WALKER GROUP HOLDINGS LIMITED
盈進集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 1386)

Walker shop

Annual Report 2007 年報

*For identification purposes only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

HUANG Wen Yi *Chairman*
CHAN Mei Sheung
CHU Yin Man
KIU Wai Ming

Independent non-executive Directors

SZE Tsai Ping, Michael
Prof. FAN Yiu Kwan, *JP*
TSANG Ling Carl, Brian

AUDIT COMMITTEE

SZE Tsai Ping, Michael *Chairman*
Prof. FAN Yiu Kwan, *JP*
TSANG Ling Carl, Brian

REMUNERATION COMMITTEE

Prof. FAN Yiu Kwan, *JP* *Chairman*
SZE Tsai Ping, Michael
TSANG Ling Carl, Brian

NOMINATION COMMITTEE

SZE Tsai Ping, Michael *Chairman*
Prof. FAN Yiu Kwan, *JP*
TSANG Ling Carl, Brian

COMPANY SECRETARY

CHU Yin Man

QUALIFIED ACCOUNTANT

CHONG Lai Chu

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISORS

Baker & McKenzie
P. C. Woo & Co

REGISTERED OFFICE

Cricket Sqaure
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor
Hope Sea Industrial Centre
26 Lam Hing Street
Kowloon Bay, Kowloon
Hong Kong

REGISTRAR IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTRAR IN CAYMAN ISLANDS

Bank of Bermuda (Cayman) Limited
P.O. Box 513, Strathvale House
North Church Street, George Town
Grand Cayman KY1-1106
Cayman Islands

COMPLIANCE ADVISER

Taifook Capital Limited

INTERNET ADDRESS

www.walkershop.com.hk

STOCK CODE

1386

Chairman's Statement

It is my pleasure to present to you our first annual report after the Company's listing on The Stock Exchange of Hong Kong Limited in June 2007.

The Group designs and sells a diversified range of casual, smart casual and sports casual footwear products in Hong Kong and the PRC. For the year ended 31 March 2007, its net profit for the year was approximately HK$83 million, a 54% increase when compared with 2006. Turnover for 2007 rose 30% to approximately HK$689 million.

The Group manages an extensive sales network in Hong Kong and the PRC through its headquarters in Hong Kong and three regional operational offices in the PRC located in Beijing, Shanghai and Shenzhen. As at 31 March 2007, the Group has 344 self-managed sales points comprising 55 sales points located in Hong Kong and 289 sales points located in 23 provinces in the PRC serving customers in over 55 cities including Guangzhou, Shenzhen, Wuhan, Hangzhou, Nanjing, Kunming, Chengdu, Xian, Shenyang and Harbin and four municipalities, namely Beijing, Tianjin, Shanghai and Chongqing in the PRC. In addition, it has six concessions operated by the Taiwan franchisee in Taiwan.

The Group does not own any production facilities. It engages a number of manufacturers in the PRC to produce its own and authorised brand products. This strategy has enabled the Group to maximize resources and effort on sales points management, product design, quality control and sales and marketing and free growth from being restricted by its own production concerns. The arrangement also gives the Group to enjoy the flexibility in securing supply of its products without being limited by the production capacity of a single manufacturer. As a result, the Group has been able to expand its sales network effectively and secure adequate and timely supplies of footwear products for its own and authorized brands.

PROSPECTS

Following the Company's listing on The Stock Exchange of Hong Kong Limited on 7 June 2007, the Group's financial position has been substantially improved. The net proceeds derived from the listing and the exercise of over-allotment option were approximately HK$614 million has brought to the Group with sufficient funds to execute our expansion plans for capturing business opportunities with existing and potential customers, in particular for the PRC market.

Chairman's Statement *(continued)*

Tapping China's Potential - Expansion of the Sales Network in Hong Kong and the PRC

To enlarge its shares of the Group in the footwear market in Hong Kong and the PRC, the Group plans to expand its sales network by setting up (i) franchised sales points in the PRC; and (ii) additional self-managed sales points in Hong Kong and the PRC. The Directors are particular confident of the prospects of the PRC market taking into account the growing purchasing power of the PRC consumers in the country as a result of the rapid economic growth in the PRC in recent years. The Group sees great opportunities for expanding its sales network and customer base in the PRC.

The Group intends to open approximately 100 new self-managed sales points in total in Hong Kong and the PRC and approximately 50 new franchised sales points in the PRC in the forthcoming year.

Strengthen its Own Brands by Product Design and Development Capability

The Group has six major brands, namely COUBER.G, FORLERIA, OX-X-OX, TRU-NARI, ARTEMIS and WALACI and the Group dedicated to offering customers with quality products in both design and functionality. The Group intends to invest more resources in product design and development for its own and authorized brands. The product design and development team of the Group will continue to attend prominent fashion and footwear trade fairs and exhibitions to keep abreast of the latest fashion and footwear trends for integrating into the Group's products. The team will also continue to cooperate with the Group's manufacturers on applying new materials and technologies so as to enhance the quality and functionality of the Group's products.

Development of Brands of ACUPUNCTURE and PINK PANTHER

Our successful business model, targeting different customers segments with different brands and different partners, allows us to integrate into geographic and demographic business models so as to create a closely allied brand partnership.

At present, the Group operated 11 ACUPUNCTURE sales points in Hong Kong and the PRC. The Directors see considerable market potential in the two authorised brands, namely ACUPUNCTURE and PINK PANTHER in helping the Group broaden its customer base and revenue sources. To realize such potential, the Group will step up sales and marketing of these two authorised brands and open new sales points for them to grab customers attention. The Group intends to set up (i) approximately 30 new ACUPUNCTURE sales points in total in Hong Kong and the PRC; and (ii) approximately three PINK PANTHER sales points in Hong Kong in the forthcoming year. In addition, the Group intends to cooperate with a business partner in Japan to grow ACUPUNCTURE brand in the country and ride on its partner's distribution network to sell products of the brand to Japanese consumers.

Chairman's Statement *(continued)*

Upgrading Management Information Systems to Enhance Operation Efficiency

To enhance the Group's operational efficiency, the Directors plan to upgrade the Group's existing management information systems. Efforts will be taken to integrate the different information management systems used by warehouses, shops and concessions of the Group in Hong Kong and the PRC. The Directors believe the upgraded systems will enable the Group implement real time control of our inventory and point of sales so that we can increase our distribution efficiency and minimize our working capital requirements to centralize management of different operations, including sales and marketing, financial management and stock management in Hong Kong and the PRC which enhance cost-effectiveness.

Sales, Marketing and Promotion

The Directors believe that marketing and promotional activities are crucial to attracting public attention and to stimulate sales of the Group's products. Thus, the Group will continue to mount advertising campaigns for its major own brands of COUBER.G, FORLERIA, OX-X-OX, TRU-NARI, ARTEMIS and WALACI and the authorised brands, in particular ACUPUNCTURE and PINK PANTHER. The Group will place advertisements in various media such as newspapers, magazines, television channels and outdoor media. The Group will continue to appoint celebrities as the spokespersons for its various brands to maximize exposure of those brands.

LOOKING AHEAD

What has long set us apart is a deep commitment to innovation and our ability to tap into the needs of our customers.

In appreciation of the loyalty and hard work of the employees who have consistently contributed to the remarkable growth of the Group's business, our substantial shareholder has, out of its own shareholdings, granted award shares to the 29 employees upon our successful listing in June 2007. According to this employee share award scheme, all the entitled employees will gradually take up 100% of their shares in the company over 3 years' vesting period.

Finally, on behalf of the Board, I would like to take this opportunity to express my thanks and sincere appreciation to all employees for their contribution to the Group's satisfactory results for 2007, I look forward to working with all staff of the Group to achieve further success in the coming years.

HUANG Wen Yi
Chairman
12 July 2007

Management Discussion and Analysis

BUSINESS REVIEW

The Group designs and sells a diverse range of casual, smart casual and sports casual footwear products in Hong Kong and the PRC. It has divided its business into two main categories:

1. Sales of footwear products under six major own brands, namely COUBER.G, FORLERIA, OX-X-OX, TRU-NARI, ARTEMIS and WALACI, and two authorised brands, namely ACUPUNCTURE and PINK PANTHER; and

2. Sales of footwear products of several international brands sourced from independent third parties.

As at 31 March 2007, the Group operated a total of 344 sales points including 55 in Hong Kong and 289 in the PRC, all self-managed. In addition, 6 franchised concessions in Taiwan operated by a Taiwan franchisee.

During the year under review, the Group derived its income mainly from Hong Kong, the PRC and other markets which accounted for 46.1%, 53.1% and 0.8% of its total turnover respectively.

Hong Kong

The turnover and operating profits of our Hong Kong operation had grown rapidly during the year under review. The Group has established authorised brand ACUPUNCTURE shop in the year which targets customers who follow latest fashion trends closely, has received very encouraging market response. During the year, the Group opened 8 authorised brand ACUPUNCTURE shops and the total number of sales points in Hong Kong was 55 (2006: 49) as at 31 March 2007. In addition, the Group also mounted various advertising campaigns to increase exposure of its different brands. The total revenue generated in Hong Kong was approximately HK$317.8 million (2006: HK$259.2 million), a rise of 22.6%.

PRC

As the economy in the PRC continues to grow rapidly and the living standard of the people improves, demand for high quality footwear products in the PRC has also surged. To capture the rising demand, the Group has been active in promoting its brands in the PRC and is a frequent participant in promotional activities in department stores or shopping malls. During the year, the Group added 60 sales points for Walker Shops, 19 for Couber.G and 11 for Artemis, bringing the total number of sales points in the PRC to 289 (2006: 199). The total revenue derived in the PRC amounted to approximately HK$365.8 million (2006: HK$268.1 million), a 36.4% jump.

Management Discussion and Analysis

(continued)

FINANCIAL REVIEW AND ANALYSIS

Results of Operations

The Group's combined turnover continued to grow steadily, increased by 30.4% for the year, to approximately HK$689.4 million (2006: HK$528.6 million). Gross profit of the Group was approximately HK$446.5 million (2006: HK$337.1 million), an increase of 32.5%, and profit attributable to shareholders increased by 54.0% to approximately HK$83.0 million (2006: HK$53.9 million).

Liquidity and Financial Resources

As at 31 March 2007, the Group had working capital of approximately HK$52.9 million (2006: HK$62.0 million) and its current ratio was steady at 1.2 times (2006: 1.4 times).

As at 31 March 2007, the Group has cash and cash equivalents of approximately HK$57.8 million (2006: HK$27.0 million). The Group had outstanding bank borrowings of approximately HK$109.1 million (2006: HK$32.7 million) comprising long-term bank loans of approximately HK$11.6 million (2006: HK$13.2 million) of which approximately HK$1.7 million will be repaid within one year, HK$4.9 million will be repaid in the second to fifth year and the remaining balance of approximately HK$5.0 million will be repaid after the fifth year respectively. During the year, the Group raised new short-term bank loans of approximately HK$175.2 million for the financing of working capital and bank loans of HK$98.8 million were settled. Bank loans were in Hong Kong dollars and Renminbi and were arranged on a floating rate basis for short-term bank borrowings and fixed rate HIBOR + 1.25% per annum for long-term bank loans. As at 31 March 2007, the gearing ratio of the Group was 24.2% (2006: 11.0%).

Normal operations are well supported as the Group had aggregate banking facilities of approximately HK$157.8 million for overdrafts, bank loans and trade financing, of which approximately HK$48.6 million was unutilized as at 31 March 2007.

As at 31 March 2007, charges on assets of approximately HK$48.5 million which comprising leasehold land and buildings of the Group with net book value of approximately HK$33.5 million and approximately HK$15.0 million respectively.

With adequate cashflow generated from operating activities and financial resources available, the Group believes it has sufficient working capital to meet current requirements.

During the year, the Group increased inventory to ensure it had sufficient stock to meet the needs of its rapidly expanding business. Inventory turnover was 188.4 days (2006: 171.5 days) and the total value of inventory as at 31 March 2007 was approximately HK$155.2 million (2006: HK$95.6 million).

Management Discussion and Analysis
(continued)

Foreign Exchange Management

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Renminbi. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Contingent Liabilities

As at 31 March 2007, the Group did not have any contingent liability.

DIVIDEND

The Directors do not recommend payment of final dividend for the year ended 31 March 2007. The Group paid interim dividends of HK$5,000,000 and transferred the right to receive the consideration of HK$20,930,000 from Hoso International Company Limited by way of declaring a dividend in kind to its then shareholders, namely, Mr. Huang Wen Yi and his wife, Ms. Chan Mei Sheung.

SHARE CAPITAL AND REORGANISATION

Details of the material changes in combined capital and reorganisation of the Group during the year are set out in note 1 to the combined financial statements. The combined capital of the Group were the total capital of the Company and the companies comprising the Group.

HUMAN RESOURCES

As at 31 March 2007, the Group had a total of 2,425 employees. Training courses on sales skills and product knowledge are regularly organized for employees by the Group. Competitive remuneration packages including basic salaries, allowances, insurance and bonuses, are also offered to employees.

Corporate Governance

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Huang Wen Yi, aged 44, is an executive Director, the chairman and the chief executive officer of the Company. He founded the Group in 1990 and is responsible for the overall management and strategic development of the Group and provision of advice to daily operations of the Group. Mr. Huang entered into footwear industry in his mid-20 by setting up Trunari Enterprises Company Limited for footwear wholesale business and has around 17 years of experience in the footwear industry.

Ms. Chan Mei Sheung, aged 40, is an executive Director and the wife of Mr. Huang. Ms. Chan is responsible for the overall management and strategic development of the Group. Ms. Chan has around 15 years of experience in the footwear sales industry. She joined the Group in 1992 as a director of Trunari Enterprises Company Limited.

Mr. Chu Yin Man, aged 47, is an executive Director, the chief financial officer and the company secretary of the Company. Mr. Chu obtained a Bachelor's Degree in Accountancy from the City University of Hong Kong in 1991 and then attained a Diploma of Electronic Business and Business Management from the Zhongzhan University in 2001. In 1995, Mr. Chu graduated from the University of Strathclyde with a Master's Degree in Business Administration. Mr. Chu is a certified public accountant registered under the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Besides, he is also an associate of the Hong Kong Institute of Company Secretaries, an associate of Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Directors. Mr. Chu has over 25 years of experience in accounting and finance. He joined the Group in 2006.

Mr. Kiu Wai Ming, aged 58, is an executive Director and is responsible for the overall management of the overseas businesses, administration and human resources management of the Group. Mr. Kiu is an experienced banker and has extensive experience in finance and banking industry. Between 1990 and 1999, he was a director of Dah Sing Financial Holdings Ltd. and a director of Dah Sing Bank Ltd. From 1999 to 2002, Mr. Kiu was a director and Deputy Chief Executive at Industrial & Commercial Bank of China (Asia) Limited. He was a director and Chief Executive Officer of Rising Development Holdings Ltd. from 2002 to 2003. Mr. Kiu currently is an independent non-executive director of Man Sang International Limited, a company listed on the Stock Exchange. He holds a Bachelor of Science degree from Louisiana State University. He joined the Group in March 2007.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Independent non-executive Directors

Mr. Sze Tsai Ping, Michael, aged 61, is an independent non-executive Director. Mr. Sze has extensive experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from the University of Hong Kong. He is currently a Member of the Disciplinary Appeals Committee of the Stock Exchange. He was a former Council Member, Member of the Main Board Listing Committee of the Stock Exchange, Member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited and Member of the Securities and Futures Appeals Panel. Mr. Sze is a non-executive director of Burwill Holdings Limited and an independent non-executive director of T S Telecom Technologies Limited, GOME Electrical Appliances Holding Limited, Greentown China Holdings Limited, Harbour Centre Development Limited and Foundation Group Limited, all of which are listed on the Stock Exchange. Mr. Sze is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a fellow member of the Hong Kong Institute of Directors Limited. Mr. Sze was appointed as an independent non-executive Director of the Company in May 2007.

Prof. Fan Yiu Kwan, *JP*, aged 62, is an independent non-executive Director. Prof. Fan is as Vice-President (Development) of Hong Kong Baptist University. Prof. Fan received his Master of Arts degree from the University of Toronto, Canada and PhD from the University of Wisconsin-Madison, USA. He currently serves as a member on the Law Reform Commission, the Board of Governors of the Hong Kong Arts Centre, and the Council and Executive Committee of the Hong Kong Institute of Directors. He was appointed as an independent non-executive Director of the Company in May 2007.

Mr. Tsang Link Carl, Brian, aged 43, is an independent non-executive Director. Mr. Tsang is a practising solicitor in Hong Kong and is a partner of the Hong Kong law firm of Iu, Lai & Li. He graduated from King's College, London with a LLB. Degree in 1985. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. He is currently a non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205) and Pacific Century Premium Developments Limited (Stock Code: 432), both are public companies listed on the Main Board and EVI Education Asia Limited (GEM Stock Code: 8090), which is a public company listed on the GEM Board of the Stock Exchange. In 2005, he has been appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he has also been appointed as a member of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. In 2006, he has also been appointed as a member of the Appeal Panel on Housing. Mr. Tsang was appointed as an independent non-executive Director of the Company in May 2007.

Corporate Governance *(continued)*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Senior Management

Ms. Chong Lai Chu, aged 39, is the senior finance manager and is responsible for the supervision and management of the Group's accounting and finance matters. Ms. Chong is also the Company's full time qualified accountant. She holds a Post-Secondary Diploma in Accounting from the Hong Kong Shue Yan College and Degree of Master of Business Administration from the University of Manchester. Ms. Chong is a certified public accountant registered under the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Chong has over 13 years of experience in auditing and accounting. She served as accounts manager of a group of companies engaged in footwear manufacturing prior to joining the Group in 2006.

Ms. Luk Chiu Lan, aged 42, is the human resources manager. Ms. Luk holds a degree of Bachelor of Commerce from the University of Gullph with about 12 years of experiences in human resources and administration. Before joining the Group in 2007, Ms. Luk had worked as human resources and/or administration manager for a number of companies engaging in the retail, information technology, air forwarder and hotel industries. She is an experienced human resources professional and is responsible for the Group's human resources policy and administration affairs.

Mr. Ching Shik Kee, aged 43, is the senior leasing manager. Mr. Ching holds a Master of Science in Property and Facilities Management from the Queen's University of Brighton, a Professional Diploma in Real Estate Management Programme from the Hong Kong Institute of Real Estate and the Hong Kong Productivity Council, a Certificate in Property Maintenance Management from the Hong Kong Management Association and a Certificate in Building Management Training Course from the Hong Kong Productivity Council. He is a fellow member of the Chartered Institute of Property and Facilities Management, a fellow member of the Hong Kong Institute of Real Estate and a qualified estate agent in Hong Kong, with 16 years of experience in real estate management.

Ms. Tsang Wing Han, **Maria**, aged 40, is the brand manager. Ms. Tsang holds an Associate of Arts degree in Merchandise Marketing from the Fashion Institute of Design & Merchandising, a Higher Diploma in Fashion and Clothing Technology and a Diploma in Design from The Hong Kong Polytechnic University and with over 11 years of experience in merchandising and brand managing.

Corporate Governance *(continued)*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Senior Management *(continued)*

Mr. Cheng Dong Xue (alias Cheng Zi), aged 39, is the general manager of the China region of the Group and is responsible for planning, executing and monitoring of operational strategies in the PRC. Mr. Cheng has a qualification of assistant engineer in the PRC and has over 3 years of experience in business management. He joined the Group in 2003.

Ms. Gao Shu Hua, aged 38, is the human resources manager of the PRC region. Ms. Gao obtained a Degree in Public Relations from Beijing University of Post and Telecommunications (北京郵電大學). Ms. Gao has over 7 years of experience in human resources and administration.

Mr. Wang Yin Hua, aged 43, is the leasing manager of the PRC and is responsible for business development in the PRC. Mr. Wang obtained a Degree by studying a Business Management course jointly organized by the University of Linguistics and Logic (中國邏輯與語言函授大學) and the Commercial and Economic Department of People's University (中國人民大學). Mr. Wang has more than 16 years of experience in the retail business and 3 years of experience in the department store industry.

Ms. Kei Wei Hong, aged 39, is the finance manager of the PRC region and is responsible for financial management. Ms. Kei holds a Certificate of Accountancy in China and is a qualified accountant in the PRC (中華人民共和國會計師) with 5 years of experience in financial management in respect of the China retail industry. She joined the Group in 2003.

Ms. Chan Mei Yan, Eva, aged 34, joined the Group in 2001 as the retail manager of Hong Kong and is responsible for planning and executing sales strategies for Hong Kong market. Ms. Chan has 15 years of experience in the footwear retail industry and has experience of retail operations.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") recognizes the importance of corporate governance practices to a listed company. The Company is committed to ensure high standards of corporate governance in the interest of the shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Board believes that the Company has since the date of listing on 7 June 2007 complied with the Code, except for the deviation from Code Provision A.2.1, which stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Huang Wen Yi, one of the founders of the Group, is the chairman, an executive Director and chief executive officer of the Company. With Mr. Huang's extensive experience in the footwear industry, he is responsible for overall management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same person, namely Mr. Huang, who possesses such extensive experience, is appropriate at this stage. The Board believes that Mr. Huang's responsibilities as chairman and chief executive officer allow him to apply his extensive experience in the best interests of the Company.

As the Company was listed on 7 June 2007 (the "Listing Date"), the Company was not required to comply the requirements under the Code or the continuing obligations requirements of a listed company pursuant to the Listing Rules for the year ended 31 March 2007.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code since the Listing Date.

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

Board of Directors

As at the date of this report, the Board comprises four executive Directors and three independent non-executive Directors. The Directors up to the date of this annual report were:

Executive Directors

Mr. HUANG Wen Yi *Chairman*
Ms. CHAN Mei Sheung
Mr. CHU Yin Man
Mr. KIU Wai Ming

Independent non-executive Directors

Mr. Sze Tsai Ping, Michael
Prof. Fan Yiu Kwan, *JP*
Mr. Tsang Link Carl, Brian

The Board sets directions and formulates overall strategies of the Group, monitors its overall performance and maintains effective supervision over the management running the Group through relevant committees of the Board in a sound and efficient manner.

The independent non-executive Directors have been appointed for a term of 3 years' service. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

The Board will have four scheduled meetings a year and meet at other times as and when required to review business strategies and financial and operating performance.

Board Committees

The Board has established various committees, including the Remuneration Committee, Nomination Committee and Audit Committee, each of which has the specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary, are circulated to all Board members. Each committee is required to report to the Board on its decision and recommendations where appropriate.

CORPORATE GOVERNANCE REPORT *(continued)*

Board Committees *(continued)*

Nomination Committee

The Nomination Committee has been established in May 2007 and currently consists of three members, including Mr. Sze Tsai Ping, Michael, Prof. Fan Yiu Kwan, *JP* and Mr. Tsang Link Carl, Brian, all of them are independent non-executive Directors. Mr. Sze Tsai Ping, Michael is the chairman of the Nomination Committee.

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will be based on the criteria in the procedure (such as appropriate experience, personal skills and time commitment) to identify and recommend proposed candidates to the Board.

Remuneration Committee

The Board set up the Remuneration Committee in May 2007 with specific written terms of reference which deal with its authority and duties. It currently consists of three members, including Prof. Fan Yiu Kwan, *JP*, Mr. Sze Tsai Ping, Michael and Mr. Tsang Link Carl, Brian, all of them are independent non-executive Directors. Prof. Fan Yiu Kwan, *JP* is the chairman of the Remuneration Committee.

The Remuneration Committee's role is to make recommendation to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance while having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all executive Directors and senior management as well as reviewing and approving the terms of executive Directors' service contract and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director or any of his associates may be involved in any decisions as to his own remuneration.

Audit Committee

The Board set up the Audit Committee in May 2007 and the role of Audit Committee is to review the Group's financial reporting, internal controls and to make relevant recommendations to the Board. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Sze Tsai Ping, Michael, Prof. Fan Yiu Kwan, *JP* and Mr. Tsang Link Carl, Brian. Mr. Sze Tsai Ping, Michael is the chairman of the Audit Committee.

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

Auditor's Remuneration

The analysis of auditor's remuneration in respect of audit and non-audit services provided by the auditor of the Company since they were appointed is as follows:

Nature of services	HK$'000
Audit services	800
Non-audit services	48

Responsibility for Preparation and Reporting of Financial Statements

The Directors of the Company acknowledge their responsibility for preparing the combined financial statements which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditor about their reporting responsibilities is set out on pages 29 and 87 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Corporate Governance *(continued)*

REPORT OF DIRECTORS

The Directors of Walker Group Holdings Limited (the "Company") and the companies comprising the Group (together the "Group") are pleased to present the first annual report, the audited combined financial statements of the Group and the audited financial statements of the Company for the year ended 31 March 2007.

Corporate Reorganisation and Public Listing

The Company was incorporated with limited liability in the Cayman Islands on 10 November 2006. Pursuant to a group reorganisation to rationalise the structure of the Group in the preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 21 May 2007.

Details of the group reorganisation of the Group are set out in Note 1 to the combined financial statements. The shares of the Company was listed on Stock Exchange on 7 June 2007.

Principal Activities

The Company is an investment holding company. The activities of the companies comprising the Group are set out in Note 32 to the combined financial statements.

Results and Appropriations

The results of the Group for the year are set out in the Combined Income Statement on page 33 of this report.

Dividends

The board of Directors do not recommend payment of any final dividend for the year ended 31 March 2007.

Financial Summary

Financial summary for the years of 2004 to 2007 are set out on page 102 of this report.

REPORT OF DIRECTORS *(continued)*

Share Capital

Details of the movements during the year in the share capital of the Company are set out in the combined statement of changes in equity on page 34 to the combined financial statements.

Reserves

Details of the movements in reserve during the year are set out in combined statement of changes in equity on page 34 to the combined financial statements.

As at 31 March 2007, the share premium of the Group was approximately HK$10 million and the retained earnings of the Group was approximately HK$100 million.

Directors

The board of Directors during the year ended 31 March 2007 and up to the date of this report comprised:

Executive Directors

Mr. Huang Wen Yi	(appointed on 10 November 2006)
Ms. Chan Mei Sheung	(appointed on 10 November 2006)
Mr. Chu Yin Man	(appointed on 21 May 2007)
Mr. Kiu Wai Ming	(appointed on 21 May 2007)

Independent non-executive Directors

Mr. Sze Tsai Ping, Michael	(appointed on 21 May 2007)
Prof. Fan Yiu Kwan, *JP*	(appointed on 21 May 2007)
Mr. Tsang Link Carl, Brian	(appointed on 21 May 2007)

In accordance with article 87 and article 88 of the Company's Articles of Association, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Each of the independent non-executive Directors has been appointed for a term of three years commencing on 7 June 2007, subject to the provisions of the Company's Articles of Association.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent. Biographical details of the Directors as at the date of this report are set out on pages 9 to 12.

REPORT OF DIRECTORS *(continued)*

Directors' Service Contracts

Each of the Directors entered into a service agreement with the Company to act for a term of three years, all commencing 7 June 2007 and shall continue thereafter until terminated, among others, by not less than three months' notice in writing served to each other or in accordance with terms of the service agreement.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreement with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Interests in Shares of the Company

As at 31 March 2007, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

As at the date of this report, the interest or short position of Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Capacity and number of Shares held			Number of equity derivatives (options) held			
Name of Director	Personal Interest	Family Interest	Corporate Interest	Personal Interest *(note 3)*	Family Interest	Total	Approximate percentage of shareholding
Huang Wen Yi *(note 1)*	–	–	448,765,000	4,380,000	3,550,000	456,695,000	73.36%
Chan Mei Sheung *(note 2)*	–	448,765,000	–	3,550,000	4,380,000	456,695,000	73.36%
Chu Yin Man *(note 4)*	300,000	–	–	1,200,000	–	1,500,000	0.24%
Kiu Wai Ming	–	–	–	2,000,000	–	2,000,000	0.32%

Corporate Governance *(continued)*

REPORT OF DIRECTORS *(continued)*

Directors' Interests in Shares of the Company *(continued)*

Notes:

1. Mr. Huang Wen Yi ("Mr. Huang") is taken to be interested in the 448,765,000 Shares held by Smart Presto Holdings Limited, which is owned as to 90% by Mr. Huang and 10% by Ms. Chan Mei Sheung ("Ms. Chan"). Mr. Huang is the husband of Ms. Chan and is deemed to be interested in the option relating to 3,550,000 Shares held by Ms. Chan.

2. Ms. Chan is the wife of Mr. Huang and is taken to be interested in the 448,765,000 Shares held by Smart Presto Holdings Limited in which Mr. Huang is interested and the option relating to 4,380,000 Shares held by Mr. Huang.

3. These represent the number of Shares which will be allotted and issued to such Directors upon the exercise of the option granted to each of them under the Pre-IPO Share Option Scheme.

4. The 300,000 Shares were acquired by Mr. Chu Yin Man pursuant to the Employee Share Purchase Agreement entered into by Mr. Huang, Smart Presto and Mr. Chu Yin Man on 2 May 2007.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or its associated companies (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of the Listed Companies.

Substantial Shareholder

As at 31 March 2007, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

So far as the Directors are aware, as at the date of this report, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company:

REPORT OF DIRECTORS *(continued)*

Substantial Shareholder *(continued)*

Long Position

Substantial Shareholder	Number of Shares Held	Capacity	Approximate percentage of shareholding
Smart Presto Holdings Limited *(note 1)*	448,765,000	Beneficial owner	72.09%

Note:

1. Smart Presto Holdings Limited, which is owned as to 90% by Mr. Huang and 10% by Ms. Chan, is the registered owner of 448,765,000 Shares.

As at the date of this report, save as disclosed above, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will have registered interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of the Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, immediately following completion of the New Listing, were entitled to exercise or control the exercise of 5% or more of the voting power at the general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Directors' Interest in Contracts of Significance

The Company only became listed on the Stock Exchange on 7 June 2007 and had no transactions which constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules for the year ended 31 March 2007. Save as aforesaid, no contracts of significance in relation to the Company's business to which the Company and the companies comprising the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Corporate Governance *(continued)*

REPORT OF DIRECTORS *(continued)*

Directors' Interest in Competing Business

1. The Excluded Business

Mr. Huang and Ms. Chan, the directors and controlling shareholders of the Company, has set up the following business in 2000 (collectively known as "Excluded Business") with the objective to establish a separate sales network with a focus on sales of casual footwear and casual apparel products in Hong Kong and the PRC to young and fashion-conscious customers:

(a) HK Excluded Business – the sales business operated by Walker Shop Footwear Limited (before 30 November 2006) and Hoso International Company Limited (after 30 November 2006) in Hong Kong through the sales points under the name of HOSO PLACE.

(b) PRC Excluded Business – the sale business operated by Guangzhou Walker Shop Trading Limited in the PRC through the sales points under the name of HOSO PLACE.

As part of the group reorganisation, Walker Shop Footwear Limited disposed of the HK Excluded Business to Hoso International Company Limited, a company owned by Mr. Huang and Ms. Chan, with effect from 30 November 2006, pursuant to the agreement entered into between Walker Shop Footwear Limited and Hoso International Company Limited for a cash consideration of approximately HK$20.9 million.

The PRC Excluded Business of Guangzhou Walker Shop Trading Limited has not been transferred to the Group pursuant to the agreement which was completed on 30 November 2006.

Since February 2007, the Excluded Business has only engaged in the sales of apparel products and has ceased the sales of footwear products. Moreover, the Group has not entered, and is not expected to enter, into any transactions with Hoso International Company Limited and Guangzhou Walker Shop Trading Limited and does not in any way rely on Hoso International Company Limited and Guangzhou Walker Shop Trading Limited to carry on its business.

REPORT OF DIRECTORS *(continued)*

1. The Excluded Business (continued)

In addition, since February 2007, the Excluded Business is operated totally independent of the Group in terms of operations, financial management, customers and suppliers. Furthermore, in order to focus on the footwear business of the Group, Mr. Huang and Ms. Chan have undertaken to cease the entire business of the Excluded Business by way of closing down all the existing sales points operated under the Excluded Business gradually upon expiry or termination of relevant tenancy agreements in or before September 2007. The remaining assets and liabilities of the Excluded Business would not be transferred to the Group upon the cessation of its business.

2. Non-competition Undertaking

Pursuant to a deed of non-competition entered into between Mr. Huang and Ms. Chan, and the Company dated 23 May 2007 (the "Non-competition Undertaking"), each of Mr. Huang and Ms. Chan has undertaken to the Company (for itself and on behalf of each of its subsidiaries) that so long as the Company is listed on the Main Board of the Stock Exchange and so long as any of Mr. Huang and Ms. Chan remains a controlling shareholder, he or she will not, and shall procure that his or her associates will not, compete with the Group, directly or indirectly, whether on his own or jointly with or on behalf of any person, firm, or company, by carrying on or being engaged, concerned or interested, directly or indirectly, whether as a shareholder, director, employee, partner, agent or otherwise, in the carrying on of any activity or business which directly or indirectly competes or is likely to be in competition with the footwear business operated by the Group or will from time to time be engaged or operated by the Group in Hong Kong, the PRC, Taiwan and Japan (the "Competitive Business"). The Competitive Business includes, without limitation, the design and sales of footwear products in Hong Kong and the PRC.

In compliance with the Non-competition Undertaking, the Company has received confirmation from them in respect of their compliance with the Non-competition Undertaking since the date of listing in the Stock Exchange.

Pre-IPO Share Option Scheme

On 21 May 2007, a pre-IPO share option scheme was approved by the shareholders of the Company. As at the date of this report, pursuant to the scheme, options to subscribe for an aggregate of 15,000,000 shares of the Company have been granted to executive Directors, senior management and employees.

The consideration for the grant of each such option was HK$1.00 and the subscription price for the shares pursuant to the exercise of these options are all equivalent to the 20% discount on the offer price in connection with the initial listing of the shares of the Company on the Stock Exchange. Such options may be exercised from the first anniversary of the Listing Date and by stages during the applicable option periods.

REPORT OF DIRECTORS *(continued)*

Share Option Scheme

During the year ended 31 March 2007, the Company had not adopted any share option scheme and no options had been granted and remained outstanding as at 31 March 2007. A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 21 May 2007. Summary of principal terms of the Share Option Scheme is set out below. No option had been granted under the Share Option Scheme since its adoption on 21 May 2007.

Unless otherwise cancelled or amended, the Share Option Scheme shall be valid and effective for a period of 10 years from its adoption date, after which period no further options will be issued but any options then outstanding will continue to be exercisable in accordance with their terms of issue.

The Share Option Scheme is designed to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to any individual being an employee, officer, agent, consultant or representative of any member of the Group (including any executive or non-executive Director of any member of the Group) who, as the Board may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his performance and/or years of service, or is regarded as valuable human resources of the Group based on his work experience, knowledge in the industry and other relevant factors.

The period under which an option may be exercised will be determined by the Board at its absolute discretion, save that an option shall expire not later than 10 years from the date of grant. Unless otherwise determined by the Board, and specified in the offer letter at the time of offer, there is no minimum period for which an option must be held before the option can be exercised. An option is open for acceptance for a period of 28 days from the date of offer. The amount payable on acceptance of an option is HK$1.00. The full amount of the subscription price for the Company's shares has to be paid upon exercise of an option. The subscription price shall be such price solely determined by the Board at the time of offer of grant of the relevant option and shall be stated in the letter containing the offer of the grant of option.

The subscription price shall be at least the highest of the nominal value of the Company's shares, the average of the closing prices of the Company's shares quoted in the Stock Exchange's daily quotation sheets on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's shares quoted in the Stock Exchange's daily quotation sheets on the date of an offer of the grant of the options.

REPORT OF DIRECTORS *(continued)*

Share Option Scheme *(continued)*

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company (excluding options lapsed in accordance with the terms of the Share Option Scheme) shall not in aggregate exceed 10% of the total number of the Company's shares in issue on the date of commencement of dealings in the Shares on the Stock Exchange, being 600,000,000 Shares.

The limit on the number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. As at the date of this report, a total of 60,000,000 Shares representing 10% of the issued share capital of the Company are available for issue under the Share Option Scheme.

The total number of the Company's shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's Shares in issue unless approved by the Company's shareholders in general meeting.

Directors' Rights to Acquire Shares

Except as mentioned above under Share Option Scheme, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Purchase, Redemption or Sale of Listed Shares of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the year ended 31 March 2007 as the Company had not been listed on the Stock Exchange as at that date.

REPORT OF DIRECTORS *(continued)*

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the company laws in the Cayman Islands.

Major Customers and Suppliers

During the year review, all the suppliers of the Group are independent third parties except for a manufacturer which is controlled by the brother of Mr. Huang Wen Yi, the Director of the Company, and was engaged by the Group to produce footwear products for the Group at prices determined with reference to the then prevailing market price and all these transactions have been discontinued since March 2007.

During the year the Group's largest supplier accounted for approximately 12% of the Group's total purchases and the Group's largest five suppliers accounted for approximately 44% of the Group's total purchases.

Our Group's five largest customers are less than 30% of the total sales for the year. Hence, no disclosure with regard to major customers is made.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers or suppliers.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in Note 7 to the combined financial statements.

Directors' and the Five Highest Paid Individuals' Emoluments

The Directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in note 23 to the combined financial statements. The emoluments of the Directors are determined with regard to their duties and responsibilities, the Company's performance, prevailing market conditions and after considering the market emoluments for Directors of other listed companies.

The contributions to pension scheme of Directors for the year are disclosed in note 23 to the financial statements.

REPORT OF DIRECTORS *(continued)*

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuer as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code since the date of listing.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in Corporate Governance Report contained in this annual report.

Audit Committee

The Company established an audit committee on 21 May 2007 with terms of reference in compliance with the CG Code set out in Appendix 14 of the Listing Rules. The members of the audit committee are independent non-executive Directors, namely Mr. Sze Tsai Ping, Michael, Prof. Fan Yiu Kwan, *JP* and Mr. Tsang Link Carl, Brian. Mr. Sze Tsai Ping, Michael is the chairman of the audit committee. The audit committee has reviewed the Group's combined financial statements for the year ended 31 March 2007, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

Use of Net Proceeds from the Company's Initial Public Offering

The proceeds from the Company's share offer and the completion of over-allotment option, after deduction of related expenses, amounted to approximately HK$614 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 28 May 2007. Up to the date of this report and in accordance with the plans as set out in the prospectus, approximately HK$5 million were utilized for setting the franchised sales points and self managed sales points, approximately HK$2 million were utilized for setting up the specialty sales points of Acupuncture in Hong Kong and the PRC, approximately HK$1 million for marketing and promotional activities; and approximately HK$13 million were utilized as general working capital of the Group. The remaining net proceeds of approximately HK$593 million is temporarily placed as short-terms deposits with licensed banks in Hong Kong.

Corporate Governance *(continued)*

REPORT OF DIRECTORS *(continued)*

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Events after the Balance Sheet Date

Details of the significant events occurring after the balance sheet date are set out in note 31 to the combined financial statements.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment.

A resolution to re-appoint PricewaterhouseCoopers as auditor of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

HUANG Wen Yi
Chairman

Hong Kong, 12 July 2007

Independent Auditor's Report on the Combined Financial Statements

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF WALKER GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the combined financial statements of Walker Group Holdings Limited (the "Company") and the companies as set out in note 32 to the combined financial statements (together, the "Group"), set out on pages 31 to 86, which comprise the combined balance sheet as at 31 March 2007, and the combined income statement, the combined statement of changes in equity and the combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report on the Combined Financial Statements *(continued)*

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

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

Opinion

In our opinion, the combined financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2007 and of the Group's combined profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 July 2007

Combined Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Leasehold land	*6*	**35,196**	36,761
Property, plant and equipment	*7*	**41,061**	32,544
Intangible assets	*8*	**14,039**	638
Deferred income tax assets	*9*	**1,061**	211
Available-for-sale financial assets	*10*	**1,168**	1,170
Rental deposits		**14,160**	11,948
		106,685	83,272
Current assets			
Inventories	*11*	**155,176**	95,585
Trade and bills receivables	*12*	**68,781**	35,240
Amounts due from related companies	*13*	**33,280**	46,525
Deposits, prepayments and other receivables	*14*	**28,709**	16,630
Tax recoverable		**17**	52
Cash and cash equivalents	*15*	**57,823**	26,956
		343,786	220,988
Total assets		**450,471**	304,260
EQUITY			
Owners' equity		**140,019**	133,433
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**9,914**	11,582
License fees payable		**9,393**	–
Deferred income tax liabilities	*9*	**295**	265
		19,602	11,847

Combined Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Current liabilities			
Borrowings	*16*	**99,224**	21,079
Trade and bills payables	*17*	**84,905**	48,707
Accruals and other payables		**37,559**	40,857
License fees payable		**3,302**	–
Amounts due to related companies	*13*	**37,786**	–
Amounts due to directors	*18*	**13,048**	32,760
Tax payable		**15,026**	15,577
		290,850	158,980
Total liabilities		**310,452**	170,827
Total equity and liabilities		**450,471**	304,260
Net current assets		**52,936**	62,008
Total assets less current liabilities		**159,621**	145,280

On behalf of the Board

HUANG WEN YI
Director

CHAN MEI SHEUNG
Director

The notes on pages 37 to 86 are an integral part of these combined financial statements.

Combined Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	5	**689,366**	528,605
Cost of sales	19	**(242,897)**	(191,497)
Gross profit		**446,469**	337,108
Selling and distribution costs	19	**(297,393)**	(228,508)
Administrative expenses	19	**(41,278)**	(39,782)
Other (losses)/gains	20	**(180)**	44
Other income	21	**3,393**	1,710
Operating profit		**111,011**	70,572
Finance costs	24	**(3,134)**	(1,681)
Profit before income tax		**107,877**	68,891
Income tax expenses	25	**(24,874)**	(14,996)
Profit for the year attributable to equity holders of the Company		**83,003**	53,895
Earnings per share for profit attributable to the equity holders of the Company (HK$)	26	**N/A**	N/A
Dividend	27	**25,930**	20,000

The notes on pages 37 to 86 are an integral part of these combined financial statements.

Combined Statement of Changes in Equity

For the year ended 31 March 2007

	Combined capital *(note a)* HK$'000	Share premium *(note b)* HK$'000	Statutory reserves *(note c)* HK$'000	Foreign currency translation reserve HK$'000	Available-for-sale investments reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 April 2005	32,473	–	491	23	–	67,231	100,218
Profit for the year	–	–	–	–	–	53,895	53,895
Currency translation differences	–	–	–	(680)	–	–	(680)
Transfer	–	–	2,406	–	–	(2,406)	–
Dividend *(Note 27)*	–	–	–	–	–	(20,000)	(20,000)
Balance at 31 March 2006	32,473	–	2,897	(657)	–	98,720	133,433
Fair value losses of available-for-sale financial assets	–	–	–	–	(2)	–	(2)
Profit for the year	–	–	–	–	–	83,003	83,003
Currency translation differences	–	–	–	1,951	–	–	1,951
Capital reduction	(9,990)	9,990	–	–	–	–	–
Transfer	–	–	2,515	–	–	(2,515)	–
Distribution *(note d)*	(471)	–	–	1,235	–	(53,200)	(52,436)
Dividend *(note 27)*	–	–	–	–	–	(25,930)	(25,930)
Balance at 31 March 2007	22,012	9,990	5,412	2,529	(2)	100,078	140,019

Combined Statement of Changes in Equity

For the year ended 31 March 2007

Notes: (a) It represents the combined capital of the companies now comprising the Group.

(b) The authorised and registered capital of Walker Shop Footwear Limited was reduced from HK$10,000,000 divided into 10,000,000 shares of HK$1.00 each to HK$10,000 divided into 10,000,000 shares of HK$0.001 with effect from 7 March 2007.

(c) Companies which are established in the People's Republic of China ("PRC") are required to make appropriations to certain statutory reserves from profit for the year after offsetting accumulated losses from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in the PRC or at the discretion of the board of the respective companies. Such statutory reserves, can only be used to offset accumulated losses, to increase capital, or for special bonus or collective welfare of employees. These statutory reserves cannot be distributed to equity holders of the Company.

(d) Pursuant to the group reorganisation as set out in Note (1)(b)(ii) and the agreements dated 31 January 2007, Beijing Trunari Footwear Company Limited ("TC Beijing") and Guangzhou Walker Shop Trading Company Limited ("WS Guangzhou") transferred their footwear wholesale and retail businesses to Smarter Trading (Beijing) Company Limited and Smarter Trend Trading (Shenzhen) Company Limited respectively. The aggregate net liabilities of TC Beijing and WS Guangzhou amounted to HK$38,670,000 at 30 November 2006 were not assumed by the Group. The payment of the considerations net of the net liabilities not assumed by the Group, amounted to HK$53,200,000, was recognised as a distribution to equity holders of the Company in the combined financial statements for the year ended 31 March 2007.

The notes on pages 37 to 86 are an integral part of these combined financial statements.

Combined Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operations			
Cash generated from operations	*28(a)*	**15,426**	38,496
Interest paid		**(3,134)**	(1,681)
Income tax paid		**(24,832)**	(7,500)
Net cash (used in)/generated from operating activities		**(12,540)**	29,315
Cash flows from investing activities			
Purchases of property, plant and equipment		**(28,701)**	(11,920)
Proceeds from disposal of leasehold land and property, plant and equipment	*28(b)*	**1,102**	–
Purchases of intangible assets		**(2,266)**	(261)
Purchases of available-for-sale financial assets		**–**	(1,170)
Interest received		**309**	159
Net cash used in investing activities		**(29,556)**	(13,192)
Cash flows from financing activities			
Proceeds from borrowings		**175,228**	65,999
Repayments of borrowings		**(98,378)**	(66,336)
Capital elements of finance lease payments		**–**	(11)
Dividend paid		**(5,000)**	(20,000)
Net cash generated from/(used in) financing activities		**71,850**	(20,348)
Net increase/(decrease) in cash and cash equivalents		**29,754**	(4,225)
Cash and cash equivalents at beginning of the year		**26,583**	30,668
Exchange gains on cash and cash equivalents		**1,486**	140
Cash and cash equivalents at end of the year	*15*	**57,823**	26,583

The notes on pages 37 to 86 are an integral part of these combined financial statements.

Notes to the Combined Financial Statements

1 Group Structure, Reorganisation and Principal Activities

(a) General information

Walker Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 10 November 2006 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and the companies comprising the group as set out in Note 32 (the "Group") are principally engaged in the retailing of footwear in Hong Kong and Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") on 7 June 2007 ("Listing Date").

These combined financial statements are prepared using the basis outlined in Note 2(a) and are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These combined financial statements have been approved for issue by the Board of Directors on 12 July 2007.

(b) Reorganisation

On 21 May 2007, the Group has completed a group reorganisation (the "Reorganisation") which included exchange of shares to rationalise the structure of the Group in preparation for the listing of the Company's shares on the HKSE.

Prior to the Reorganisation, Walker Shop Footwear Limited had wholesale and retail businesses under the names "Walker Shop", "Couber.G" and "Acupuncture" (collectively known as "HK Footwear Business") and "HOSO PLACE" (the "HK Excluded Business") in Hong Kong. The HK Footwear Business is mainly engaged in the retail of footwear products in Hong Kong targeting general public while the HK Excluded Business is engaged in the retail of apparel and footwear products targeting younger customers. WS Guangzhou also had retail businesses of footwear under the name "Walker Shop" and retail businesses of apparel and footwear under the name "HOSO PLACE" (the "PRC Excluded Business") in the PRC.

1 Group Structure, Reorganisation and Principal Activities *(continued)*

(b) Reorganisation *(continued)*

The Reorganisation was summarised as follows:

(i) On 9 February 2007, Walker Shop Footwear Limited disposed of its assets and transferred its liabilities related to the HK Excluded Business at their carrying value to Hoso International Company Limited, which is beneficially owned by Mr. Huang Wen Yi, the chairman and majority shareholder of the Company, and Ms. Chan Mei Sheung. Upon completion, Walker Shop Footwear Limited only operates its footwear wholesale and retail business (the "Footwear Business") in Hong Kong. On 29 March 2007, Walker Shop Footwear Limited transferred the right to receive the consideration of HK$20,930,000 from Hoso International Company Limited by way of declaring a dividend in kind to its then shareholders, namely, Mr. Huang Wen Yi and Ms. Chan Mei Sheung.

(ii) On 31 January 2007, TC Beijing and WS Guangzhou, companies which are beneficially owned by Mr. Huang Wen Yi and Ms. Chan Mei Sheung, entered into agreements with Smarter Trading (Beijing) Company Limited and Smart Trend Trading (Shenzhen) Company Limited to transfer the footwear wholesale and retail businesses and certain related assets, to Smarter Trading (Beijing) Company Limited and Smart Trend Trading (Shenzhen) Company Limited at considerations of approximately HK$83,735,000 and HK$8,135,000 respectively.

(iii) On 16 May 2007, the Genius Earn Investments Limited acquired the entire interest of all companies comprising the Group except the Company and became the then holding company.

(iv) On 21 May 2007, the Company acquired the entire issued capital of Genius Earn Investments Limited through a share swap and has become the holding company of the companies comprising the Group.

Apart from the above, Trunari Enterprises Company Limited disposed of an office property related to the HK Excluded Business on 30 November 2006 to Ms. Chan Mei Sheung for a consideration of HK$1,061,000. The gain on disposal of HK$26,000, representing the difference between the consideration and the carrying amount, was recognised in the combined income statement.

2 Summary of Significant Accounting Policies

(a) Basis of preparation

Although the Reorganisation was not completed until 21 May 2007, the directors of the Company have considered that it is meaningful to present the combined financial position and the result of the operations of the Group for the year ended 31 March 2007, as all the entities comprising the Group were beneficially owned and controlled by Mr. Huang Wen Yi, the Chairman and majority shareholder of the Company, and Ms. Chan Mei Sheung, before and after the Reorganisation.

The combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

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

(i) Amendments to published standards effective in 2006

HKAS 39 and HKFRS 4 (Amendment), "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on the Group's financial statements.

2 Summary of Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(ii) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods. The Group has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these standards and interpretations to existing standards, if applicable, in the financial statements for the year ended 31 March 2007.

HKAS 1	Presentation of Financial Statements – Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC)-Int 8	Scope of HKFRS 2 [3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [6]
HK(IFRIC)-Int 12	Service Concession Arrangements [7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008

2 Summary of Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HKAS 19 (Amendment)	Actuarial gains and losses, Group plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies

(b) Segment reporting

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

2 Summary of Significant Accounting Policies *(continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

- all resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to owners' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2 Summary of Significant Accounting Policies *(continued)*

(d) Leasehold land

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various buildings are generally situated for a period from 10 to 50 years. Leasehold land is located in Hong Kong. Amortisation of leasehold land is calculated on a straight-line basis over the period of the lease and is charged to the administrative expenses in the combined income statement.

(e) Property, plant and equipment

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

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

2 Summary of Significant Accounting Policies *(continued)*

(e) Property, plant and equipment *(continued)*

Depreciation of buildings and leasehold improvements is calculated using the straight-line method to allocate cost over their estimated useful lives, as follows:

– Buildings	50 years
– Leasehold improvements	over the lease term

Depreciation of other property, plant and equipment is calculated using the reducing balance method to allocate cost over their estimated useful lives, at the following rates per annum:

– Motor vehicles	25%
– Furniture, fixtures and equipment	20%
– Computer equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within administrative expenses in the income statement.

2 Summary of Significant Accounting Policies *(continued)*

(f) Intangible assets

(i) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(ii) Patents and licenses

Expenditure on acquiring licenses for sale of products is initially recognised and measured at fair value, which represent the capitalisation of unavoidable license fee payments in accordance with the license agreements. Cost of licenses is amortised using the straight-line method over the license period, ranging from 3 to 5 years.

(g) Impairment of non-financial assets

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

(h) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

2 Summary of Significant Accounting Policies *(continued)*

(h) Financial assets *(continued)*

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are initially recognised at cost and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividend on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

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

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

2 Summary of Significant Accounting Policies *(continued)*

(i) Inventories

Inventories representing merchandising stocks are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling and distribution costs.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and distribution costs. When a trade receivable is uncollectible, it is written off against the allowance accounts for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and distribution costs in the income statement.

2 Summary of Significant Accounting Policies *(continued)*

(k) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

(l) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) License fees payable

License fees payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

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

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

(o) Deferred income tax

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

2 Summary of Significant Accounting Policies *(continued)*

(o) Deferred income tax *(continued)*

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

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

(p) Employee benefits

(i) Employee leave entitlement

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

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The group companies in Mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

2 Summary of Significant Accounting Policies *(continued)*

(p) Employee benefits *(continued)*

(iii) Pension obligations *(continued)*

The group companies in Hong Kong participate in a mandatory provident fund ("MPF Scheme") for its employees in Hong Kong. MPF Scheme is a defined contribution scheme in accordance with the Mandatory Provident Fund Scheme Ordinance. Under the rules of MPF Scheme, the employer and its employees are required to contribute 5% of the employees' salaries, up to a maximum of HK$1,000 per employee per month. The assets of MPF Scheme are held separately from those of the Group in an independently administered fund.

(q) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(r) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 Summary of Significant Accounting Policies *(continued)*

(r) Revenue recognition *(continued)*

(i) Sales of goods – retail

The Group operates a chain of retail outlets for selling footwear. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in selling and distribution costs.

(ii) Sales of goods – wholesale

The Group sells a range of footwear products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesale's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group objective evidence that all criteria for acceptance have been satisfied.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) License fees income

License fees income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(s) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor and exclusive of any turnover rental payments which are calculated by a reference to a pre-determined percentage of a tenant's monthly sales) are expensed in the income statement on a straight-line basis over the period of the lease. Turnover rental payments are recognised on an accrual basis.

(t) Dividend distribution

Dividend distribution to the Company's equity holder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holder.

3 Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(i) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Certain assets of the Group are principally denominated in United States dollars ("US$"). HK$ is pegged to US$, thus foreign exchange exposure is considered as minimal. The Group currently does not have a foreign currency hedging policy.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposures to changes in interest rates are mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 16 to the combined financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3 Financial Risk Management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(iv) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, deposits, as well as credit exposures to trade and other receivables. Management has policies in place to monitor the exposures to these credit risks on an on-going basis. Sales to retail customers are made in cash or via major credit cards. The Group has put in place policies to ensure that wholesale sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The maximum exposure to credit risk at the reporting dates is the fair value of each class of cash and cash equivalents, deposits and receivables.

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits, trade and other receivables, trade and other payables, short-term borrowings approximate their fair values due to their short maturities.

The fair values of non-current borrowings are disclosed in Note 16 to the combined financial statements.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of any future management determination of shop relocation or renovation. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down non-strategic assets that have been abandoned or sold.

(b) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories and write-downs of inventories in the years in which such estimates have been changed. Details of write-downs of inventories due to the change in this estimate are disclosed in Note 11 to the combined financial statements.

(c) Income taxes

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Segment information

(a) Primary reporting format – business segments

At 31 March 2007, the Group is organised into two main business segments operating in Hong Kong and Mainland China:

(i) Operation of chains of retail outlets for footwear; and

(ii) Sale of a range of footwear on a wholesale basis.

Segment assets consist primarily of leasehold land, property, plant and equipment, intangible assets, rental deposits, inventories, receivables and operating cash. They exclude tax recoverable, deferred income tax assets, available-for-sale financial assets and amounts due from related companies.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise tax payable, borrowings, deferred income tax liabilities, and amounts due to related companies and directors.

Capital expenditure comprises additions to leasehold land, property, plant and equipment and intangible assets.

5 Segment information *(continued)*

(a) Primary reporting format – business segments *(continued)*

The segment results for the year are as follows:

	2007 HK$'000	2006 HK$'000
Turnover:		
Retail	**660,668**	520,223
Wholesales	**28,698**	8,382
	689,366	528,605
Segment results:		
Retail	**140,725**	109,251
Wholesales	**11,566**	1,103
Unallocated	**(41,280)**	(39,782)
	111,011	70,572
Finance costs	**(3,134)**	(1,681)
Income tax expenses	**(24,874)**	(14,996)
Profit for the year	**83,003**	53,895
Segment assets:		
Retail	**411,802**	255,284
Wholesales	**3,143**	1,018
Unallocated	**35,526**	47,958
	450,471	304,260
Segment liabilities:		
Retail	**135,159**	89,564
Wholesales	**–**	–
Unallocated	**175,293**	81,263
	310,452	170,827
Capital expenditure:		
Retail	**43,662**	12,181
Wholesales	**–**	–
Unallocated	**–**	–
	43,662	12,181

5 Segment information *(continued)*

(a) Primary reporting format – business segments *(continued)*

Other segment items included in the combined income statement for the year are as follows:

	2007	2006
	HK$'000	HK$'000
Amortisation of leasehold land:		
Retail	**–**	–
Wholesales	**–**	–
Unallocated	**869**	875
Total amortisation	**869**	875
Depreciation:		
Retail	**19,427**	12,775
Wholesales	**–**	–
Unallocated	**396**	399
Total depreciation	**19,823**	13,174
Amortisation of intangible assets:		
Retail	**1,562**	266
Wholesales	**–**	–
Unallocated	**–**	–
Total amortisation	**1,562**	266
Net write-back of obsolete inventories:		
Retail	**(10,089)**	(10,244)
Wholesales	**–**	–
Unallocated	**–**	–
Net write-back of obsolete inventories	**(10,089)**	(10,244)

5 Segment information *(continued)*

(b) Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and Mainland China. The Group's turnover by geographical locations is determined by the country in which the customer is located.

	2007	2006
	HK$'000	HK$'000
Turnover:		
Hong Kong	**317,809**	259,190
Mainland China	**365,807**	268,129
Others	**5,750**	1,286
	689,366	528,605

Total assets are allocated based on where the assets are located.

	2007	2006
	HK$'000	HK$'000
Segment assets:		
Hong Kong	**234,937**	148,506
Mainland China	**181,176**	108,966
	416,113	257,472
Unallocated assets	**34,358**	46,788
	450,471	304,260

5 Segment information *(continued)*

(b) Secondary reporting format – geographical segments *(continued)*

Capital expenditure is allocated based on where the assets are located.

	2007	2006
	HK$'000	HK$'000
Hong Kong	**27,036**	4,017
Mainland China	**16,626**	8,164
	43,662	12,181

6 Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments.

	2007	2006
	HK$'000	HK$'000
Opening net book amount	**36,761**	37,636
Disposals	**(696)**	–
Amortisation	**(869)**	(875)
Closing net book amount	**35,196**	36,761

As at 31 March 2007, bank borrowings are secured by certain leasehold land with an aggregate carrying value of approximately HK$33,528,000 (2006: HK$35,051,000) (Note 16).

Notes to the Combined Financial Statements

7 Property, plant and equipment

	Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures and equipment	Computer equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005						
Cost	19,969	22,951	3,017	28,444	5,067	79,448
Accumulated depreciation	(3,266)	(13,111)	(2,627)	(20,841)	(3,125)	(42,970)
Net book amount	16,703	9,840	390	7,603	1,942	36,478
Year ended 31 March 2006						
Opening net book amount	16,703	9,840	390	7,603	1,942	36,478
Exchange differences	–	68	–	10	12	90
Additions	–	10,148	–	1,234	538	11,920
Disposals	–	(356)	–	(2,007)	(407)	(2,770)
Depreciation	(399)	(10,342)	(85)	(1,892)	(456)	(13,174)
Closing net book amount	16,304	9,358	305	4,948	1,629	32,544
At 31 March 2006						
Cost	19,969	31,071	3,017	14,501	3,193	71,751
Accumulated depreciation	(3,665)	(21,713)	(2,712)	(9,553)	(1,564)	(39,207)
Net book amount	16,304	9,358	305	4,948	1,629	32,544
Year ended 31 March 2007						
Opening net book amount	16,304	9,358	305	4,948	1,629	32,544
Exchange differences	–	251	–	30	32	313
Additions	–	25,448	–	1,573	1,680	28,701
Disposals	(338)	(234)	–	(34)	(68)	(674)
Depreciation	(396)	(17,626)	(66)	(1,209)	(526)	(19,823)
Closing net book amount	15,570	17,197	239	5,308	2,747	41,061
At 31 March 2007						
Cost	19,539	41,425	3,017	15,466	4,231	83,678
Accumulated depreciation	(3,969)	(24,228)	(2,778)	(10,158)	(1,484)	(42,617)
Net book amount	15,570	17,197	239	5,308	2,747	41,061

The buildings, including leasehold land, are all located in Hong Kong and held on leases between 10 to 50 years.

7 Property, plant and equipment *(continued)*

Depreciation of the Group's property, plant and equipment has been charged to the combined income statement as follows:

	2007	2006
	HK$'000	HK$'000
Selling and distribution costs	**17,753**	11,380
Administrative expenses	**2,070**	1,794
	19,823	13,174

As at 31 March 2007, bank borrowings are secured by certain property, plant and equipment with an aggregate carrying value of approximately HK$14,959,000 (2006: HK$15,676,000) (Note 16).

8 Intangible assets

Intangible assets represent the cost of acquiring licenses on authorised products and computer software.

	License fees	**Computer software**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 April 2005			
Cost	–	1,485	1,485
Amortisation	–	(843)	(843)
Net book amount	–	642	642
Year ended 31 March 2006			
Opening net book amount	–	642	642
Exchange differences	–	1	1
Additions	–	261	261
Amortisation	–	(266)	(266)
Closing net book amount	–	638	638

8 Intangible assets *(continued)*

	License fees	Computer software	Total
	HK$'000	HK$'000	HK$'000
At 31 March 2006			
Cost	–	1,747	1,747
Accumulated amortisation	–	(1,109)	(1,109)
Net book amount	–	638	638
Year ended 31 March 2007			
Opening net book amount	–	638	638
Exchange differences	–	2	2
Additions	14,578	383	14,961
Amortisation	(1,261)	(301)	(1,562)
Closing net book amount	13,317	722	14,039
At 31 March 2007			
Cost	14,578	2,132	16,710
Accumulated amortisation	(1,261)	(1,410)	(2,671)
Net book amount	13,317	722	14,039

8 Intangible assets *(continued)*

Amortisation of the Group's intangible assets has been charged to the combined income statement as follows:

	2007 HK$'000	2006 HK$'000
Cost of sales	**1,261**	–
Selling and distribution costs	**46**	227
Administrative expenses	**255**	39
	1,562	266

License fees represent license rights on the authorised products, namely, ACUPUNCTURE and PINK PANTHER, up to 2011. Additions during the year represent capitalisation of minimum license fees payable, based on a discount rate equal to the Group's weighted average borrowing rate of 6.18% for US$ and 5.85% for HK$ at the date of inception. License fee is amortised on a straight-line basis.

9 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	2007 HK$'000	2006 HK$'000
Deferred income tax assets		
– Deferred income tax assets to be realised after more than twelve months	**1,061**	211
Deferred income tax liabilities		
– Deferred income tax liabilities to be settled after more than twelve months	**(295)**	(265)
	766	(54)

9 Deferred income tax *(continued)*

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

	2007 HK$'000	2006 HK$'000
At beginning of the year	**(54)**	(510)
Recognised in the combined income statement *(note 25)*	**818**	454
Exchange differences	**2**	2
At end of the year	**766**	(54)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax depreciation allowance HK$'000	**Provision** HK$'000	**Total** HK$'000
As at 1 April 2005	–	43	43
Recognised in the combined income statement	122	44	166
Exchange differences	–	2	2
As at 31 March 2006	122	89	211
Recognised in the combined income statement	736	112	848
Exchange differences	–	2	2
As at 31 March 2007	858	203	1,061

9 Deferred income tax *(continued)*

Deferred income tax liabilities

	Tax depreciation allowance HK$'000
As at 1 April 2005	553
Recognised in the combined income statement	(288)
As at 31 March 2006	265
Recognised in the combined income statement	30
As at 31 March 2007	295

10 Available-for-sale financial assets

	2007 **HK$'000**	2006 HK$'000
At beginning of the year	**1,170**	–
Additions	**–**	1,170
Net losses transfer to equity	**(2)**	–
At end of the year	**1,168**	1,170

Available-for-sale financial assets represent an investment in an unlisted guaranteed fund issued by a financial institution in Hong Kong and are denominated in US$.

As at 31 March 2007, the fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities at 2.67%.

11 Inventories

The cost of inventories recognised as expenses and included in cost of sales during the year amounted to HK$252,986,000. (2006: HK$201,741,000)

The Group has written back provisions of HK$8,128,000 (2006: HK$15,657,000) relating to those inventories that were subsequently sold during the year. Also, the Group has written back provisions of HK$3,466,000 (2006: HK$5,690,000) relating to the increase in expected net realisable value for the year. All these write-backs have been included in cost of sales in the combined income statement.

12 Trade and bills receivables

Ageing analysis of third party trade and bills receivables at the balance sheet date is as follows:

	2007	2006
	HK$'000	HK$'000
0 – 30 days	**65,325**	31,515
31 – 60 days	**1,894**	2,680
61 – 90 days	**445**	289
Over 90 days	**1,117**	756
	68,781	35,240
Denominated in:		
– HK$	**5,118**	2,560
– RMB	**63,663**	32,680
	68,781	35,240

Retail sales are in cash, by credit cards or collected by department stores on behalf of the Group. The department stores normally settle the proceeds to the Group within 2 months from the date of sales.

Wholesales are generally on credit term ranging from 0 to 30 days.

13 Amounts due from/(to) related companies

The amounts due from/(to) related companies are unsecured, interest free and repayable on demand, and denominated in Hong Kong dollars.

14 Deposits, prepayments and other receivables

	2007	2006
	HK$'000	HK$'000
Deposits	**24,164**	10,543
Prepayments	**2,369**	1,207
Other receivables	**2,176**	4,880
	28,709	16,630
Denominated in:		
– HK$	**25,607**	13,810
– RMB	**3,102**	2,820
	28,709	16,630

15 Cash and cash equivalents

	2007	2006
	HK$'000	HK$'000
Cash at banks and on hand	**47,823**	21,956
Bank deposits	**10,000**	5,000
Cash and cash equivalents in the combined balance sheet	**57,823**	26,956
Bank overdrafts *(note 16)*	**–**	(373)
Cash and cash equivalents in the combined cash flow statement	**57,823**	26,583

15 Cash and cash equivalents *(continued)*

Cash and cash equivalents in the combined balance sheet are denominated in the following currencies:

	2007	2006
	HK$'000	HK$'000
HK$	**33,552**	8,782
RMB	**23,148**	17,669
USD	**1,123**	505
	57,823	26,956

The weighted average effective interest rate on short-term bank deposits, with maturity of 30 days, was 3.74% (2006: 3.68%) per annum for the year.

The Group's cash and bank balances denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

16 Borrowings

	2007	2006
	HK$'000	HK$'000
Non-current		
Long-term bank loans	**9,914**	11,582
Current		
Current portion of long-term bank loans	**1,667**	1,667
Short-term bank loans	**97,557**	19,039
Bank overdrafts	**–**	373
	99,224	21,079
Total bank borrowings – secured	**109,138**	32,661

16 Borrowings *(continued)*

All short-term bank loans and bank overdrafts are due within one year. The short-term bank loans represent trust receipt import bank loans which were secured by inventories.

As at 31 March 2007, the long-term bank loans were secured by the Group's leasehold land with net book amount of HK$33,528,000 (2006: HK$35,051,000) (Note 6) and property, plant and equipment with net book amount of HK$14,959,000 (2006: HK$15,676,000) (note 7).

As at 31 March 2007, bank borrowings amounted to HK$74,485,000 (2006: HK$27,950,000) were also secured by all monies guarantee and indemnity duly executed by Mr. Huang Wen Yi and Ms. Chan Mei Sheung.

As at 31 March 2007, the Group's borrowings were repayable as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**99,224**	21,079
In the second year	**1,667**	1,667
In the third to fifth year	**3,247**	4,248
After the fifth year	**5,000**	5,667
	109,138	32,661

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

	2007	2006
	HK$'000	HK$'000
Total borrowings:		
– HK$	**84,677**	20,494
– US$	**24,461**	12,167
	109,138	32,661

16 Borrowings *(continued)*

As at 31 March 2007, the weighted average effective interest rates per annum of the Group's borrowings are set out as follows:

	2007	2006
	%	%
Total borrowings:		
– HK$	**5.85**	6.07
– US$	**6.18**	6.82

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates as at 31 March 2007 is as follows:–

	2007	2006
	HK$'000	HK$'000
6 months or less	**109,138**	32,661

The carrying amounts of current portion of long-term and short-term bank borrowings approximate their fair values.

The carrying values and fair values of non-current borrowings are set out as follows:

	2007	2006
	HK$'000	HK$'000
Carrying amounts	**9,914**	11,582
Fair values	**7,677**	10,017

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

16 Borrowings *(continued)*

At 31 March 2007, the Group had the following undrawn borrowing facilities:

	2007	2006
	HK$'000	HK$'000
Floating rate		
– Expiring within one year	**48,645**	47,891

17 Trade and bills payables

The ageing analysis of trade and bills payables at the balance sheet date is as follows:

	2007	2006
	HK$'000	HK$'000
0 – 30 days	**83,281**	41,449
31 – 60 days	**544**	3,681
61 – 90 days	**284**	1,253
Over 90 days	**796**	2,324
	84,905	48,707

	2007	2006
	HK$'000	HK$'000
Denominated in:		
– HK$	**32,643**	29,469
– RMB	**52,262**	19,238
	84,905	48,707

The amounts are repayable according to normal trade terms from 30 to 90 days.

18 Amounts due to directors

The amounts due to directors are unsecured, interest-free and repayable on demand.

19 Expenses by nature

	2007	2006
	HK$'000	HK$'000
Purchase of and changes in inventories	**252,986**	201,741
Auditor's remuneration	**669**	599
Amortisation of leasehold land	**869**	875
Depreciation of property, plant and equipment	**19,823**	13,174
Amortisation of intangible assets	**1,562**	266
Operating lease rental in respect of leasehold land and buildings	**187,984**	146,815
– including turnover rental expenses	**158,324**	131,305
Net write-back of obsolete inventories	**(10,089)**	(10,244)
Employee benefit expenses *(note 22)*	**80,176**	66,127
Other expenses	**47,588**	40,434
Total cost of sales, selling and distribution costs and administrative expenses	**581,568**	459,787

20 Other (losses)/gains

	2007	2006
	HK$'000	HK$'000
Net foreign exchange (losses)/gains	**(180)**	44

21 Other income

	2007 HK$'000	2006 HK$'000
Interest income	**309**	159
License fees income	**775**	875
Others	**2,309**	676
	3,393	1,710

22 Employee benefit expenses (including directors' emoluments)

	2007 HK$'000	2006 HK$'000
Salaries, wages and bonuses	**71,391**	58,056
Pension costs – defined contribution plans	**3,761**	1,450
Welfare and other expenses	**5,024**	6,621
	80,176	66,127

23 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate of emoluments paid/payable to directors of the Group are as follows:

	2007 HK$'000	2006 HK$'000
Fees	**–**	–
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,620**	1,020
Contributions to pension plans	**17**	17
	1,637	1,037

23 Directors' and senior management's emoluments *(continued)*

(a) Directors' emoluments *(continued)*

The emoluments of each director for the year ended 31 March 2007 are set out below:

	Fees HK$'000	Basic salaries, housing allowance, other allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Contributions to pension plan HK$'000	Total HK$'000
Executive directors:					
Mr. Huang Wen Yi	**–**	**1,140**	**–**	**12**	**1,152**
Ms. Chan Mei Sheung	**–**	**480**	**–**	**5**	**485**
	–	**1,620**	**–**	**17**	**1,637**

The emoluments of each director for the year ended 31 March 2006 are set out below:

	Fees HK$'000	Basic salaries, housing allowance, other allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Contributions to pension plan HK$'000	Total HK$'000
Executive directors:					
Mr. Huang Wen Yi	–	540	–	12	552
Ms. Chan Mei Sheung	–	480	–	5	485
	–	1,020	–	17	1,037

None of the directors waived any emoluments during the year (2006: nil).

23 Directors' and senior management's emoluments *(continued)*

(a) Directors' emoluments *(continued)*

The number of the directors fall within the following bands:

	2007	2006
Nil to HK$1,000,000	**1**	2
HK$1,000,001 – 1,500,000	**1**	–
	2	2

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include two directors (2006: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,654**	1,316
Discretionary bonuses	**–**	–
Contributions to pension plans	**36**	36
	1,690	1,352

The emoluments paid for payables to the remaining three (2006: three) individuals for the year ended 31 March 2007 fell within the following bands:

	2007	2006
Nil to HK$1,000,000	**2**	3
HK$1,000,001 – 1,500,000	**1**	–
	3	3

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2006: nil).

24 Finance costs

	2007 HK$'000	2006 HK$'000
Interest on bank borrowings and overdrafts	**3,131**	1,673
Interest on overdue payables	**3**	8
	3,134	1,681

25 Income tax expenses

The amount of income tax expenses charged to the combined income statement represents:

	2007 HK$'000	2006 HK$'000
Current income tax:		
– Hong Kong profits tax	**9,053**	6,379
– PRC enterprise income tax	**16,639**	9,071
	25,692	15,450
Deferred income tax *(note 9)*	**(818)**	(454)
	24,874	14,996

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

Pursuant to the rules and regulations applicable to wholly foreign-owned enterprises in Shanghai Waigaoqiao Free Trade Zone, Walker Shop International Trading (Shanghai) Company Limited (奧卡索國際貿易(上海)有限公司) is subject to PRC income tax at a rate of 15%, being the preferential tax rate in Shanghai Waigaoqiao Free Trade Zone. Also, Smart Trend Trading (Shenzhen) Company Limited (傲丰貿易(深圳)有限公司) is eligible to enjoy a preferential tax rate of 15% pursuant to the PRC Enterprises Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises as it is an enterprise operating in the Shenzhen Special Economic Zone. Other subsidiaries of the Group operating in the PRC are subject to PRC income tax at a rate of 33%.

25 Income tax expenses *(continued)*

The difference between the actual income tax charge in the combined income statement and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2007	2006
	HK$'000	HK$'000
Profit before income tax	**107,877**	68,891
Tax calculated at domestic tax rates applicable to profits in the respective countries	**20,786**	14,505
Income not subject to tax	**(216)**	(389)
Expenses not deductible for tax purposes	**3,793**	869
Tax losses for which no deferred income tax asset was recognised	**511**	11
Tax charge	**24,874**	14,996

The weighted average applicable tax rate was 19% (2006: 21%) for the year.

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxation profits is probable. The Group has unrecognised tax losses of approximately HK$1,584,000 (2006: HK$63,000) to carry forward against future taxable income. These tax losses have no expiry date.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to the enterprises established in the PRC will be unified at 25%, with certain grandfathering provisions and preferential provisions. The change in tax rate does not have any impact on the combined financial statements, as the New Tax Law was neither enacted nor substantially enacted by 31 March 2007.

26 Earnings per share

No earnings per share information are presented as its inclusion, for the purpose of these combined financial statements, is not considered meaningful.

27 Dividend

On 22 February 2007, Walker Shop Footwear Limited declared and paid interim dividend of HK$5,000,000 to its then shareholders.

On 29 March 2007, Walker Shop Footwear Limited transferred the right to receive the consideration of HK$20,930,000 from a related company, Hoso International Company Limited, by way of declaring a dividend in kind to its then shareholders.

Dividend of HK$20,000,000 for the year ended 31 March 2006 represented the interim dividend declared and paid by Walker Shop Footwear Limited to its then shareholders.

At a meeting held on 12 July 2007, the directors resolved that no payment of a final dividend for the year ended 31 March 2007 is recommended.

28 Combined cash flow statement

(a) Reconciliation of profit before income tax to cash generated from operations

	2007	2006
	HK$'000	HK$'000
Profit before income tax	**107,877**	68,891
Adjustments for:		
– Amortisation of leasehold land	**869**	875
– Depreciation of property, plant and equipment	**19,823**	13,174
– Amortisation of intangible assets	**1,562**	266
– Loss on disposal of leasehold land and property, plant and equipment	**268**	2,770
– Interest income	**(309)**	(159)
– Interest expense	**3,134**	1,681
Changes in working capital	**133,224**	87,498
– Inventories	**(57,257)**	(10,854)
– Trade and bills receivables	**(32,080)**	(5,587)
– Deposits, prepayments and other receivables	**(14,165)**	(7,217)
– Trade and bills payables	**35,338**	13,846
– Accruals and other payables	**(4,369)**	(765)
– Amounts due to directors	**(20,334)**	(9,737)
– Amounts due from/(to) related companies	**(24,931)**	(28,688)
Cash generated from operations	**15,426**	38,496

28 Combined cash flow statement *(continued)*

(b) Proceeds from disposal of leasehold land and property, plant and equipment

In the combined cash flow statement, proceeds from disposal of leasehold land and property, plant and equipment comprise:

	2007	2006
	HK$'000	HK$'000
Net book amount:		
– Leasehold land	**696**	–
– Property, plant and equipment	**674**	2,770
Loss on disposal of leasehold land and property, plant and equipment	**(268)**	(2,770)
Proceeds from disposal of leasehold land and property, plant and equipment	**1,102**	–

29 Commitments

(a) Capital commitments

	2007	2006
	HK$'000	HK$'000
Property, plant and equipment:		
– Contracted but not provided for	**588**	–
– Authorised but not contracted for	**–**	–
	588	–

29 Commitments *(continued)*

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of retail shops, offices, warehouses and furniture, fixtures and equipment are as follows:

	2007	2006
	HK$'000	HK$'000
Leasehold land and buildings		
– No later than one year	**70,950**	59,804
– Later than one year and no later than five years	**55,036**	36,987
– Later than five years	**459**	–
	126,445	96,791
Furniture, fixtures and equipment		
– No later than one year	**204**	–
– Later than one year and no later than five years	**764**	–
	968	–
	127,413	96,791

Leases are negotiated for varying terms, escalation clauses and renewal options. The operating lease rentals of certain outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The above operating lease commitments include commitments for fixed rent only.

In additions, rentals payable in some cases include additional rent, calculated according to gross revenue, in excess of the fixed rent.

30 Significant related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The ultimate parent of the Group is Smart Preseto Holdings Limited (incorporated in the British Virgin Islands) which owns 100% equity interest in the Company. The ultimate controlling parties of the Group are Mr. Huang Wen Yi and Ms. Chan Mei Sheung who collectively own 90% and 10% of Smart Presto Holdings Limited respectively.

During the year, the Group had the following significant transactions with related parties.

Sales and purchases of goods are made at prices and terms not less than those sold by and contracted with other third party customers and suppliers of the Group which are due within a normal credit period.

		2007	2006
		HK$'000	HK$'000
(a)	Sales of goods to PRC Excluded Business	**5,177**	7,015
(b)	Purchases of goods from HK Excluded Business	**6,085**	–

		2007	2006
		HK$'000	HK$'000
(c)	Key management compensation		
	Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,174**	4,102
	Contributions to pension plans	**104**	100
		4,278	4,202

30 Significant related party transactions *(continued)*

		2007	2006
		HK$'000	HK$'000
(d)	Year end balances		
	Amounts due from related companies		
	– 廣州奧卡索北京及上海分公司	**4,030**	1,785
	– HOSO International Company Limited	**29,250**	44,740
		33,280	46,525
	Amounts due to related companies		
	– TC Beijing	**35,396**	–
	– WS Guangzhou	**2,390**	–
		37,786	–
	Amounts due to directors		
	– Mr. Huang Wen Yi	**8,673**	23,534
	– Ms. Chan Mei Sheung	**4,375**	9,226
		13,048	32,760

The amounts due from/(to) related companies and amounts due to directors arise mainly from borrowings and have repayment terms as disclosed in Notes 13 and 18 respectively.

		2007	2006
		HK$'000	HK$'000
(e)	Guarantees given to certain banks in respect of bank borrowings of the Group by directors:		
	– Mr. Huang Wen Yi and Ms. Chan Mei Sheung	**158,582**	86,856

		2007	2006
		HK$'000	HK$'000
(f)	Net book value of property, plant and equipment sold to a director:		
	– Ms. Chan Mei Sheung *(note 1(b))*	**1,035**	–

31 Events after the balance sheet date

(a) On 7 May 2007, Walker Shop Footwear Limited declared and paid an interim dividend of HK$30,561,000 to its then shareholders.

(b) On 21 May 2007, Walker Shop Footwear Limited transferred a residential property with a carrying value of HK$17,683,000 at the date of transfer, to Fine Top Investments Limited which is beneficially owned by Mr. Huang Wen Yi and Ms. Chan Mei Sheung in form of a dividend in kind.

(c) On 21 May 2007, the Company has adopted a pre-IPO share option scheme and a share option scheme whereby the Company granted share options under pre-IPO share option scheme under which the option holders are entitled to acquire an aggregate of 15,000,000 shares of the Company over a vesting period of 3 years. No options have been granted under the share option scheme.

(d) On 7 June 2007, the Company was successfully listed on the HKSE following the completion of its global offering of 150,000,000 shares comprising a total of 75,000,000 new shares offered for public subscription by the Company and a total of 75,000,000 placing shares.

(e) Under the underwriting agreement dated 25 May 2007 relating to the Company's shares offer, Taifook Securities Company Limited and DBS Asia Capital Limited ("the Joint Bookrunners") have been granted the right but not the obligation to require the Company to allot and issue up to 22,500,000 additional new shares. On 26 June 2007, the Joint Bookrunners have fully exercised this option and the Company has allotted and issued all these shares at HK$3.86 each.

32 Group companies

Details of the companies comprising the Group which have become subsidiaries of the Company since 21 May 2007 (date of the completion of the Reorganisation) are as follow:

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-up capital	Equity interest attributable to the Group
Directly held:				
Genius Earn Investments Limited	British Virgin Islands 16 August 2006	Investment holding/ Hong Kong	US$10	100%
Indirectly held:				
Smarter Trading (Beijing) Company Limited （奧吉斯貿易（北京）有限公司）	PRC/wholly foreign-owned enterprise 25 April 2006	Retailing of footwear/ PRC	HK$3,000,000	100%
Artemis Footwear Limited	Hong Kong/ 21 January 2000	Dormant	HK$1,000	100%
Senet International Limited	Hong Kong/ 14 July 1992	Holding of trademarks and properties/Hong Kong	HK$10	100%
Smart Trend Trading (Shenzhen) Company Limited （傲丰貿易（深圳）有限公司）	PRC/wholly foreign-owned enterprise/ 10 May 2006	Retailing of footwear/ PRC	HK$1,000,000	100%

32 Group companies *(continued)*

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Trunari Enterprises Company Limited	Hong Kong/ 13 July 1990	Holding of properties/ Hong Kong	HK$22,000,000	100%
Walker Corporation Limited	Hong Kong/ 27 June 1996	Dormant	HK$1,000	100%
Walker Group China Company Limited	Hong Kong/ 14 July 2005	Investment holding/ Hong Kong	HK$100	100%
Walker Group International Company Limited	Hong Kong/ 29 October 2003	Dormant	HK$100	100%
Walker International Footwear Limited	Hong Kong/ 8 December 2004	Dormant	HK$100	100%
Walker International Holdings Limited	Hong Kong/ 8 December 2004	Investment holding/ Hong Kong	HK$100	100%
Walker Shop Footwear Limited	Hong Kong/ 8 August 1996	Investment holding and retailing of footwear/ Hong Kong	HK$100,000	100%

Notes to the Combined Financial Statements

32 Group companies *(continued)*

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Walker Shop International Trading (Shanghai) Company Limited (奧卡索國際貿易（上海）有限公司)	PRC/wholly foreign-owned enterprise/ 28 November 2003	Retailing of footwear/ PRC	US$200,000	100%
Billion International Trading (Shanghai) Company Limited (逸盈國際貿易（上海）有限公司)	PRC/wholly foreign-owned enterprise/ 13 March 2007	Retailing of footwear/ PRC	US$140,000	100%

The English names of certain companies represent the best effort by the management of the Group in translating their Chinese names as they do not have official English names.

All companies established in the PRC have adopted 31 December as their accounting date for statutory reporting purpose. All other companies have adopted 31 March as their financial year end date.

Independent Auditor's Report on the Company's Financial Statements

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF WALKER GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Walker Group Holdings Limited (the "Company") set out on pages 89 to 99, which comprise the balance sheet as at 31 March 2007, and the income statement, the statement of changes in equity and the cash flow statement for the period from 10 November 2006 (date of incorporation) to 31 March 2007, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report on the Company's Financial Statements *(continued)*

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2007 and of its result and cash flows for the period from 10 November 2006 (date of incorporation) to 31 March 2007 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 July 2007

Company's Balance Sheet

As at 31 March 2007

	Note	HK$
ASSET		
Total asset		–
EQUITY		
Share capital	*3*	–
LIABILITY		
Total liability		–
Net current asset		–
Total asset less current liability		–

On behalf of the Board

HUANG WEN YI
Director

CHAN MEI SHEUNG
Director

The notes on pages 93 to 99 are integral part of these financial statements.

Company's Income Statement

For the period from 10 November 2006 (date of incorporation) to 31 March 2007

	HK$
Turnover	–
Profit for the period attributable to equity holders of the Company	–

The notes on pages 93 to 99 are integral part of these financial statements.

Company's Statement of Changes In Equity

For the period from 10 November 2006 (date of incorporation) to 31 March 2007

	Share capital
	HK$
Issue of share at date of incorporation	–
Balance at 31 March 2007	–

The notes on pages 93 to 99 are integral part of these financial statements.

Company's Cash Flow Statement

For the period from 10 November 2006 (date of incorporation) to 31 March 2007

	HK$
Cash flow from operating activity	–
Cash flow from investing activity	–
Cash flow from financing activity	
Proceeds from issuance of ordinary share *(note)*	–
Net cash generated from financing activity	–
Cash and cash equivalents at end of the period	–

Note: It represents the proceeds amounting to HK$0.1 from issuance of 1 ordinary share on 10 November 2006.

The notes on pages 93 to 99 are integral part of these financial statements.

Notes to the Company's Financial Statements

1 General information

Walker Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 10 November 2006 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") which included exchange of shares to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE"), the Company has become the holding company of all companies comprising the Group, as set out in note 6 to the financial statements. The Reorganisation was completed on 21 May 2007.

The Company's shares were listed on HKSE on 7 June 2007.

These financial statements have been approved for issue by the Board of Directors on 12 July 2007.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under the historical cost convention.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The directors consider that there are no critical accounting estimates or area of judgement required in the preparation of these financial statements.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

The following new standards, amendments to standards and interpretation have been issued but are not yet effective for 2007 and have not been early adopted:

HKAS 1	Presentation of Financial Statements – Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008

Based on the preliminary assessment, the Company believes that the adoption of these standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Company's accounting policies.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Hong Kong Dollars ("HK$"), which is the Company's functional and presentation currency.

2 Summary of significant accounting policies *(continued)*

(b) Foreign currency translation *(continued)*

(ii) Transactions and balances

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

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3 Share capital

	Number of shares of HK$0.1 each	HK$
Authorised		
– Ordinary shares upon incorporation of the Company on 10 November 2006	3,900,000	390,000
Issued and paid up		
– Allotted and issued, credited as fully paid upon incorporation on 10 November 2006	1	–

The Company was incorporated in the Cayman Islands on 10 November 2006 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.1 each. Upon incorporation of the Company, one share was allotted and issued to Smart Presto Holdings Limited, the sole shareholder of the Company, which was credited as fully paid.

Notes to the Company's Financial Statements

4 Dividend

No dividend has been declared during the period from 10 November 2006 (date of incorporation) to 31 March 2007.

5 Directors' emoluments

During the period from 10 November 2006 (date of incorporation) to 31 March 2007, no director received any emolument from the Company.

6 Events after the balance sheet date

(a) Since 21 May 2007 (date of completion of the Reorganisation), the Company has become the holding company of the companies comprising the group (the "Group"). Details of those companies are as follows:

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Directly held:				
Genius Earn Investments Limited	British Virgin Islands/ 16 August 2006	Investment holding/ Hong Kong	US$10	100%
Indirectly held:				
Smarter Trading (Beijing) Company Limited (奧吉斯貿易(北京)有限公司)	The People's Republic of China ("PRC")/wholly foreign-owned enterprise/ 25 April 2006	Retailing of footwear/ PRC	HK$3,000,000	100%
Artemis Footwear Limited	Hong Kong/ 21 January 2000	Dormant	HK$1,000	100%
Senet International Limited	Hong Kong/ 14 July 1992	Holding of trademarks and properties/ Hong Kong	HK$10	100%

6 Events after the balance sheet date *(continued)*

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Indirectly held: *(continued)*				
Smart Trend Trading (Shenzhen) Company Limited (傲丰貿易(深圳)有限公司)	PRC/wholly foreign-owned enterprise/ 10 May 2006	Retailing of footwear/ PRC	HK$1,000,000	100%
Trunari Enterprises Company Limited	Hong Kong/ 13 July 1990	Holding of properties/ Hong Kong	HK$22,000,000	100%
Walker Corporation Limited	Hong Kong/ 27 June 1996	Dormant	HK$1,000	100%
Walker Group China Company Limited	Hong Kong/ 14 July 2005	Investment holding/ Hong Kong	HK$100	100%
Walker Group International Company Limited	Hong Kong/ 29 October 2003	Dormant	HK$100	100%
Walker International Footwear Limited	Hong Kong/ 8 December 2004	Dormant	HK$100	100%
Walker International Holding Limited	Hong Kong/ 8 December 2004	Investment holding/ Hong Kong	HK$100	100%

Notes to the Company's Financial Statements

6 Events after the balance sheet date *(continued)*

Name of company	Place and date of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Indirectly held: *(continued)*				
Walker Shop Footwear Limited	Hong Kong/ 8 August 1996	Investment holding and retailing of footwear/ Hong Kong	HK$100,000	100%
Walker Shop International Trading (Shanghai) Company Limited (奧卡索國際貿易(上海)有限公司)	PRC/wholly foreign-owned enterprise/ 28 November 2003	Retailing of footwear/ PRC	US$200,000	100%
Billion International Trading (Shanghai) Company Limited (逸盈國際貿易(上海)有限公司)	PRC/wholly foreign-owned enterprise/ 13 March 2007	Retailing of footwear/ PRC	US$140,000	100%

The English names of certain companies represent the best effort by the management in translating their Chinese names as they do not have official English names.

All companies established in the PRC have adopted 31 December as their accounting date for statutory reporting purpose. All other companies have adopted 31 March as their financial year end date.

6 Events after the balance sheet date *(continued)*

(b) On 21 May 2007, the Company has adopted a pre-IPO share option scheme and a share option scheme whereby the Company granted share options under pre-IPO share option scheme under which the option holders are entitled to acquire an aggregate of 15,000,000 shares of the Company over a vesting period of 3 years. No options have been granted under the share option scheme.

(c) On 7 June 2007, the Company was successfully listed on the HKSE following the completion of its global offering of 150,000,000 shares comprising a total of 75,000,000 new shares offered for public subscription by the Company and a total of 75,000,000 placing shares.

(d) Under the underwriting agreement dated 25 May 2007 relating to the Company's shares offer, Taifook Securities Company Limited and DBS Asia Capital Limited ("the Joint Bookrunners") have been granted the right but not the obligation to require the Company to allot and issue up to 22,500,000 additional new shares. On 26 June 2007, the Joint Bookrunners have fully exercised this option and the Company has allotted and issued all these shares at HK$3.86 each.

Particulars of Properties
As at 31 March 2007

PROPERTIES HELD BY THE GROUP FOR OWNER-OCCUPATION IN HONG KONG

	Property	Type of use	% held
1.	Unit 9 on 6th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%
2.	Unit 13 on 6th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%
3.	Unit 14 on 6th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%
4.	Unit 19 on 6th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%

Particulars of Properties

As at 31 March 2007

	Property	Type of use	% held
5.	Unit 10 on 4th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%
6.	Unit 19 on 4th Floor Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Warehouse	100%
7.	Units 1 to 20 on 7th Floor and Car Parking Space L16 on Basement Hope Sea Industrial Centre 26 Lam Hing Street Kowloon Bay Kowloon Hong Kong	Commercial and car parking space	100%
8.	Workshop 4 with lavatories on 10th Floor of Block A Goldfield Industrial Centre 1 Sui Wo Road Shatin New Territories Hong Kong	Warehouse	100%

Four Year Financial Summary

The following table summarized the results of the Group for FY2004, FY2005, FY2006 and FY2007 with assets and liabilities information for the three years before FY2007 extracted from the Company's Prospectus dated 28 May 2007. The detailed results and assets and liabilities of the Group for the year ended 31 March 2007 are set out on pages 31 and 32 respectively of this annual report.

	For the year ended 31 March			
	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Results				
Turnover	**689,366**	528,605	466,377	356,493
Operating profit	**111,011**	70,572	52,189	27,084
Profit attributable to :				
Equity holders of the Company	**83,003**	53,895	39,229	20,698

	At as 31 March			
	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Assets, liabilities and equity				
Total assets	**450,471**	304,260	261,398	188,161
Total liabilities	**310,452**	170,827	161,180	127,213
Total equity of :				
Equity holders of the Company	**140,019**	133,433	100,218	60,948