KTP HOLDINGS LIMITED

Stock Code: 645

ANNUAL REPORT 2007

KTP Holdings Limited
(Incorporated in Bermuda with limited liability)

DIRECTORS

LEE Chi Keung, Russell *(Chairman)*
YU Mee See, Maria
NG Wai Hung*
LEE Siu Leung*
Yuen Sik Ming*

* *Independent non-executive directors*

AUDIT COMMITTEE

YUEN Sik Ming *(Chairman)*
NG Wai Hung
LEE Siu Leung

REMUNERATION COMMITTEE

YUEN Sik Ming *(Chairman)*
NG Wai Hung
LEE Siu Leung

NOMINATION COMMITTEE

YUEN Sik Ming *(Chairman)*
LEE Chi Keung, Russell
NG Wai Hung
LEE Siu Leung

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

YU Mee See, Maria

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Block C, 1st Floor
Wong King Industrial Building
2-4 Tai Yau Street
Sanpokong
Kowloon
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Sidley Austin Brown & Wood
Conyers, Dill & Pearman

PRINCIPAL BANKER

Standard Chartered Bank

COMPANY WEBSITE

www.ktpgroup.com
www.irasia.com/listco/hk/ktp/index.htm

STOCK CODE

645

Thanks to the dedication of KTP people, KTP delivered good 2007 financial results by relentless focus on productivity and cost management. However, it is a time of rapid change — both our operating environment and our industry are changing rapidly in ways that present significant challenges to us. Despite strong financial performance this year, continued increase in factory operating costs will temper our future growth if we are contented to let things remain. In a world in which change is the only constant, we will keep moving forward to maximize the prospects for success. To provide a disciplined framework for this transformation, we have established three immediate priorities:

(I) Establish a lower and more flexible base

We will generate cost savings through site rationalization, streamlined organisational structure, staff function reductions and procurement savings

We will reinvest a substantial portion of our cost savings into core design and development works, as well as external business development and marketing opportunities.

(II) Create more accountable operating units that will enhance productivity and creativity

We will create an organisation that combines the entrepreneurial spirit of a small company with the scale and global reach of a large one. We will become faster, more agile, more productive and more transparent.

(III) Make KTP a great place to work

We will eliminate bureaucracy with fewer management layers and will give colleagues the opportunity to express their ideas to grow, and to maximize their potential and their contributions to our success.

I believe that effective execution of these priorities will position KTP successfully to meet our challenges and will guide us through extraordinary changes in this dynamic world.

I look to the future with confidence and optimism. I am honored to have the opportunity to lead KTP during this critical time, and I appreciate the support I have received from our shareholders, colleagues, and business partners.

Lee Chi Keung, Russell
Chairman

Hong Kong, 26th July 2007

FINANCIAL HIGHLIGHTS

- Turnover remained the same at US$102 million for both financial years; and
- Profit attributable to shareholders increased by 36% over the previous financial year to US$7.6 million.

BUSINESS REVIEW

The Group reported sales of US$102 million, flat with the previous financial year. Both price and volume remained steady year over year. Geographically, US market, contributing over 60% of the Group's revenue was relatively soft this year and a slight decrease of 3% was reported. Sales in other segments remained comparatively steady.

There is no question that the rising labour costs in Mainland China, the strengthening of Renminbi against US Dollars as well as higher material prices remained the norm throughout the year of 2006/2007. We were compelled to achieve results. We have made some strategic changes to reshape our sourcing and materials costing approach. We are moving away from the traditional "sourcing for cost savings" to "sourcing for value and competitive advantage" to enhance our supply chain efficiency and cost competitiveness. We continued to be disciplined in our materials management to minimize variance in materials flow. We made every effort to reduce lead time and achieve optimum level of stock turns. In many ways, we showed that we are in the right direction and lifting the gross profit margin to 9.2% this year compared to 7.7% last year.

Other income for the year was US$3.2 million compared to US$3.6 million last year. Benefited from the increase in deposit rates offered by the banks, the Group's bank interest income increased by US$0.4 million to US$0.9 million. Nevertheless, this increase was partially offset by the decrease in subcontracting income and income from the sale of scrap materials amounting approximately to US$0.6 million.

General and administrative expenses decreased by 13% to US$4.1 million, which at 4.1% of sales compared to 4.6% last year. The decrease was mainly due to the reduction of staff costs following the streamlining of certain back office operations in Mainland China factories during the year.

The Group continued to be essentially debt-free with minimal interest expense incurred for small balances of bills payables and bank overdrafts. In line with the increase in gross profit, profit attributable to shareholders increased by US$2.0 million or 36% to US$7.6 million for the year ended 31st March 2007.

DIVIDENDS

An interim dividend of US$0.4 million (HK$0.01 per ordinary share) for the financial year ended 31st March 2007 was approved and paid during the year and the directors proposed a final dividend of HK$0.03 per ordinary share, totaling US$1.3 million, representing a total dividend of US$1.7 million or HK$0.04 per ordinary share for the financial year ended 31st March 2007. The dividend payout ratio for current year was approximately 22% of the profit attributable to shareholders.

FINANCIAL AND LIQUIDITY RESOURCES

As at 31st March 2007, the Group's financial resources and liquidity continued to be healthy. We have focused our management effort to reduce operating expenses and maximize cash flow. The Group's cash flow remained strong with a total of US$7 million net cash generated from operating activities in this year.

Cash and Borrowings

The reported cash and bank balances were US$22 million, as compared to US$20 million as at 31st March 2006. Included in the bank balances and cash of the Group were Renminbi deposits and cash of approximately US$6.6 million (31st March 2006: US$5.4 million) kept in Mainland China. Renminbi is not a freely convertible currency. The Group had no bank borrowings except for a small balance of bills payable of less than US$0.1 million (31st March 2006: US$0.1 million).

The Group also had structured bank deposit and time deposit of, in aggregate, US$2 million which carried higher interest returns with maturities ranged from less than 1 year to 2.5 years. The carrying amounts of these deposits approximate their fair values.

Financial Instruments

During 2006/2007, the Group invested in unlisted floating rate notes which were classified as held-to-maturity investments. The notes carried interests with reference to 3-months Libor. They will be matured in 2021 with guaranteed full payment of investments. The annual effective interest rate for the year ended 31st March 2007 was approximately 6.3%.

In addition, shares of certain Hong Kong listed companies with fair values of US$0.2 million were held by the Group as available-for-sale investments as at 31st March 2007 and the unrealised gains on the holding amounted to US$0.1 million at the balance sheet date.

The Group had also entered into certain forward exchange contracts with a bank for periods within 1 year to minimize the exposure to foreign exchange rate risk in purchasing raw materials in US Dollars. Lower exchange rates were eventually paid. Changes in fair values of derivative financial instruments were recognised in the consolidated income statement for accounting purpose only. They were non-cash in nature and will be reversed to zero at maturity date.

Operating working capital

Trade receivables as at 31st March 2007 decreased by 3.5% over the last years' balance to US$12.7 million which was in line with the decrease in fourth quarter sales as compared to the same period last year. The average turnover days for both years were around 50 days. The Group maintains tight control on its credit and collection policies and we have not experienced any significant bad debts in the past.

Inventories remained almost the same for both years and the average turnover days remained healthy at around 58 days and 55 days for current and previously financial year respectively.

CAPITAL EXPENDITURES AND COMMITMENTS

In current year, the Group had acquired a land located at Changning, Bolou County, Huizhou, Guangdong Province, People's Republic of China and has an area of 190 mu (equivalent to 126,666 sq.m.) for a consideration of RMB8.3 million (equivalent to approximately US$1.1 million). Deposit of US$0.1 million was paid during the year and the outstanding balance will be paid upon the issue of land use certificate by the relevant authority. The Group is now in the process of obtaining such certificate. The land currently is a vacant site and the initial plan of the Group at this stage is to construct manufacturing facilities to accommodate future expansion of the Group's operations. In addition, the Group had capital expenditures of US$0.6 million during the year for improving the production facilities in existing factories. As at 31st March 2007, the Group had capital commitments amounting to US$1.3 million in respect of the above.

The Group generally relies on its internally generated cash flow and the existing banking facilities to finance its day to day operations and we believe that the Group has adequate financial resources to meet its funding requirement for our future business development.

The directors are pleased to present their report together with the audited consolidated financial statements for the year ended 31st March 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture of athletic and sports leisure footwear products. The activities of its principal subsidiaries are set out in note 29 to the consolidated financial statements.

An analysis of the Group's performance by geographical segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 19.

The directors have declared an interim dividend of HK$0.01 per ordinary share, totalling US$437,000 and were paid on 19th January 2007.

The directors recommend the payment of a final dividend of HK$0.03 per ordinary share, totalling US$1,310,000 for the year ended 31st March 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended) (the "Act"), the Company's contributed surplus is distributable to shareholders under certain circumstances as provided in the Act. The reserve of the Company available for distribution to shareholders as calculated under the Act as at 31st March 2007 amounted to US$47,615,000 (2006: US$49,808,000).

Details of the movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 21.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of Bermuda in relation to the issue of new shares by the Company.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 50.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors during the year and up to the date of this report are:

Mr. LEE Chi Keung, Russell *(Chairman)*
Ms. YU Mee See, Maria
Mr. NG Wai Hung [1]
Mr. LEE Siu Leung [1]
Mr. YUEN Sik Ming [1]

[1] *Independent non-executive directors*

In accordance with the Bye-laws of the Company's, Mr. LEE Chi Keung, Russell and Mr. NG Wai Hung shall retire by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting of the Company.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

LEE Chi Keung, Russell, aged 50, is the chairman of the Company and chief executive officer of the Group. He is responsible for the Group's overall strategic planning as well as sales and marketing. He holds a bachelor of arts degree in economics and accounting from the University of Newcastle upon Tyne, the United Kingdom. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in 1993.

YU Mee See, Maria, aged 47, is the executive director of the Company and company secretary of the Group. She is responsible for the general management of the Group. She holds a bachelor degree from The London School of Economics and Political Science in the United Kingdom and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She joined the Group in 2001 and is the wife of Mr. LEE Chi Keung, Russell.

NG Wai Hung, aged 43, is an independent non-executive director of the Company. He is a practising solicitor and a partner in Iu Lai & Li Solicitors & Notaries, a Hong Kong law firm of solicitors and notaries. He has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong. He joined the Company in 1999. Mr. Ng is also an independent non-executive director of three companies listed on the Stock Exchange, namely Fortune Sun (China) Holdings Limited, Sanyuan Group Limited and Tomorrow International Holdings Limited.

LEE Siu Leung, aged 41, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Company in 2000.

YUEN Sik Ming, aged 50, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Society of Registered Financial Planner. He joined the Company in 2004.

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

Senior Management

YEH Tsun Hsing, Steve, aged 51, is the vice-president of the Group. He has over 20 years of operational and management experience in footwear industry and he oversees the Group's production operations. He joined the Group in 1990.

CHEN Chin Hai, David, aged 51, is the senior manager of the Group's Business Planning and Materials Control Division. He has over 20 years' experience in supply chain management of footwear business. He joined the Group in 1995.

WEI Dao Mi, Mark, aged 52, is the senior manager of the Group's Research and Development Division. He has extensive experience in product development and management of footwear business. He joined the Group in 1995.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES CORPORATIONS

As at 31st March 2007, the interests and short positions of each of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in shares of the Company

Name of directors	Number of ordinary shares held/interested	Percentage of issued share capital
LEE Chi Keung, Russell ("Mr. Lee")	191,809,484 *(note)*	56.31%
YU Mee See, Maria ("Ms. Yu")	191,809,484 *(note)*	56.31%

Note:

The corporate interests of 191,809,484 shares in the Company represent 81,205,184 shares held by Wonder Star Securities Limited ("Wonder Star") and 110,604,300 shares held by its wholly-owned subsidiary, Top Source Securities Limited. The entire issued share capital of Wonder Star is owned by Mr. Lee. In addition, Ms. Yu, the wife of Mr. Lee is deemed to be interested in these shares.

Save as disclosed above and in the section "Directors' rights to acquire shares" below, none of the directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31st March 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Share Options Scheme

On 30th August 2002, the Company adopted a share option scheme (the "Scheme") whereby, the board of directors at their discretion, invite any eligible participants (including any employees, executive, non-executive and independent non-executive directors of the Group), who have contributed or will contribute to the development of the Group to take up options to subscribe for shares of the Company.

The Company operates the Scheme for the purpose of providing eligible participants with an opportunity to acquire proprietary interests in the Company, which the directors believe will help the building of common objective of the Group and the eligible participants for the betterment of business and profitability of the Group.

The maximum number of option shares can be granted under the Scheme shall not exceed 3,406,169, which is 10% of the total number of shares in issue on the date of the adoption. Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and unexercised options) under the Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 14 days from the date on which the document containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the Board at the time the option is offered to the participants. No options may be granted under the Scheme after the date of the tenth anniversary of the adoption of the Scheme.

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

Save as disclosed above, at no time during the year was the Company or its subsidiary companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executive, nor any of their respective spouses or children under the age of 18 had any rights to subscribe for the shares in the Company or had exercised any such rights during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2007, the register of substantial shareholders maintained under 336 of the SFO showed that the Company had been notified of the following substantial shareholders' interests who are interested in 5% or more of the issued share capital of the Company. These interests have been disclosed above in respect of the directors.

Long position in shares of the Company

Name	**Number of ordinary shares held**	**Percentage of issued share capital**
Wonder Star Securities Limited ("Wonder Star")	191,809,484	56.31% *(note)*
Top Source Securities Limited ("Top Source")	110,604,300	32.47%

Note:

The interests of Wonder Star include 81,205,184 shares held directly by Wonder Star and 110,604,300 shares held by Top Source, a wholly-owned subsidiary of Wonder Star.

MANAGEMENT CONTRACTS

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.

None of the directors of the Company in their respective associates had any interests in business which compete or may compete with the Group's business.

CONNECTED TRANSACTION

During the year, the Group did not enter into any transactions with any connected persons.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases and sales attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	5%
— five largest suppliers combined	20%

Sales

— the largest customer	76%
— five largest customers combined	94%

None of the directors, their associates or any shareholder (which to the knowledge of the directors, owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

EMPLOYEES AND REMUNERATION POLICY

As at 31st March 2007, the Group had a total of 9,000 (2006: 10,000) full time employees (including contracted manufacturing workers) in Hong Kong, Korea and Mainland China. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes and bonus on performance basis.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st March 2007.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 12 to 16 to the annual report.

AUDITORS

Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the years ended 31st March 2004 and 2005 resigned on 29th May 2006 and Messrs. SHINEWING (HK) CPA Limited were appointed on 29th May 2006 to fill the casual vacancy following the resignation of Messrs. PricewaterhouseCoopers.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as auditor of the Company.

On behalf of the Board

Lee Chi Keung, Russell
Chairman

Hong Kong, 26th July 2007

The board of directors of the Company (the "Board") is please to present the corporate governance report in the annual report of the Company for the year ended 31st March 2007.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Board is dedicated to sound governance practices and strives to meet the standard at all levels of the organisation. We have designed our corporate governance policies and practices to ensure that we are focused on our responsibilities to our shareholders and on increasing shareholder value. We recognise the vital importance of trust in relationship with our shareholders and investors and solid corporate governance practices ensure the alignment of corporate behaviours with shareholder interests by promoting the principles of transparency, accountability and independence in the Group's business activities and decision making processes.

The Company has applied the principles of the code provisions ("Code Provisions") under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31st March 2007, save for the deviations from Code Provisions A.2.1., A.4.1 and A.4.2 as disclosed under the paragraphs "Chairman and chief executive officer" and "Appointment, re-election and removal of directors" respectively.

THE BOARD

Board composition and role

The Board is responsible for overseeing our management and business affairs as well as approving strategic plans and major policy decisions for the Group.

The Board is composed of two executive directors and three independent non-executive directors, whose biographical details and relevant relationships among them are disclosed under "Biographical details of directors and senior management" on pages 7 to 8.

During the year ended 31st March 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors, all of them possess appropriate professional qualifications, or accounting or related financial management expertise. In addition, 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 Listing Rules. The Board considers that all of them are independent to the Company.

The directors are kept abreast of their responsibilities as a director of the Company and of the conduct, business activities and development of the Company. Management provides appropriate and sufficient information to directors and the Board committee members in a timely manner to keep them appraised of the latest development of the Group. The Board and each director also have separate and independent access to the senior management whenever necessary.

Chairman and executive officer

Mr. LEE Chi Keung, Russell is currently the chairman of the Board and the chief executive officer of the Group. These derivates from Code Provision A.2.1 that stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board is of the view that it is in the best interests of the Group to have an executive chairman who is most knowledgeable about of the Group's business and that vesting the roles of both chairman and chief executive officer in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans.

THE BOARD *(continued)*

Directors' securities transactions

The Company has established written guidelines regarding the required standards of dealing securities of the Company as reference to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31st March 2007. The Model Code also applies to other specified senior management of the Group.

Board meetings

The Board held three meetings during the year and the attendance record of each individual Director is as follows:

Name of directors	Number of board meetings attended	Attendance rate
Executive directors		
Mr. LEE Chi Keung, Russell *(Chairman)*	4/4	100%
Ms. YU Mee See, Maria	4/4	100%
Independent non-executive directors		
Mr. NG Wai Hung	1/4	25%
Mr. LEE Siu Leung	3/4	75%
Mr. YUEN Sik Ming	3/4	75%

The company secretary is responsible to take and keep minutes of all Board meetings and committee meetings and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Appointment, re-election and removal of directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws.

The Board as a whole is responsible for reviewing the Board composition. The nomination committee was established on December 2005 to assist the Board in developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent directors. It also has the responsibility to maintain the Board's high level of skills and experience as well as ensuring transparency of the selection process with a view to diverse representation on the Board. There are four members in the nomination committee and is chaired by the Company's independent non-executive director.

One meeting was held by nomination committee during the year to review the policy and structure for the nomination and appointment of directors and the meeting was attended by all its members. There was no nomination of directors to fill Board vacancies during the year.

THE BOARD *(continued)*

Appointment, re-election and removal of directors *(continued)*

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years. Mr. LEE Chi Keung, Russell and Mr. NG Wai Hung shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The Company's circular dated 30th July 2007 contained information of the directors standing for re-election.

Code Provision A.4.1 specifies that the non-executive directors should be appointed for a specific term, subject to re-election. The term of the independent non-executive directors is not fixed but they are subject to retirement by rotation and re-election at the annual general meeting in accordance with Bye-law 87 of the Bye-laws of the Company.

In addition, Code Provision A.4.2 stipulates that all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. The Company's Bye-laws deviate from Code Provision A.4.2 which provides that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, and he/she shall be eligible for re-election.

REMUNERATION OF DIRECTORS

The remuneration committee was established on December 2005 for the purposes of reviewing the remuneration policies of directors and senior management and satisfying itself that it is competitive and aligns directors' interests with those of shareholders. It also has the responsibility to make recommendation to the Board the criteria for assessing the performance of and considering the annual performance bonus for executive directors, senior management and the general staff. In line of good and fair practice, the committee currently consists of all independent non-executive directors.

The terms of reference of which describe the authority and duties of the remuneration committee were adopted or amended to conform with the provisions of the Code.

During the year, one meeting was held which was attended by two members of the remuneration committee to review the remuneration packages of the executive directors and of the senior management for the year.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing all information and representations contained in the annual report for the year under review.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory requirements and applicable accounting standards are complied with.

The management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

Audit committee

The audit committee was established in 1999 and its current members comprises all independent non-executive directors who possess appropriate professional qualifications, accounting and related financial management expertise as required under the Listing Rules.

ACCOUNTABILITY AND AUDIT *(continued)*

Audit committee *(continued)*

The terms of reference of which describe the authority and duties of the audit committee were adopted or amended to conform with the provisions of the Code.

The primary duty of the audit committee is to assist the Board in providing an independent review of the Group's financial accounts and internal control systems for quality, integrity and regulatory compliance.

The audit committee has reviewed with the management the Group's adopted accounting principles and practices, internal controls, and financial reporting matters in conjunction with the external auditors, including a review of the accounts for the six months ended 30th September 2006 and the year ended 31st March 2007.

The audit committee endorsed the accounting treatment adopted by the Group and had to the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and Appendix 16 of the Listing Rules.

The audit committee met three times during the financial year ended 31st March 2007 and the individual attendance of each member is set out below:

Name of Directors	Number of meetings attended	Attendance rate
Mr. NG Wai Hung	1/3	33%
Mr. LEE Siu Leung	3/3	100%
Mr. YUEN Sik Ming	3/3	100%

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 17 to 18. For the year ended 31st March 2007, the auditors of the Company only provided audit services to the Company.

The remuneration payable to the Company's external auditors in respect of audit services for the year ended 31st March 2007 amounted to US$61,000.

INTERNAL CONTROL

The Group maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. The Board has conducted an annual review of the effectiveness of the Group's internal control system. The review includes financial, operational and compliance control and risk management functions.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company endeavors to maintain a high level of transparency in communicating with shareholders and investors.

The directors ensure that the publication and dispatch of the printed copies of corporate communications documents to shareholders are in a timely manner.

The annual general meeting and other general meeting of the Company provide a forum for shareholders and investors to raise and exchange views with the Board. The chairman of the Board as well as the Board Committees or senior management of the Company is available to answer questions raised by the shareholders and investors.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS *(continued)*

To promote effective communication, the Company maintains websites at www.ktpgroup.com and at irasia.com at www.irasia.com/listco/hk/ktp/index.htm, where up-to-date information and updates on the Company's operations, financial information and other information are posted available for public access.

SHAREHOLDER RIGHTS

To safeguard the shareholders' rights and interests, separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors.

Details of rights to demand poll and procedures are included in the circular convening a general meeting to be dispatched to shareholders of the Company. Poll results will be posted on the websites of the Stock Exchange, the Company and irasia.com on the business day following the general meeting.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
KTP HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of KTP Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 19 to 49, which comprise the consolidated balance sheet as at 31st March 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 of Bermuda, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated 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 Group'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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March 2007 and of the Group's 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong, 26th July 2007

For the year ended 31st March 2007

	Notes	2007 US$'000	2006 US$'000
Turnover	5	**101,578**	102,245
Cost of sales		**(92,239)**	(94,366)
Gross profit		**9,339**	7,879
Other income	5	**3,216**	3,620
Distribution costs		**(974)**	(1,043)
Administrative expenses		**(4,129)**	(4,748)
Other gains/(loss)	6	**152**	(110)
Finance cost	7	**(1)**	(1)
Profit before taxation	8	**7,603**	5,597
Taxation	10	**—**	—
Profit attributable to shareholders		**7,603**	5,597
Dividends	11	**1,747**	1,747
		US	US
Earnings per share — Basic	12	**2.2 cents**	1.6 cents

CONSOLIDATED BALANCE SHEET

As at 31st March 2007

	Notes	2007 US$'000	2006 US$'000
Non-current assets			
Property, plant and equipment	13	**9,317**	7,687
Investment properties	14	**3,427**	4,826
Prepaid lease payments on land use rights	15	**1,185**	1,219
Deposits for acquisition of land use rights	16	**109**	—
Held-to-maturity investments	17	**501**	—
Available-for-sale investments	18	**201**	—
Time deposit with original maturity over one year		**1,000**	—
		15,740	13,732
Current assets			
Inventories	19	**14,235**	14,480
Trade and bills receivables	20	**12,710**	13,175
Deposits, prepayments and other receivables		**1,698**	1,370
Prepaid lease payments on land use rights	15	**34**	34
Structured bank deposit	21	**1,000**	—
Derivative financial instruments	22	**34**	—
Bank balances and cash	23	**22,343**	20,494
		52,054	49,553
Current liabilities			
Trade and bills payables	24	**8,676**	9,900
Accruals and other payables		**7,220**	7,405
		15,896	17,305
Net current assets		**36,158**	32,248
Total assets less current liabilities		**51,898**	45,980
Capital and reserves			
Share capital	25	**440**	440
Reserves		**50,148**	44,230
Proposed final dividend	11	**1,310**	1,310
Total equity		**51,898**	45,980

The consolidated financial statements on pages 19 to 49 were approved and authorised for issue by the board of directors of the Company on 26th July 2007 and are signed on its behalf by:

LEE Chi Keung, Russell
Chairman

YU Mee See, Maria
Director

For the year ended 31st March 2007

	Share Capital US$'000	Contributed surplus US$'000	Investment revaluation reserve US$'000	Retained profits US$'000	Total US$'000
At 1st April 2005	440	1,466	—	40,224	42,130
Profit for the year and total recognised income for the year	—	—	—	5,597	5,597
2005 final dividend paid	—	—	—	(1,310)	(1,310)
2006 interim dividend paid	—	—	—	(437)	(437)
At 31st March 2006/ 1st April 2006	440	1,466	—	44,074	45,980
Fair value change on available-for-sale investments recognised directly in equity	—	—	62	—	62
Profit for the year	—	—	—	7,603	7,603
Total recognised income for the year	—	—	62	7,603	7,665
2006 final dividend paid	—	—	—	(1,310)	(1,310)
2007 interim dividend paid	—	—	—	(437)	(437)
At 31st March 2007	**440**	**1,466**	**62**	**49,930**	**51,898**

KTP HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2007

	2007	2006
	US$'000	*US$'000*
Operating activities		
Profit before taxation	**7,603**	5,597
Finance cost	**1**	1
Interest income	**(918)**	(494)
Depreciation of property, plant and equipment	**1,822**	2,083
Amortisation of prepaid lease payment on land use rights	**34**	34
Gain on disposal of property, plant and equipment	**(5)**	(5)
Fair value changes on derivative financial instruments	**(34)**	—
(Increase)/decrease in fair value of investment properties	**(118)**	110
Operating cash flows before movements in working capital	**8,385**	7,326
Decrease in inventories	**245**	769
Decrease in trade and bills receivables	**465**	2,364
Increase in deposits, prepayments and other receivables	**(328)**	(116)
Decrease in trade and bills payables	**(1,224)**	(2,230)
(Decrease)/increase in accruals and other payables	**(185)**	1,492
Cash generated from operations	**7,358**	9,605
Interest paid	**(1)**	(1)
Net cash generated from operating activities	**7,357**	9,604
Investing activities		
Purchase of property, plant and equipment	**(1,935)**	(447)
Deposits paid for acquisition of land use rights	**(109)**	—
Purchase of held-to-maturity investments	**(501)**	—
Purchase of available-for-sale investments	**(139)**	—
Increase in time deposit with original maturity over one year	**(1,000)**	—
Increase in structured bank deposit	**(1,000)**	—
Proceeds from the disposal of property, plant and equipment	**5**	8
Interest received	**918**	494
Net cash (used in)/generated from investing activities	**(3,761)**	55
Financing activities		
2006 final dividend paid	**(1,310)**	(1,310)
2007 interim dividend paid	**(437)**	(437)
Net cash used in financing activities	**(1,747)**	(1,747)
Net increase in cash and cash equivalents	**1,849**	7,912
Cash and cash equivalents at 1st April	**20,494**	12,582
Cash and cash equivalents at 31st March, represented by		
Bank balances and cash	**22,343**	20,494

1. GENERAL

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

The consolidated financial statements are presented in United States Dollars, which is the same as the functional currency of the Company. These consolidated financial statements have been approved for issue by the Board on 26th July 2007.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs 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 consolidated financial statements are disclosed in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

New standards, amendments and interpretations to existing standards that have been issued but are not yet effective as at 31st March 2007 and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards that have been issued but are not yet effective as at 31st March 2007 and have been published and are mandatory for the Group's accounting periods beginning on or after 1st 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, amendments 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, amendments and interpretations to existing standards, if applicable, in the consolidated financial statements for the year ended 31st March 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
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 1st January 2007
2 Effective for annual periods beginning on or after 1st January 2009
3 Effective for annual periods beginning on or after 1st May 2006
4 Effective for annual periods beginning on or after 1st June 2006
5 Effective for annual periods beginning on or after 1st November 2006
6 Effective for annual periods beginning on or after 1st March 2007
7 Effective for annual periods beginning on or after 1st January 2008

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) made up to 31st March.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Basis of consolidation *(continued)*

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

In the summarised balance sheet of the Company, the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Revenue recognition

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

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

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

Subcontracting income is recognised when service is rendered.

2.4 Borrowing costs

All borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

2.5 Property, plant and equipment

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

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their costs to their estimated residual values over their estimated useful lives at the following rates:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

Construction-in-progress represents plant and properties under construction and is stated at cost less any recognised impairment losses. No depreciation is provided on construction in progress until such time when construction work is completed and put into use and the costs of construction are transferred to the appropriate category of property, plant and equipment.

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

2.6 Land use rights

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the consolidated income statement over the period of the rights using the straight-line method.

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

Subsequent expenditure is charged to the asset's carrying amount 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. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the consolidated income statement, as part of other gains, net.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its deemed cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised as expense 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).

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

2.9 Financial instruments

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

(a) Financial assets

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

Loans and receivables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial instruments *(continued)*

(a) ***Financial assets*** *(continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment loss. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial instruments *(continued)*

(b) Financial liabilities and equity

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

Equity instruments

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

Other financial liabilities

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

(c) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated income statement immediately.

Derivative financial instruments that are not designated as effective hedging instruments are classified as held for trading.

(d) Derecognition

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

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

2.10 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Taxation

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

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

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

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

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

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

2.12 Foreign currency translation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Foreign currency translation *(continued)*

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

2.13 Employee benefits

(a) *Retirement benefits*

Arrangements for staff retirement benefits are made in accordance with local regulations and customs.

The Group's employees in Mainland China are covered by various government sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

The Group's Hong Kong employees are entitled to participate in the Mandatory Provident Fund Scheme, the Group's contributions are at 5% of the employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK$1,000 per employee per month, and are expensed as incurred.

(b) *Employee leave entitlements*

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 annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) *Bonus plans*

Provisions for bonus plans due wholly within 12 months after the balance sheet date are recognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Leases

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

(a) The Group as lessor

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

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

(b) The Group as lessee

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

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

2.15 Provisions

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

2.16 Contingent liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment *(note 13)*.

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

2.18 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where appropriate.

3. KEY SOURCE OF ESTIMATION OF UNCERTAINTY

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

(a) Useful lives of property, plant and equipment

The Group's net book value of property, plant and equipment as at 31st March 2007 were US$9,317,000. The Group's management determines the estimated useful lives, residual values and related depreciation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Estimate of fair values of investment properties

The fair values of investment properties have been determined with reference to independent valuations. The best evidence of fair value is current price in an active market for similar lease and other contracts. The Group employed an independent firm of professional surveyor to determine the open market values for the investment properties of the Group. These valuations require the use of judgement and estimates.

3. KEY SOURCE OF ESTIMATION OF UNCERTAINTY *(continued)*

(c) Allowance for inventories

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

(d) Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of receivables and on management's judgement. Allowances are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivable is recognised in the year in which such estimates have been changed.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Currency risk

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

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

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

(b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables and bank deposits.

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

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Interest rate risk

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

(d) Liquidity risk

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

(e) Fair value estimation

The carrying amounts of the Group's financial assets including trade and other receivables, bank balances and cash and financial liabilities including trade and other payables are assumed to approximate their fair values due to their short-term maturities.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

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

	2007 ***US$'000***	2006 *US$'000*
Turnover		
Sales of goods	**101,578**	102,245
Other income		
Bank interest income	**894**	494
Interest income from unlisted debt securities	**24**	—
Gross rental income from investment properties	**546**	546
Gross rental income from other properties	**5**	21
Gain on disposal of property, plant and equipment	**5**	5
Subcontracting income	**537**	1,116
Others	**1,205**	1,438
	3,216	3,620
Total revenues	**104,794**	105,865

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(continued)*

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

	2007			
	Turnover *US$'000*	**Segment results** *US$'000*	**Segment assets** *US$'000*	**Segment liabilities** *US$'000*
North America	60,854	4,832	—	—
Europe	14,636	1,162	—	—
Asia (other than Mainland China)	8,452	671	18,982	187
Mainland China	16,463	1,307	48,812	15,709
Others	1,173	94	—	—
		8,066		
Unallocated costs		(614)		
Other gains		152		
Finance cost		(1)		
Profit before taxation		7,603		
Taxation		—		
Profit attributable to shareholders		7,603		
Total	101,578		67,794	15,896

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(continued)*

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

	Capital expenditure of property, plant and equipment		Depreciation of property, plant and equipment		Amortisation of prepaid lease payments on land use rights	
	2007 ***US$'000***	2006 *US$'000*	**2007** ***US$'000***	2006 *US$'000*	**2007** ***US$'000***	2006 *US$'000*
Mainland China	**1,935**	447	**1,771**	2,032	**34**	34
Asia (other than Mainland China)	**—**	—	**51**	51	**—**	—
	1,935	447	**1,822**	2,083	**34**	34

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

6. OTHER GAINS/(LOSS)

	2007 ***US$'000***	2006 *US$'000*
Increase/(decrease) in fair value of investment properties	**118**	(110)
Fair value change on derivative financial instruments	**34**	—
	152	(110)

7. FINANCE COST

	2007	2006
	US$'000	*US$'000*
Interest on bank overdrafts	**1**	1

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2007	2006
	US$'000	*US$'000*
Amortisation of prepaid lease payments on land use rights	**34**	34
Auditors' remuneration	**61**	85
Cost of inventories recognised as an expense	**92,239**	94,366
Depreciation of property, plant and equipment	**1,822**	2,083
Net exchange loss	**273**	480
Operating lease rentals in respect of land and buildings	**558**	584
Staff costs (including directors' emoluments) *(note 9)*	**18,497**	18,794

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007	2006
	US$'000	*US$'000*
Wages and salaries	**18,208**	18,331
Termination benefits	**10**	31
Contributions to retirement benefit schemes *(note (a))*	**279**	432
	18,497	18,794

Notes:

(a) Contributions to retirement benefit schemes

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

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

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

Notes (continued):

(a) Contributions to retirement benefit schemes *(continued)*

The Group is also required to make contributions to pension schemes operated by the municipal governments of various cities in Mainland China at certain percentage of payroll costs of its employees. The governments are responsible for the entire pension obligation payable to retired employees. The only obligation of the Group is to pay the ongoing required contributions under these schemes.

(b) Directors' emoluments

The emoluments paid or payable to each of the five directors (2006: five) were as follows:

31st March 2007

		Other emoluments		
	Fees	**Basic salaries, other allowances and benefits in kind**	**Contributions to retirement benefit scheme**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
LEE Chi Keung, Russell	**—**	**92**	**2**	**94**
YU Mee See, Maria	**—**	**1**	**—**	**1**
NG Wai Hung	**5**	**—**	**—**	**5**
LEE Siu Leung	**5**	**—**	**—**	**5**
YUEN Sik Ming	**5**	**—**	**—**	**5**
Total emoluments	**15**	**93**	**2**	**110**

31st March 2006

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

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

Notes (continued):

(c) Senior management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include one (2006: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2006: four) during the year which fall within the range of HK$Nil — HK$1,000,000 (2006: HK$Nil — HK$1,000,000) are as follows:

	2007	2006
	US$'000	*US$'000*
Basic salaries, other allowances and benefits-in-kind	**256**	273
Discretionary bonuses	**48**	48
Contributions to retirement benefit scheme	**—**	25
	304	346

No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in the two years ended 31st March 2007 and 2006 . No directors or the five highest paid individuals waived or agreed to waive their emoluments during both years.

10. TAXATION

(a) Hong Kong Profits Tax is provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group has no assessable profits for both years .

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

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

	2007	2006
	US$'000	*US$'000*
Profit before taxation	**7,603**	5,597
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**1,331**	979
Effect of different taxation rates in other countries	**366**	350
Income not subject to taxation	**(1,819)**	(1,445)
Expenses not deductible for taxation purposes	**122**	116
Taxation	**—**	—

10. TAXATION *(continued)*

(b) Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of US$1,360,000 (2006: US$2,046,000) to carry forward against future taxable income in respect of PRC subsidiaries, of which US$487,000 will expire in 31st December 2007 and the remaining balances of US$873,000 will expire by 31st December 2011.

There was no other material unprovided deferred taxation for the year (2006: Nil).

(c) From February 2005 to March 2007, Hong Kong Inland Revenue Department ("IRD") had issued additional profits tax assessments, in aggregate, of approximately HK$12,545,000 (equivalent to approximately US$1,608,000) relating to the years of assessment 1998/99, 1999/2000 and 2000/2001, that is, for the financial years ended 31st March 1999, 2000 and 2001, respectively, against a wholly-owned subsidiary of the Company. The Group lodged objections with the IRD against the additional assessments. The IRD agreed to hold over the tax claimed completely subject to the subsidiary in question purchasing tax reserve certificates (the "TRCs") in the above amounts. These TRCs have been purchased by the Group.

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

11. DIVIDENDS

	2007 ***US$'000***	2006 *US$'000*
Interim dividend, paid of HK$0.01 (2006: HK$0.01) per ordinary share	**437**	437
Final dividend, proposed of HK$0.03 (2006: HK$0.03) per ordinary share *(note)*	**1,310**	1,310
	1,747	1,747

Note:

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

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$7,603,000 (2006: US$5,597,000) and the weighted average number of 340,616,934 (2006: 340,616,934) shares in issue during the year.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 31st March 2007 and 2006.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress US$'000	Leasehold buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost							
At 1st April 2005	—	6,439	1,253	14,946	501	295	23,434
Additions	—	—	47	244	104	52	447
Disposals/written off	—	—	(200)	(3,792)	(78)	(26)	(4,096)
At 31st March 2006/ 1st April 2006	—	6,439	1,100	11,398	527	321	19,785
Additions	555	—	235	1,018	127	—	1,935
Transfer from investment properties *(note 14)*	—	1,517	—	—	—	—	1,517
Disposals/written off	—	—	(116)	(4,243)	(181)	(150)	(4,690)
At 31st March 2007	**555**	**7,956**	**1,219**	**8,173**	**473**	**171**	**18,547**
Accumulated depreciation							
At 1st April 2005	—	3,440	490	9,703	330	145	14,108
Charge for the year	—	322	307	1,213	161	80	2,083
Disposals/written off	—	—	(200)	(3,792)	(78)	(23)	(4,093)
At 31st March 2006/ 1st April 2006	—	3,762	597	7,124	413	202	12,098
Charge for the year	—	322	277	989	158	76	1,822
Disposals/written off	—	—	(116)	(4,243)	(181)	(150)	(4,690)
At 31st March 2007	**—**	**4,084**	**758**	**3,870**	**390**	**128**	**9,230**
Net book value							
At 31st March 2007	**555**	**3,872**	**461**	**4,303**	**83**	**43**	**9,317**
At 31st March 2006	—	2,677	503	4,274	114	119	7,687

	2007 **US$'000**	2006 US$'000
The Group's property interests comprise:		
Properties situated on land in Mainland China held under medium-term leases	**3,806**	2,560
Property situated on land in Hong Kong held under medium-term lease	**66**	117
	3,872	2,677

14. INVESTMENT PROPERTIES

	US$'000
Fair value	
At 1st April 2005	4,936
Decrease in fair value recognised in the consolidated income statement *(note 6)*	(110)
At 31st March 2006/ 1st April 2006	4,826
Increase in fair value recognised in the consolidated income statement *(note 6)*	118
Transfer to property, plant and equipment *(note 13)*	(1,517)
At 31st March 2007	**3,427**

The investment properties are situated on land in Mainland China and are held under medium term leases.

The fair value of the Group's investment properties were revalued at 31st March 2007 on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

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

15. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2007	2006
	US$'000	*US$'000*
The Group's prepaid lease payments on land use rights comprise:		
Medium leasehold term land in Mainland China	**1,219**	1,253
Analysed for reporting purpose as:		
Non-current assets	**1,185**	1,219
Current assets	**34**	34
	1,219	1,253

16. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

During the year, US$109,000 was paid for the acquisition of land use rights in Mainland China. The Group is in the process of obtaining the land use rights certificates from the relevant authority. Details of the capital commitments are set out in note 26 (a).

17. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments comprise:

	2007	2006
	US$'000	*US$'000*
Non-current		
Unlisted debt securities outside Hong Kong, at amortised cost	**501**	—

Unlisted debt securities comprise floating rate notes denominated in United States Dollars and earn interest with reference to 3-Months Libor. They will be matured in 2021.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007	2006
	US$'000	*US$'000*
Non-current		
Listed equity securities in Hong Kong	**201**	—
Unlisted equity securities outside Hong Kong	**1,718**	1,718
Less: Impairment loss recognised	**(1,718)**	(1,718)
	201	—

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for the above unlisted equity investments which represent investments in unlisted securities issued by private entities incorporated Indonesia. They are measured at cost less impairment loss at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

Fair values of listed investments are based on quoted market prices.

19. INVENTORIES

	2007	2006
	US$'000	*US$'000*
Raw materials	**7,384**	6,485
Work-in-progress	**1,649**	1,771
Finished goods	**5,202**	6,224
	14,235	14,480

At 31st March 2007 and 2006, all inventories were stated at cost.

20. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers and the ageing analysis of trade and bills receivables is as follows:

	2007 US$'000	2006 US$'000
Current to 30 days	**6,570**	9,611
31-60 days	**4,591**	3,286
61-90 days	**749**	173
Over 90 days	**800**	105
	12,710	13,175

The directors consider that the fair values of the Group's trade and bills receivables at 31st March 2007 approximate to their carrying amounts due to short-term maturities.

21. STRUCTURED BANK DEPOSIT

Structured bank deposit is denominated in United States Dollars and earns interest at rates offered by the bank.

The maturity date of this bank deposit is over 3 months since balance sheet date.

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's net fair values of derivative financial instruments at 31st March 2007 were as follows:

	2007 US$'000	2006 US$'000
Current — Derivatives not under hedge accounting		
Forward currency option contracts	**34**	—

22. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The major terms of the forward currency option contracts are as follows:

Notional amount	Maturity	Contracted exchange rate
Purchase of US$300,000 or US$900,000 per contract *(note 1)*	Various maturities up to 23rd November 2007	HK$7.728/US$1
Purchase of US$300,000 or US$900,000 per contract *(note 2)*	Various maturities up to 12th December 2007	HK$7.725/US$1

Notes:

(1) The amount of United States dollars to be purchased by the Group will be determined based on the market exchange rate at each maturity date as compared with the contracted exchange rates.

(2) Same as (1) except that no payment obligation by the Group if the market exchange rate at each of the maturity date is within the range of HK$7.70 to US$1 and HK$7.75 to US$1.

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash and bank balances carry interest at prevailing market rates from 0% to 1.5% rate and short-term bank deposits of fixed interest rates ranging from 0.42% to 5.20% with an original maturity of three months or less.

24. TRADE AND BILLS PAYABLES

At 31st March 2007, the ageing analysis of trade and bills payables is as follows:

	2007	2006
	US$'000	*US$'000*
Current to 30 days	**4,705**	5,536
31-60 days	**2,031**	2,785
61-90 days	**1,045**	579
Over 90 days	**895**	1,000
	8,676	9,900

The directors consider that the fair values of the Group's trade and bills payables at 31st March 2007 approximate to their carrying amounts due to short-term maturities.

25. SHARE CAPITAL

	Par value of shares *HK$*	Number of ordinary shares	Value *US$'000*
Authorised:			
At 1st April 2005, 31st March 2006, 1st April 2006 and 31st March 2007	0.01 each	36,000,000,000	46,452
Issued and fully paid:			
At 1st April 2005, 31st March 2006, 1st April 2006 and 31st March 2007	0.01 each	340,616,934	440

26. COMMITMENTS

(a) Capital commitments

	2007 ***US$'000***	2006 *US$'000*
As at 31st March 2007, the Group had capital commitments contracted but not provided for in respect of:		
Acquisition of land use rights	**963**	—
Leasehold improvements	**368**	—
	1,331	—

(b) Commitments under operating leases

The Group as a lessee

At 31st March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007 ***US$'000***	2006 *US$'000*
Not later than one year	**460**	443
Later than one year and not later than five years	**1,536**	1,559
Later than five years	**8,282**	7,749
	10,278	9,751

26. COMMITMENTS *(continued)*

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

The Group as a lessor

Property rental income earned during the year was approximately US$546,000 (2006: US$546,000). The properties held for rental purposes have committed tenant for the next three years.

The properties are expected to generate rental yields of 11% (2006: 11%) on an ongoing basis.

At 31st March 2007, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	US$'000	*US$'000*
Not later than one year	**404**	536
Later than one year and not later than five years	**472**	839
	876	1,375

27. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of the key management during the year are given in notes 9(b) and (c).

28. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007	2006
	US$'000	*US$'000*
Property, plant and equipment	**66**	117
Investments in subsidiaries	**48,071**	50,214
Deposits and prepayments	**4**	4
Bank balances and cash	**75**	78
Accruals and other payables	**(161)**	(165)
	48,055	50,248
Share capital	**440**	440
Reserves	**47,615**	49,808
	48,055	50,248

29. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st March 2007 are as follows:

Name	Place of incorporation/ operations	Principal activity	Issued share capital/ registered capital	Group equity interest
KTP (BVI) Company Limited	British Virgin Islands/ Hong Kong	Investment holding	100 ordinary shares of US$1 each	100%[1]
Kong Tai Shoes Manufacturing Company Limited	Hong Kong/ People's Republic of China	Manufacture of footwear	1,000 ordinary shares of HK$1 each and 31,500,000 non-voting deferred shares of HK$1 each	100%
Brave Win Industries Limited	Hong Kong/ People's Republic of China	Manufacture of sole units	21,000,000 ordinary shares of HK$1 each and 9,000,000 non-voting deferred shares of HK$1 each	100%
Choy Fung Industrial Limited	Hong Kong/ People's Republic of China	Provision of poly-clothing work	100 ordinary shares of HK$1 each and 4,500,000 non-voting deferred shares of HK$1 each	100%
Dongguan Hung Yip Shoes Manufacturing Co. Ltd.	People's Republic of China	Manufacture of footwear	Registered capital of HK$125,480,000	100%
Dongguan Hung Fa Shoes Materials Co. Ltd	People's Republic of China	Manufacture of sole units	Registered capital of HK$86,290,000	100%

[1] directly held by the Company

Notes:

As at 31st March 2007, the issued/registered capital of each of the above subsidiaries has been fully paid up except for Dongguan Hung Yip Shoes Manufacturing Co. Ltd. and Dongguan Hung Fa Shoes Materials Co. Ltd whose respective paid up capital is HK$123,281,520 and HK$76,331,226 (2006: HK$123,281,520 and HK$76,331,226) respectively.

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

None of these subsidiaries had any debt securities subsisting at 31st March 2007 or at any time during the year.

The investments in the Group's non-consolidated subsidiaries, namely PT Kong Tai Indonesia Shoes Manufacturing ("KTI") and PT Worldbest Raya Industry ("WRI") were fully written off in 2005. Both KTI and WRI have ceased operation since 1999 and 1998 respectively. Given the loss of control on these subsidiaries and the investments in these subsidiaries cannot be recovered in the foreseeable future, the directors are of the opinion that the inclusion of these subsidiaries in the accounts could be misleading and inappropriate.

RESULTS

	Year ended 31st March				
	2007	2006	2005	2004	2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover	**101,578**	102,245	112,666	116,300	115,219
Profit before taxation	**7,603**	5,597	5,929	5,263	6,937
Taxation	**—**	—	—	—	—
Profit attributable to shareholders	**7,603**	5,597	5,929	5,263	6,937

ASSETS AND LIABILITIES

	As at 31st March				
	2007	2006	2005	2004	2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Total assets	**67,794**	63,285	60,182	50,909	49,991
Total liabilities	**(15,896)**	(17,305)	(18,052)	(16,194)	(18,783)
Equity	**51,898**	45,980	42,130	34,715	31,208