-interest bearing and normally settled on 30 to 90 day terms.

26. RETIREMENT BENEFIT OBLIGATIONS

The Group has defined contribution retirement benefit plans in the PRC and Hong Kong, and a defined benefit retirement plan in Taiwan for employees in which the Group operates.

(a) Defined contribution retirement benefit plans

The subsidiaries in Hong Kong make contributions to defined contribution retirement benefit plan based on 5% of the employee's monthly gross earnings with a ceiling of HK$1,000 per month. Pursuant to the Mandatory Provident Fund Schemes Ordinance, the assets of the scheme are held separately from those of the Group in an independently administered fund.

Subsidiaries operating in the PRC are required to participate in defined contribution retirement plans organised by the relevant government authorities. The subsidiaries are required to make contributions to the retirement plans at a fixed amount for each PRC employee of the Group.

(b) Defined retirement benefit plan

No further provision for defined retirement benefit plan was made for the subsidiaries in Hong Kong for the year ended 31st December 2006 as all the retirement benefit is covered by defined contribution retirement benefit plan.

A subsidiary in Taiwan has applied voluntarily winding up as at 30th November 2006, the subsidiary has an unfunded defined benefit retirement plan providing benefits to all eligible employees based on final pay. The obligation for the unfunded defined retirement benefit plan is provided with reference to expected final settlement as at 31st December 2006 and to the actuarial valuation as at 31st December 2005.

The actuarial valuation was prepared as at 31st December 2005 by KTMC Actuaries Co. Ltd., a qualified actuary, using the protected unit credit method.

During the year, the crediting recognised in the consolidated income statement under current service cost and interest cost was approximately HK$1,652,000 (2005: charged of approximately HK$459,000).

Curtailment gain represents reversal of unvested provided defined benefits in respect of terminated employees of the Taiwan branch office.

The total credit has been included in other operating income, net for the year ended 31st December 2006 and charged to administrative expenses for the year ended 31st December 2005.

26. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(b) Defined benefit retirement plan *(Continued)*

The amounts recognised in the consolidated balance sheet were as follows:–

	2006	2005
	HK$'000	HK$'000
Present value of unfunded obligations	**2,998**	5,846
Fair value of retirement benefit obligations	**–**	(71)
Unrecognised actuarial losses	**–**	721
Liability as at 31st December	**2,998**	6,496
Current portion	**(2,998)**	(54)
Non-current portion	**–**	6,442

The movement on the liability recognised in the consolidated balance sheet was as follows:–

	2006	2005
	HK$'000	HK$'000
At 1st January	**6,496**	7,245
Exchange differences	**135**	(96)
Total (income)/expense – as shown above	**(1,652)**	459
Amounts paid to employees	**(1,981)**	(1,112)
At 31st December	**2,998**	6,496

The principal actuarial assumptions used were as follows:–

	2006	2005
	%	%
Discount rate	**N/A**	3.50
Expected rate of future salary increases	**N/A**	4.00

27. DEFERRED TAXATION

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

The movement on the deferred tax assets was as follows:

	2006	2005
	HK$'000	HK$'000
At 1st January	**10,656**	5,073
(Charged)/credited to the consolidated income statement *(note 11)*	**(10,656)**	5,583
At 31st December	**–**	10,656

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses approximately amounted to HK$3,519,000 carry forward against future taxable income at 31st December 2006 (2005: Nil). At 31st December 2006, the Group has unrecognised deferred tax assets amounted to approximately HK$1,690,000 (2005: HK$1,075,000) in respect of unrecognised tax loss.

The movement in deferred tax assets and liabilities recognised (prior to offsetting of balances within the same taxation jurisdiction) during the current and prior year was as follows:–

Deferred tax assets

	Amortisation and depreciation	**General provisions**	**Pensions**	**Estimated tax losses**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2005	1,355	1,450	1,811	–	457	5,073
Credited/(charged) to the consolidated income statement	(9)	5,936	(187)	384	(318)	5,806
At 31st December 2005 and 1st January 2006	1,346	7,386	1,624	384	139	10,879
Credited/(charged) to the consolidated income statement	(1,346)	(7,386)	(1,624)	(384)	(139)	(10,879)
At 31st December 2006	–	–	–	–	–	–

27. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities

	Amortisation and depreciation	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1st January 2005	–	–	–
Credited to the consolidated income statement	(223)	–	(223)
At 31st December 2005 and 1st January 2006	(223)	–	(223)
Credited to the consolidated income statement	223	–	223
At 31st December 2006	–	–	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:–

	2006	2005
	HK$'000	HK$'000
Deferred tax assets	**–**	10,879
Deferred tax liabilities	**–**	(223)
	–	10,656

The directors are of the opinion that the realisation of deferred tax assets and liabilities is remote and the amounts have been reversed since the Group entered into the disposal agreement as detailed in note 24.

At the balance sheet date, no deferred tax assets have been recognised in respect of tax losses due to the unpredictability of future profit streams and no deferred tax liabilities have been recognised in the consolidated financial statements as there are no temporary differences.

28. SHARE CAPITAL

	Number of shares	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:–		
At 1st January 2005, 31st December 2005 and 2006	1,000,000,000	100,000
Issued and fully paid:–		
At 1st January 2005, 31st December 2005 and 2006	268,372,612	26,837

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

29. PLEDGE OF ASSETS AND GUARANTEES

At 31st December 2006, the Group's banking facilities, including bank overdraft and import facilities, were secured by the followings:–

(a) Legal charges over certain land and buildings of the Group with an aggregate net book value of approximately HK$5,235,000 (2005: HK$14,884,000);

(b) a corporate guarantee from the Company;

(c) a general letter of indemnity from a subsidiary of the Company.

30. COMMITMENTS

At 31st December 2006, the Group had the following commitments so far as not provided for in the consolidated financial statements, in respect of:–

(a) Capital commitment in respect of construction of a factory in the PRC

	2006 **HK$'000**	2005 HK$'000
Contracted for but not provided in	**373**	1,607

30. COMMITMENTS *(Continued)*

(b) Operating lease commitment for future minimum lease payments under non-cancellable operating lease in respect of rented premises which fall due as follows:–

	2006	2005
	HK$'000	HK$'000
Within one year	**38**	1,353
In the second to fifth year inclusive	**32**	5,345
After five years	**–**	5,136
	70	11,834

Leases are negotiated for an average term of 5 years (2005: 10 years) and rentals are fixed for an average of 2 years (2005: 5 years).

(c) Operating lease commitment for future minimum lease receipts contracted with tenants under non-cancellable operating lease in respect of rented premises which fall due as follows:–

	2006	2005
	HK$'000	HK$'000
Within one year	**–**	195

Property rental income earned during the year was HK$410,000 (2005: HK$392,000).

31. CONTINGENT LIABILITIES

At the balance sheet date, one of the Group's subsidiaries was engaged in a litigation in which an amount of approximately HK$1,850,000 (2005: HK$2,139,000) has been claimed by a contractor in respect of a construction project in Kunshan, the PRC. Subsequent to the balance sheet date, the frozen bank balances as explained in note 23 had been disposed of to Micon through the disposal of Nority (BVI) Limited.

32. SHARE OPTION SCHEME

Under the Company's share option scheme adopted by the shareholders of the Company on 10th June 2003, the directors may, at their discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries who have contributed or will contribute to the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A nominal consideration will be paid by the employees for each lot of share options granted. An option may be exercised at any time during a period to be determined an identified by the directors to each grantee at the time of making the offer, but in any event, shall not exceed the period of ten years from the date of grant of the particular option, subject always to the early termination of the Scheme. No share option has been granted during the years ended 31st December 2006 and 2005 and outstanding as at 31st December 2006 and 2005.

33. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and repayable on demand.

34. POST BALANCE SHEET EVENTS

(a) As detailed in note 24, the disposal of Nority (BVI) Limited and its subsidiaries has been completed on 5th January 2007 giving rise to a gain of approximately HK$2.9 million.

(b) Subsequent to the balance sheet date, approximately 95.35% of the total issued share capital of the Company has been transferred from Micon to Chinese Success Limited at an aggregate consideration of approximately HK$105.4 million.

(c) On 5th January 2007, subscription shares were allotted and issued to Micon at a cash consideration of approximately HK$3.5 million. As a result, the Company and Micon are interested in 65% and 35% of the issued share capital of Nority Limited respectively.

In addition, Micon as grantor, the Company as grantee and South China Industries as guarantor entered into a put option deed, whereby Micon will grant the Company a put option, pursuant to which the Company shall have a right to sell the 65% interest in Nority Limited, to Micon at an aggregate consideration of HK$10.5 million at any time during the period commencing from (and including) the day falling 24 months after and ending on (and including) the day falling 30 months after 5th January 2007.

(d) Subsequent to the balance sheet date, South China Strategic Limited ("South China Strategic") has been appointed by Nority Limited, according to a management agreement with effect from 5th January 2007, as its manager for a term of 3 years, during which South China Strategic has taken overall management and supervision responsibilities of Nority Limited and provide guidance and advice on enhancement of business operations and internal control systems under monitoring of its performance by the directors.

In addition, Nority Development Limited has leased back the rented premises to Nority Limited for its business operation according to a rental agreement entered into subsequent to the balance sheet date.

34. POST BALANCE SHEET EVENTS *(Continued)*

(e) Pursuant to a placing agreement entered into on 27th February 2007, Sanfull Securities Limited (the "Placing Agent") has agreed to place on a best effort basis, 54,700,000 shares (representing approximately 20.38% of the existing issued share capital of the Company) held by Chinese Success Limited (the "Offeror") to not less than six independent professional, institutional and/or other investor(s) at the placing price of HK$0.468 per share.

(f) On 27th February 2007, Spring Garden Investments Limited (the "Subscriber") and the Company have entered into the subscription agreement, pursuant to which the Subscriber will subscribe the convertible note (the "Note") from the Company in the principal amount of HK$28,836,800 upon full conversion of the Note at the initial conversion price, the Subscriber will be interested in a total of 53,600,000 shares, representing approximately 16.65% of the issued share capital of the Company as enlarged by the issue of the conversion shares.

(g) According to the announcement dated 16th March 2007, it is proposed that, subject to the approval of the independent shareholders, an aggregate of 26,800,000 options will be granted to the grantees on 15th March 2007 to subscribe an aggregate of 26,800,000 shares at a subscription price of HK$2.36 per share, representing approximately 9.99% of the existing issued share capital of the Company as at the date of the announcement and approximately 9.08% of the enlarged issued share capital of the Company, assuming that all options are fully exercised. The independent non-executive directors of the Company have approved the grant of the options to the grantees.

(h) According to the announcement dated 17th April 2007, the board of directors proposed that each of the existing issued and unissued shares of HK$0.10 each in the share capital of the Company be subdivided into 10 shares of HK$0.01 each. The shares are currently traded in board lots of 2,000 shares. Upon the share subdivision becoming effective, the subdivided shares will be trade in board lots of 10,000 subdivided shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2006

35. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	HK$'000
Non-current asset		
Investments in subsidiaries	107,083	135,410
	107,083	135,410
Current assets		
Amounts due from subsidiaries	25,461	–
Prepayment	–	3
Cash and bank balances	30	57
	25,491	60
Current liability		
Accruals	–	(313)
Net current assets	25,491	(253)
	132,574	135,157
Capital and reserves		
Share capital	26,837	26,837
Share premium	48,079	48,079
Capital reserve	61,083	61,083
Accumulated losses	(3,425)	(842)
	132,574	135,157

36. SUBSIDIARIES

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

Name of company	Place of incorporation or registration/ operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest held		Principal activities
			Directly %	Indirectly %	
Nority (BVI) Limited (a)	British Virgin Islands ("BVI")	Ordinary HK$12,000,000	100	–	Investment holding
Chung Been Footwear Limited	Hong Kong	Ordinary HK$10,000,000	–	75	Manufacture and export of footwear in the PRC (c)
Nority Capital Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding
Nority Development Limited (a)	BVI	Ordinary US$2	–	100	Property holding in the PRC
Nority Investment Limited	Hong Kong	Ordinary HK$2	–	100	Investment holding and provision of financing services
Nority Limited	Hong Kong/ PRC	Voting class "A" HK$65 (d) Non-voting class "B" HK$12,000,000 (b)	100	–	Manufacture and export of footwear in the PRC
Nority Property Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Wilken Footwear Limited	Hong Kong	Voting class "A" HK$10 Non-voting class "B" HK$5,000,000 (b)	–	100	Property Investment
Wilken Investment Limited (a)	Taiwan	Ordinary NTD40,000,000	–	100	In liquidation
Kunshan Wilken Footwear Co., Ltd (a)	PRC	Registered US$2,100,000	–	100	Manufacture and sales of footwear in the PRC (c)

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

36. SUBSIDIARIES *(Continued)*

(a) Companies are not audited by SHINEWING (HK) CPA Limited

(b) The rights and restrictions of the non-voting class “B” shares of Nority Limited and Wilken Footwear Limited are as follow:–

(i) The profits which Nority Limited and Wilken Footwear Limited may determine to distribute in respect of any financial year shall be distributed among the holders of voting class “A” shares according to the amounts paid up on the voting class “A” shares held by them respectively and no part of the profits shall be distributed among the holders of the non-voting class “B” shares;

(ii) On a return of assets on a winding-up or otherwise the assets of Nority Limited and Wilken Footwear Limited to be returned shall be distributed as regards the first HK$100,000,000,000,000 thereof among the holders of voting class “A” shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting class “B” shares and the other half thereof to and among the holders of voting class “A” shares in proportion in each case to the nominal amounts of the shares held by them, respectively; and

(iii) The holders of the non-voting class “B” shares shall have no right to receive notice of or to attend or vote at any general meeting of Nority Limited and Wilken Footwear Limited.

(c) The subsidiaries were inactive during the year.

(d) On 27th September 2006, all shares of Nority Limited were transferred from Nority (BVI) Limited to the Company. On 28th September 2006, Nority Limited allotted an additional 55 voting class “A” share at HK$1.00 each to an existing shareholder.