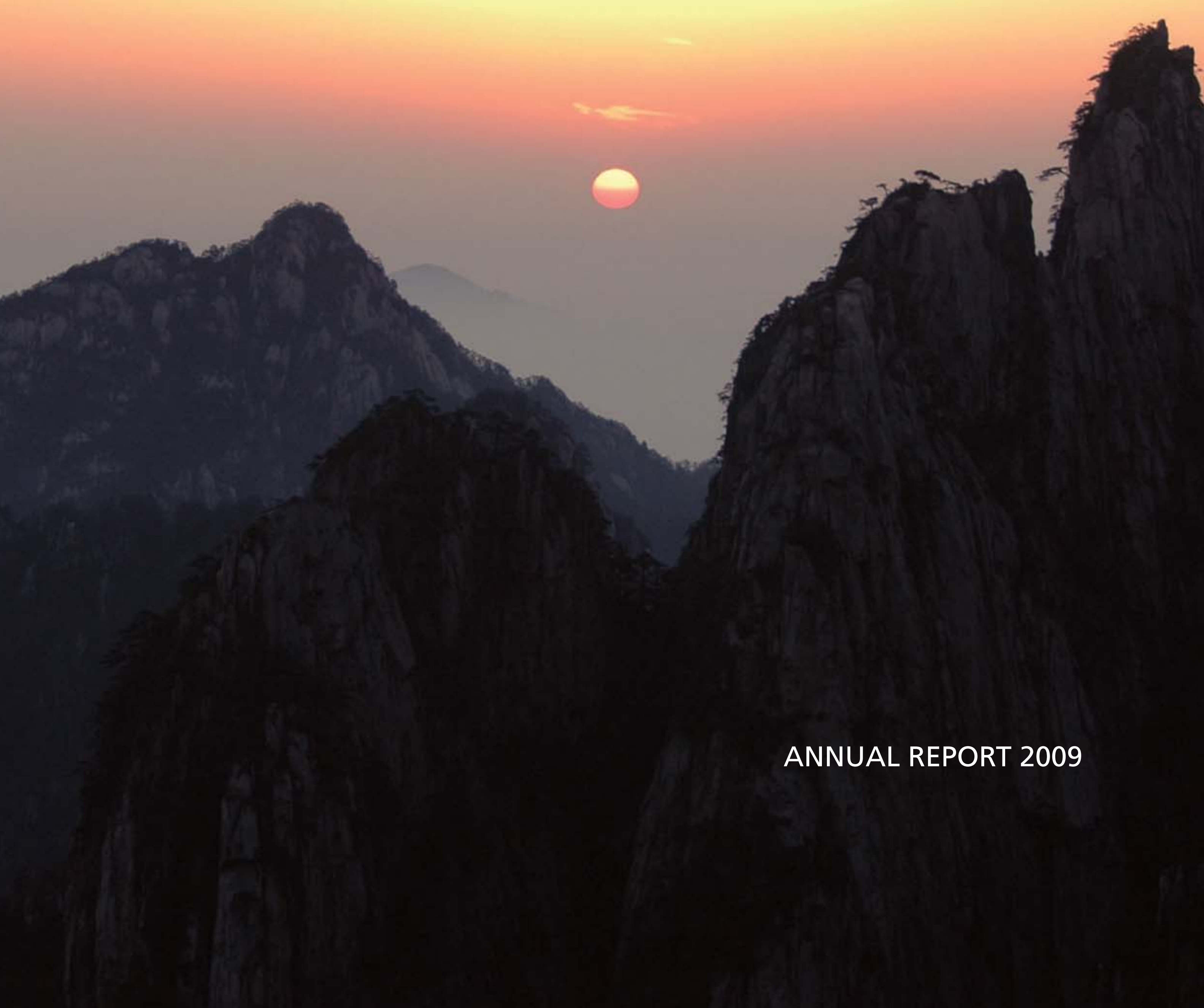
KTP HOLDINGS LIMITED

Stock Code: 645



ANNUAL REPORT 2009

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CORPORATE INFORMATION

KTP Holdings Limited
(Incorporated in Bermuda with limited liability)

DIRECTORS

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

[1] *Independent non-executive directors*

COMPANY SECRETARY

YU Mee See, Maria

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (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 ADVISER

Conyers, Dill & Pearman

PRINCIPAL BANKER

Standard Chartered Bank

COMPANY WEBSITES

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

STOCK CODE

645

...... Waiting for the advent of dawn

I believe when you receive this report, you have already learnt that KTP has sadly discontinued the more than twenty-year collaborative partnership with Reebok, and all the unprofitable manufacturing plants have been closed, resulting in a massive lay-off of about ten thousand workers.

In the past few years, KTP has been struggling very hard "to stay afloat". The rocketing 20% Rebminbi appreciation has drastically lowered the competitive edge of KTP. The implementation of new "Labour Contract Law" does not only add another great burden to KTP, but also completely shatters the spirit of the committed and strong workforce which KTP has long taken pride in. The past cordial and trusting employer-worker relationship has now turned into bitter internal conflicts and hostile relations, which greatly weakens the operation efficiency of KTP. In addition, we suffer significant loss in consequence of the closure of KTP's largest factory in Shenzhen following the local government's new town planning project.

We have been trying our utmost to ride out these rough times by introducing progressive reforms and adjusting the internal operation structure. Unfortunately, the global financial tsunami has drastically slumped the orders of the European and US markets, which further challenges the operation of KTP.

In order to stop the financial situation of KTP from deteriorating further, we have very sadly and reluctantly, decided to discontinue our more than twenty years' collaboration with Reebok, and to map out a large-scale strategic plan to face the challenges ahead. Seeing the closure of the well-established factories one by one, and the departure of our well-trained colleagues, I cannot use words to describe my feelings of sadness and pain. I would like to take this opportunity to offer my heartfelt thanks to all the collaborative partners and colleagues for the great contributions they have made to KTP.

Twenty years ago, KTP had only a few production lines with workforce of only a few hundred. Gradually, because of China's open economic policy, the workforce started to grow to ten thousands, and KTP was then transformed from a small footwear factory to large well-established sports shoes manufacturing group with annual productivity up to ten million pairs. The difficult situation that KTP now facing appears to be inevitable if we view the present business environment from a macro-perspective, and we are the witness to a transformation of a boom in China's manufacturing export industry to its decline over the past twenty years.

After the 2008 global economic downturn, the Chinese government has introduced a number of measures to save the manufacturing export industry, and these include increasing value-added tax rebates on manufacturing exports, and to increase flexibility on the implementation of the Labour Contract Law. In spite of China's strenuous efforts, the manufacturing export industry appears still to stay in doldrums because of the imbalance of demand and supply in the markets worldwide which appears to be not only a micro structural issue, but a macro imbalance issue. The micro structural issue can be solved through the Company's internal restructuring and the local government's stimulus economic policies. However, the economic imbalance is related to the global business environment, which can only be solved by a macro restructuring in the global operation mode.

CHAIRMAN'S STATEMENT

Like most export factories in China, KTP is likely to continue to be hit by the fading market demand. How should KTP survive? Under the present depressing economic situation, it would be very risky if KTP insists on making an attempt to only maintain or revive the excessively over-capacity footwear industry. In the past, China's footwear manufacturing industry was in a small scale and poorly equipped, and so, KTP was able to make a big stride in development by making use of its massive capital funding and advanced technology. Nowadays, in contrast, the industry is left with massive overcapacity, even though most factories are now well-equipped. Thus, KTP should not be going back to the past, and in fact, it is unable to go to back to the past. What we must do now is to find new gateways to future growth. We strongly believe with our strenuous efforts, conviction and courage, the rebirth of "the phoenix" will not be far away.

Even though our financial position is strong, we shall continue to be prudent in light of the global market downturn. The path forward is unclear but our commitment to overcome any new challenges is clear and definite. We shall bring new sense of energy and expertise to KTP so as to guide us through the extraordinary changes in this dynamic world.

We have come on a long journey together and are now embarking on a new stage of that journey.

LEE Chi Keung, Russell
Chairman

Hong Kong, 30th June 2009

FINANCIAL HIGHLIGHTS

Turnover for the year ended 31st March 2009 decreased 32% to US$64.3 million. Profit attributable to shareholders of US$0.3 million compared to last year's loss of US$4.1 million. Profit/(loss) attributable to shareholders for these two years are after taking into account of the followings:

1. Current year's compensation income of RMB4 million, equivalent to US$5.7 million as compensation to the early termination of leases and closure of the Group's factory located in Longgang, Shenzhen, Mainland China ("Longgang Factory");

2. Restructuring provision and assets impairment of US$6.4 million (2008: US$4.1 million) relating to the Group's decision to further consolidate the Group's production operations this year; and

3. Current year tax provision of US$3.0 million relating to the under-provision of prior years taxation for one of the Group's subsidiary.

Excluding these effects, the Group reported a profit attributable to shareholders of US$4 million for the year ended 31st March 2009 and was breakeven in 2008.

BUSINESS REVIEW

The Group's turnover was down 32% from prior year's US$94.6 million to this year's US$64.3 million. Orders from our largest customer, as adversely affected by global financial turmoil decreased 53% from 5.7 million pairs in 2008 to approximately 2.7 million pairs this year and the total sales attributable to the largest customer decreased, along the lines of the orders reduction, to approximately 64% of the Group's turnover for the year ended 31st March 2009.

Management has realised the increasingly competitive operating environment of footwear OEM business in Mainland China over the last few years and mentioned in the previous annual reports of the Company. Last year, the Group suffered a significant loss attributable to shareholders of approximately of US$4.1 million due to the severe business interruption and significant assets impairments caused by the relocation and restructuring of the Group's production operations in Mainland China following the closure of the Longgang Factory ("Relocation and Restructuring").

The Group continued the Relocation and Restructuring plan during the year and further approved a facilities rationalisaion program in order to consolidate the Group's production facilities for greater efficiency and lower costs, which resulted to an improvement of the Group's gross margin from 5% to 8% this year and turnaround to a reported profit attributable shareholders of US$0.3 million or US$4 million if adjusting the net effects of one-time compensation income, restructuring and tax provisions amounting to US$3.7 million as summarised in the above section "Financial Highlights".

Nevertheless, as published on the Company's announcement dated 6th May 2009, the Group had ceased to manufacture the OEM footwear products for its largest customer after failing to negotiate a feasible pricing model in the coming year. In light of the substantial reduction of the Group's turnover due to the loss of OEM footwear orders from its largest customer for the year ending 31st March 2010, the directors of the Group decided to accelerate the implementation of the restructuring process and temporarily suspend all the production operations in Shenzhen, Mainland China and the two factories located in Dongguan, Mainland China. The total restructuring and redundancy costs in relation to the write-downs on idle property, plant and equipment, written off of obsolete inventories as well as the employees redundancy expenses amounting to approximately US$6.4 million were recognised in the consolidated income statement for the year ended 31st March 2009.

Other income for the year was US$3.5 million compared to US$2.6 million last year. The increase was mainly due to the increase in scrap sales of US$0.2 million following the closure of two factories in Shenzhen, Mainland China this year as well as the income received upon the sales of shoes mould amounting to US$0.6 million this year.

In line with the decrease in sales, the general and administrative expenses decreased 26% to US$3.9 million, while maintained at approximately 6% of sales for both years.

Other gains for the year mainly represented compensation income of RMB4 million, equivalent to US$5.7 million as compensation to the early termination of leases and closure of the Longgang Factory.

Tax provision of HK$23.5 million (equivalent to US$3 million) represented the under-provision of prior years taxation for one of the Group's subsidiary. The said subsidiary is in dispute with the Inland Revenue Department regarding the offshore claim for its production operations in Mainland China. In view of the cessation of the whole production operations of the said subsidiary following the closure of the Longgang Factory owned by the said subsidiary in May 2008, the directors are considering various approaches in the best interest of the Group to resolve the dispute with the IRD, bearing in mind the uncertainty, costs and management time and efforts if the dispute continues to prolong. As such, the Group, for the sake of prudence, has made provision for the potential tax liabilities as at 31st March 2009 pending the outcome of the dispute. The directors of the Company considered that there was no material under-provision of tax liabilities as at 31st March 2009.

PROSPECTS

Although the Group's turnover for the year ending 31st March 2010 will be materially and adversely affected by the reduction of the OEM footwear orders from its major customer, the Group continues to maintain the manufacturing of footwear products and monitor the Company's overall operational business and it is considered that the Group's operational and financial position is stable.

The Group will continue to identify and evaluate any business opportunities in footwear industry despite the global financial turmoil and the increasing cost of production in Mainland China.

DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31st March 2009 (2008: Nil).

FINANCIAL AND LIQUIDITY RESOURCES

As at 31st March 2009, the Group's financial resources and liquidity continued to be healthy and it is substantially debt-free, with reported cash and bank balances of US$39 million, as compared to US$21 million as at 31st March 2008. Included in the bank balances and cash of the Group were Renminbi deposits and cash of approximately US$13.4 million (31st March 2008: US$8.6 million) kept in Mainland China. Renminbi is not a freely convertible currency.

OPERATING WORKING CAPITAL

The Group follows a policy of prudence in managing its working capital. As mentioned, the Group is expected a significant decrease in turnover for the year ending 31st March 2010 and accordingly, trade receivables and payables as well as inventories experienced significant decline in balances as at 31st March 2009. Nevertheless, our working capital position remained strong with average collection period of accounts receivables and stock turnover of approximately 33 days (2008: 50 days) and 43 days (2008: 50 days) respectively.

The Group maintains tight control on its credit and collection policies and we have not experienced any significant bad debts in the past.

CAPITAL EXPENDITURES AND COMMITMENTS

As at 31st March 2009, the Group had capital commitment amounting to US$0.9 million relating to the acquisition of land use rights in Huizhou, Mainland China.

The Group generally relies on its internally generated cash flow and the existing banking facilities to finance its day to day operations. There are no material plans for investments and capital expenditures except for the Group's regular annual capital expenditures and we believe that the Group has adequate financial resources to meet its funding requirement for its business operation.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to present their report together with the audited consolidated financial statements for the year ended 31st March 2009.

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 31 to the consolidated financial statements.

An analysis of the Group's performance by geographical segments is set out in note 6 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 24.

The directors do not recommend the payment of a dividend in respect of the year ended 31st March 2009.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 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 2009 amounted to US$46,282,000 (2008: US$46,219,000).

Details of the movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 26.

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 72.

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 Ms. Yu Mee See, Maria 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 52, 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.

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

Directors *(Continued)*

YU Mee See, Maria, aged 49, 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 45, is an independent non-executive director of the Company. He is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies. He joined the Company in 1999. Mr. Ng is also an independent non-executive director of four companies listed on the Stock Exchange, namely Fortune Sun (China) Holdings Limited (Stock Code: 352), HyComm Wireless Limited (Stock Code: 499), Tomorrow International Holdings Limited (Stock Code: 760), Yun Sky Chemical (International) Holdings Limited (Stock Code: 663).

LEE Siu Leung, aged 43, is an independent non-executive director of the Company. He is a Certified Public Accountant (Practising), 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 52, is an independent non-executive director of the Company. He is a Certified Public Accountant (Practising), a fellow of The Association of Chartered Certified Accountants and a member of Society of Registered Financial Planners. He is a practising director of Kingston C.P.A. Limited. Mr. Yuen is also an independent non-executive director and an audit committee member of Melbourne Enterprises Limited (Stock Code: 158). He joined the Company in 2004.

Senior Management

HUANG Huan Tung, aged 49, is the senior manager of the Group's development and operations of shoe soles production. He joined the Group in 1990 and has extensive experience in footwear manufacturing and sole unit production.

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 2009, 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 Issuers 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 shares held/interested	Percentage of issued share capital
LEE Chi Keung, Russell ("Mr. Lee")	203,581,484 *(Note)*	59.76%
YU Mee See, Maria ("Ms. Yu")	203,581,484 *(Note)*	59.76%

Note:

The corporate interests of 203,581,484 shares in the Company represent 92,977,184 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 2009.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(Continued)*

Share Options Scheme *(Continued)*

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 2009, 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.

Long position in shares of the Company

	Number of ordinary shares held, capacity and nature of interest				
Name	**Directly beneficially owned**	**Through spouse**	**Through controlled corporation**	**Total**	**Percentage of the issued share capital**
Wonder Star Securities Limited ("Wonder Star") *(Note (a))*	92,977,184	—	110,604,300	203,581,484	59.76%
Top Source Securities Limited ("Top Source")	110,604,300	—	—	110,604,300	32.47%
Yeo Seng Chong *(Note (b))*	—	2,544,000	17,000,000	19,544,000	5.74%
Lim Mee Hwa *(Note (b))*	2,544,000	—	17,000,000	19,544,000	5.74%

Notes:

(a) The interests of Wonder Star include 92,977,184 shares held directly by Wonder Star and 110,604,300 shares held by Top Source, a wholly-owned subsidiary of Wonder Star.

(b) Ms. Lim Mee Hwa ("Ms. Lim") is the spouse of Mr. Yeo Seng Chong ("Mr. Yeo") and of the 19,544,000 shares beneficially owned by both Ms. Lim and Mr. Yeo, 17,000,000 shares were held by Yeoman Capital Management Pte. Ltd, a controlled corporation of both Mr. Yeo and Ms. Lim.

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	10%
— five largest suppliers combined	27%

Sales

— the largest customer	64%
— five largest customers combined	93%

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 2009, the Group had a total of 1,600 (2008: 7,000) full time employees (including contracted manufacturing workers) in Hong Kong 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 2009.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 16 to 21 to the annual report.

AUDITORS

The consolidated financial statements for the year have been audited by Messrs. SHINEWING (HK) CPA Limited. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lee Chi Keung, Russell
Chairman

Hong Kong, 30th June 2009

The Board is please to present the corporate governance report in the annual report of the Company for the year ended 31st March 2009.

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 2009, 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 9 to 10.

During the year ended 31st March 2009, 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.

THE BOARD *(Continued)*

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.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. 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 2009. The Model Code also applies to other specified senior management of the Group.

Board meetings

The Board held six 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)*	6/6	100%
Ms. YU Mee See, Maria	6/6	100%
Independent non-executive directors		
Mr. NG Wai Hung	2/6	33%
Mr. LEE Siu Leung	3/6	50%
Mr. YUEN Sik Ming	3/6	50%

THE BOARD *(Continued)*

Board meetings *(Continued)*

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 Byelaws. 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 three 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.

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 and Ms. YU Mee See, Maria shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The Company's circular dated 7th July 2009 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 reelection. 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.

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 2008 and the year ended 31st March 2009.

ACCOUNTABILITY AND AUDIT *(Continued)*

Audit committee *(Continued)*

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 two times during the financial year ended 31st March 2009 and the individual attendance of each member is set out below:

Name of directors	Number of board meetings attended	Attendance rate
Mr. NG Wai Hung	1/2	50%
Mr. LEE Siu Leung	1/2	50%
Mr. YUEN Sik Ming	2/2	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 22 to 23. For the year ended 31st March 2009, 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 2009 amounted to US$54,000 (2008: US$94,000).

INTERNAL CONTROL

The Group maintains an effective internal control structure. It consists, in part, of organisational 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.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS *(Continued)*

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.

To promote effective communication, the Company maintains a website 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 website of the Stock Exchange and the Company 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 to as the "Group") set out on pages 24 to 71, which comprise the consolidated balance sheet as at 31st March 2009, and 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, 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 judgment, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 2009 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
30th June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2009

	Notes	2009 US$'000	2008 US$'000
Turnover	6	**64,275**	94,612
Cost of sales		**(58,782)**	(90,039)
Gross profit		**5,493**	4,573
Other income	6	**3,510**	2,562
Distribution costs		**(705)**	(1,009)
Administrative expenses		**(3,860)**	(5,183)
Other gains/(losses), net	7	**5,240**	(913)
Restructuring provision and assets impairment	8	**(6,407)**	(4,098)
Finance costs	9	**—**	(2)
Profit/(loss) before taxation	10	**3,271**	(4,070)
Taxation	12	**(3,009)**	—
Profit/(loss) attributable to shareholders		**262**	(4,070)
Dividend	13	**—**	—
Earnings/(loss) per share		***US cents***	*US cents*
— Basic	14	**0.1**	(1.2)

CONSOLIDATED BALANCE SHEET

As at 31st March 2009

	Notes	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	15	**816**	7,722
Investment properties	16	**2,692**	3,236
Prepaid lease payments on land use rights	17	**1,117**	1,151
Held-to-maturity investments	18	**444**	444
Available-for-sale investments	19	**—**	247
		5,069	12,800
Current assets			
Inventories	20	**3,107**	14,401
Trade and bills receivables	21	**3,240**	11,382
Deposits, prepayments and other receivables		**357**	663
Deposit for acquisition of land use rights	22	**252**	109
Tax reserve certificates		**2,000**	1,608
Prepaid lease payments on land use rights	17	**34**	34
Bank balances and cash	23	**39,074**	20,883
		48,064	49,080
Current liabilities			
Trade payables	24	**900**	7,486
Accruals and other payables		**2,502**	7,819
Tax liabilities		**3,009**	—
		6,411	15,305
Net current assets		**41,653**	33,775
Total assets less current liabilities		**46,722**	46,575
Capital and reserves			
Share capital	25	**440**	440
Reserves		**46,282**	46,135
Total equity		**46,722**	46,575

The consolidated financial statements on pages 24 to 71 were approved and authorised for issue by the board of directors of the Company on 30th June 2009 and are signed on its behalf by:

LEE Chi Keung, Russell
Chairman

YU Mee See, Maria
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2009

	Share capital *US$'000*	Contributed surplus *US$'000*	Investments revaluation reserve *US$'000*	Translation reserve *US$'000*	Retained profits *US$'000*	Total *US$'000*
1st April 2007	440	1,466	62	—	49,930	51,898
Fair value change on available-for-sale investments recognised directly in equity	—	—	46	—	—	46
Exchange difference arising on translation of financial statements of foreign companies of the Group	—	—	—	11	—	11
Net income recognised directly in equity	—	—	46	11	—	57
Loss for the year, representing total recognised income and expenses for the year	—	—	—	—	(4,070)	(4,070)
2007 final dividend paid	—	—	—	—	(1,310)	(1,310)
At 31st March 2008/1st April 2008	440	1,466	108	11	44,550	46,575
Exchange difference arising on translation of financial statements of foreign companies of the Group, representing net income recognised directly in equity	—	—	—	(7)	—	(7)
Transfer to profit or loss on sales of available-for-sale investments	—	—	(108)	—	—	(108)
Profit for the year	—	—	—	—	262	262
Total recognised income and expenses for the year	—	—	(108)	—	262	154
At 31st March 2009	**440**	**1,466**	**—**	**4**	**44,812**	**46,722**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2009

	2009 US$'000	2008 US$'000
Operating activities		
Profit/(loss) before taxation	**3,271**	(4,070)
Adjustments for:		
Impairment on property, plant and equipment	**5,549**	2,279
Provision for employees termination benefits	**188**	1,711
Impairment on held-to-maturity investments	**—**	57
Written off of trademark	**—**	828
Gain on disposal of available-for-sale investments	**(70)**	(163)
Finance costs	**—**	2
Interest income	**(616)**	(851)
Dividend income from available-for-sale investments	**(67)**	(1)
Depreciation of property, plant and equipment	**1,341**	1,796
Amortisation of prepaid lease payments on land use rights	**34**	34
Loss/(gain) on disposal of property, plant and equipment	**127**	(11)
Allowance for bad and doubtful debts	**—**	30
Allowance/(written back of allowance) for inventories	**190**	(93)
Written off of inventories	**670**	—
Fair value loss on investment properties	**544**	191
Decrease in fair value of derivative financial instruments	**—**	34
Operating cash flows before movements in working capital	**11,161**	1,773
Decrease/(increase) in inventories	**10,434**	(73)
Decrease in trade and bills receivables	**8,142**	1,298
Decrease/(increase) in deposits, prepayments and other receivables	**306**	(245)
Decrease in trade payables	**(6,586)**	(1,190)
Decrease in accruals and other payables	**(5,505)**	(1,112)
Cash generated from operating activities	**17,952**	451
Purchase of tax reserve certificates	**(392)**	(328)
Net cash from operating activities	**17,560**	123

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2009

	2009	2008
	US$'000	*US$'000*
Investing activities		
Interest received	**616**	851
Proceeds on disposal of available-for-sale investments	**209**	163
Dividend received from available-for-sale investments	**67**	1
Proceeds on disposal of property, plant and equipment	**61**	11
Purchase of property, plant and equipment	**(172)**	(2,480)
Deposit paid for acquisition of land use rights	**(143)**	—
Purchase of trademark	**—**	(828)
Decrease in structured bank deposits	**—**	1,000
Decrease in time deposit with original maturity over one year	**—**	1,000
Net cash from/(used in) investing activities	**638**	(282)
Financing activities		
2007 final dividend paid	**—**	(1,310)
Interests paid	**—**	(2)
Net cash used in financing activities	**—**	(1,312)
Net increase/(decrease) in cash and cash equivalents	**18,198**	(1,471)
Cash and cash equivalents at 1st April	**20,883**	22,343
Effect of foreign exchange rate changes	**(7)**	11
Cash and cash equivalents at 31st March, represented by bank balances and cash	**39,074**	20,883

1. GENERAL

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

The consolidated financial statements are presented in United States dollar ("US$"), which is the same as the functional currency of the Company. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 30th June 2009.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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 Adoption of new and revised HKFRSs

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by HKICPA which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Interpretation ("Int") 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[5]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[6]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[7]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[8]

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

2.1 Adoption of new and revised HKFRSs *(Continued)*

[1] *Effective for annual periods beginning on or after 1st January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July 2009*

[2] *Effective for annual periods beginning on or after 1st January 2009, 1st July 2009 and 1st January 2010, as appropriate*

[3] *Effective for annual periods beginning on or after 1st January 2009*

[4] *Effective for annual periods beginning on or after 1st July 2009*

[5] *Effective for annual periods ending on or after 30th June 2009*

[6] *Effective for annual periods beginning on or after 1st July 2008*

[7] *Effective for annual periods beginning on or after 1st October 2008*

[8] *Effective for transfers of assets from customers received on or after 1st July 2009*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company have commenced considering the potential impact of the other new or revised standards, amendments or interpretations but not yet in a position to determine whether they would have a significant impact on how its results and financial position are prepared and presented.

2.2 Basis of consolidation

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

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

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

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

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

2.3 Revenue recognition

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

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 period of the relevant lease terms.

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

2.4 Borrowing costs

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

2.5 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

2.5 Property, plant and equipment *(Continued)*

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

2.7 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

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

2.8 Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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

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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(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.

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

2.9 Financial instruments *(Continued)*

(a) Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised as an effective interest basis for debt instruments.

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, deposit for acquisition of land use rights, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment of financial assets below).

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 (see accounting policy on impairment of financial assets below).

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

2.9 Financial instruments *(Continued)*

(a) *Financial assets* *(Continued)*

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity 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 (see accounting policy on impairment of financial assets below).

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 (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

2.9 Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

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.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

(c) 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.

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

2.9 Financial instruments *(Continued)*

(c) Derecognition *(Continued)*

Financial liabilities are derecognised 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. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated expenses.

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.

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

2.11 Taxation *(Continued)*

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 currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

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

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. Payments are charged as an expense when employees have rendered services entitling them to the contributions.

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 when employees have rendered services entitling them to the contributions.

(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 Leasing

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

(a) The Group as lessor

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

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

2.15 Prepaid lease payments on land use rights

Prepaid lease payments on land use rights represent lease payments paid for the right to use the land on which various plants and buildings are situated. Prepaid lease payments are stated at cost less subsequent amortisation and are provided to write off the cost over the term of the relevant leases, using the straight-line basis.

2.16 Provisions

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations (see note 3.2 below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Leasehold buildings

The Group had not yet obtained the building reality certificates of certain of the Group's buildings from relevant government authorities as detailed in note 15. In the opinion of the directors, the absence of building reality certificates to these buildings does not impair the value of the relevant buildings to the Group.

Prepaid lease payments on land use rights

The Group had not yet obtained the formal titles of certain of the Group's land use rights from relevant government authorities as detailed in note 17. The directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group.

Income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognised are based on management's assessment of the likely outcome.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

3.1 Critical judgements in applying the entity's accounting policies *(Continued)*

Income taxes *(Continued)*

No deferred tax asset has been recognised in respect of tax losses of US$3,692,000 (2008: US$873,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the consolidated income statement for the period in which it takes place.

3.2 Key sources of estimation uncertainty

The followings are 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.

Useful lives of property, plant and equipment

The Group's net carrying value of property, plant and equipment as at 31st March 2009 was approximately US$816,000 (2008: US$7,722,000). 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.

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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

3.2 Key sources of estimation uncertainty *(Continued)*

Estimated allowance for inventories

Management of the Group reviews an ageing analysis and carries out an inventory review on a product by product basis at each balance sheet date and makes 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.

Estimated allowance for bad and doubtful debts

The Group makes allowance for bad and doubtful debts based on the evaluation of collectability and ageing analysis of receivables and on management's judgement. Allowances are recognised where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance 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 the allowance for bad and doubtful debts is recognised in the year in which such estimates have been changed.

Estimation on restructuring provision

As disclosed in note 8, the Group has undergone extensive restructuring of its production capacity in these two years. The restructuring provision recognised for the impairment on property, plant and equipment by the Group is based on management's evaluation on the Group's estimated future production capacity requirement which requires the use of judgement and estimates.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising return to shareholders through the optimisation of the equity balance. The Group's overall strategy remains unchanged from prior year.

4. CAPITAL RISK MANAGEMENT *(Continued)*

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raising of new borrowings.

5. FINANCIAL INSTRUMENTS

5.1 Categories of financial instruments

	2009	2008
	US$'000	*US$'000*
Financial assets		
Held-to-maturity investments	**444**	444
Loans and receivables (including cash and cash equivalents)	**44,582**	34,017
Available-for-sale investments	**—**	247
Financial liabilities		
Other financial liabilities at amortised cost	**2,324**	11,951

5.2 Financial risk management objectives and policies

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

5.2 Financial risk management objectives and policies *(Continued)*

(a) Market risk

(i) Foreign currency risk

The Group mainly operates in Mainland China. A significant portion of the Group's sales and purchases of raw materials are denominated in the functional currency of the Group (i.e. US$) and only approximately 1% and 20% (2008: 3% and 23%) of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the Group.

The Group is exposed to foreign currency risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US$, primarily with Hong Kong dollars ("HK$") and Renminbi ("RMB").

At the balance sheet date, the carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are as follows:

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	US$'000	*US$'000*	***US$'000***	*US$'000*
RMB	**13,364**	8,795	**1,756**	4,647
HK$	**2,449**	1,955	**306**	2,589
Others	**—**	1,261	**—**	173
	15,813	12,011	**2,062**	7,409

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

HK$ is pegged to US$ and the foreign exchange exposure between US$ and HK$ is therefore limited.

RMB experienced certain appreciation in recent years which is the major reason for the exchange gains recognised by the Group for the year. Further depreciation or appreciation of US$ against RMB will affect the Group's financial position and results of operations.

5. FINANCIAL INSTRUMENTS *(Continued)*

5.2 Financial risk management objectives and policies *(Continued)*

(a) Market risk (Continued)

(i) Foreign currency risk (Continued)

As at 31st March 2009, if US$ had weakened/strengthened by 5% (2008: 5%) against RMB, with all other variables held constant, the pre-tax profit/(loss) would have been approximately US$580,000 (2008: US$207,000) higher/lower. 5% (2008: 5%) is the sensitivity rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2008: 5%) change in foreign currency rates.

(ii) Price risk

The Group is exposed to securities price risk because securities investments held by the Group are classified on the balance sheet as available-for-sale investments. Management considered that the exposure of securities investments to price risk is insignificant.

(iii) Interest rate risk

As at 31st March 2009, the Group had no bank borrowings and all of the Group's financial liabilities are non-interest bearing and their maturity dates are within one year.

The Group is exposed to cash flow interest rate risk in relation to short-term deposits placed with financial institutions and bank balances. The directors consider the Group's exposure of the short-term deposits placed with financial institutions and bank balances to interest rate risk is not significant as interest bearing bank balances and short-term deposits are within short maturity period. Therefore, no sensitivity analysis is presented thereon.

Management will continuously monitor interest rate fluctuation and will consider hedging significant interest rate risk should the need arise.

5. FINANCIAL INSTRUMENTS *(Continued)*

5.2 Financial risk management objectives and policies *(Continued)*

(b) Credit risk

As at 31st March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 36% (2008: 75%) and 80% (2008: 89%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31st March 2009, all of the Group's financial liabilities are non-interest bearing and their maturity dates are within one year.

5. FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

6. 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, discounts and sales related taxes. Revenues recognised during the year are as follows:

	2009	2008
	US$'000	*US$'000*
Turnover		
Sales of goods	**64,275**	94,612
Other income		
Bank interest income	**598**	822
Interest income from unlisted debt securities	**18**	29
Gross rental income from investment properties	**454**	418
Gain on disposal of property, plant and equipment	**—**	11
Dividend income from available-for-sale investments	**67**	1
Scrap sales	**1,032**	789
Mould transfer income	**599**	—
Net exchange gain	**22**	177
Others	**720**	315
	3,510	2,562
Total revenues	**67,785**	97,174

6. 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:

	North America US$'000	Europe US$'000	Asia (other than Mainland China) US$'000	Mainland China US$'000	Others US$'000	Total US$'000
For the year ended 31st March 2009						
Turnover	31,539	5,520	1,942	23,715	1,559	64,275
Segment results	2,736	479	169	2,057	136	5,577
Unallocated costs						(1,139)
Other gains, net	—	—	70	5,170	—	5,240
Restructuring provision and assets impairment	—	—	—	(6,407)	—	(6,407)
Finance costs						—
Profit before taxation						3,271
Taxation						(3,009)
Profit attributable to shareholders						262
As at 31st March 2009						
Segment assets	—	—	28,556	24,577	—	53,133
Segment liabilities	—	—	3,543	2,868	—	6,411
For the year ended 31st March 2009						
Other information						
Capital expenditure of property, plant and equipment and land use rights deposit	—	—	—	315	—	315
Depreciation of property, plant and equipment	—	—	—	1,341	—	1,341
Amortisation of prepaid lease payments on land use rights	—	—	—	34	—	34
Allowance for inventories	—	—	—	190	—	190
Written off of inventories	—	—	—	670	—	670
Impairment on property, plant and equipment	—	—	—	5,549	—	5,549
Loss on disposal of property, plant and equipment	—	—	—	127	—	127
Gain on disposal of available-for-sale investments	—	—	(70)	—	—	(70)

6. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

	North America *US$'000*	Europe *US$'000*	Asia (other than Mainland China) *US$'000*	Mainland China *US$'000*	Others *US$'000*	Total *US$'000*
For the year ended 31st March 2008						
Turnover	54,982	12,952	5,969	18,598	2,111	94,612
Segment results	1,055	249	115	357	40	1,816
Unallocated costs						(873)
Other losses, net	—	—	106	(1,019)	—	(913)
Restructuring provision and assets impairment	—	—	—	(4,098)	—	(4,098)
Finance costs						(2)
Loss before taxation						(4,070)
Taxation						—
Loss attributable to shareholders						(4,070)
As at 31st March 2008						
Segment assets	—	—	14,555	47,325	—	61,880
Segment liabilities	—	—	518	14,787	—	15,305
For the year ended 31st March 2008						
Other information						
Capital expenditure of property, plant and equipment and trademark	—	—	—	3,308	—	3,308
Depreciation of property, plant and equipment	—	—	59	1,737	—	1,796
Amortisation of prepaid lease payments on land use rights	—	—	—	34	—	34
Written back of allowance for inventories	—	—	—	(93)	—	(93)
Allowance for bad and doubtful debts	30	—	—	—	—	30
Impairment on property, plant and equipment	—	—	—	2,279	—	2,279
Gain on disposal of property, plant and equipment	—	—	—	(11)	—	(11)
Impairment on held-to-maturity investments	—	—	57	—	—	57
Gain on disposal of available-for-sale investments	—	—	(163)	—	—	(163)
Written off of trademark	—	—	—	828	—	828

6. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

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.

7. OTHER GAINS/(LOSSES), NET

	2009	2008
	US$'000	*US$'000*
Compensation income *(Note (a))*	**5,714**	—
Fair value loss on investment properties	**(544)**	(191)
Gain on disposal of available-for-sale investments	**70**	163
Impairment on held-to-maturity investments	**—**	(57)
Written off of trademark *(Note (b))*	**—**	(828)
	5,240	(913)

Notes:

(a) Compensation income represented a lump sum consideration of RMB40,000,000, equivalent to approximately US$5,714,000 received by Kong Tai Shoes Manufacturing Company Limited ("KTS"), a wholly-owned subsidiary of the Company for entering into compensation agreements with both 深圳市華特實業有限公司 and 深圳市龍崗區龍崗鎮南聯村瑞合經濟合作社 (collectively known as the "Landlords") on 14th April 2008, in respect of the early termination of the lease agreements by the Landlords for the use of factory premises by KTS located at Longgang, Shenzhen, Mainland China.

(b) For the year ended 31st March 2008, the Group purchased the "Promarks" trademark ("Trademark") from a third party at a consideration of RMB6,500,000, equivalent to approximately US$828,000 for the rights of the use of Trademark in Mainland China. The Trademark was written off in that year due to the change in market condition and economic environment which were unfavourable to the Group and this amount represented the total investment exposure to the Group. The directors do not expect any further liabilities would arise in respect of the Trademark.

8. RESTRUCTURING PROVISION AND ASSETS IMPAIRMENT

	2009	2008
	US$'000	*US$'000*
Impairment on property, plant and equipment	**5,549**	2,279
Provision for employees termination benefits	**188**	1,711
Written off of inventories	**670**	—
Allowance for inventories	**—**	108
	6,407	4,098

As disclosed in the Company's 2008 annual report, the Group commenced a restructuring of its production capacity in Mainland China last year following the land resumption of the Group's largest factory in Shenzhen, Mainland China by the local Mainland China government, which led to the relocation of the Group's production base from Shenzhen to Dongguan, Mainland China and the closure of two factories located in Shenzhen, Mainland China (the "Relocation and Restructuring").

The Group continued the Relocation and Restructuring plan during the year and further approved a facilities rationalisation program in order to consolidate the Group's production facilities for greater efficiency and lower costs.

In addition, on 6th May 2009, the Company published an announcement regarding the cessation of manufacturing OEM footwear products for the Group's largest customer. The amount of turnover attributable to such major customer represented 64% of the Group's total turnover of footwear products for the year ended 31st March 2009. In light of the reduction of the OEM footwear orders from its largest customer for the coming year, the Board decided to accelerate the implementation of the restructuring process and temporarily suspend all the production operations in Shenzhen, Mainland China and the two factories located in Dongguan, Mainland China.

As a result, for the year ended 31st March 2009, the total restructuring and redundancy costs in relation to the write-downs on idle property, plant and equipment, written off of obsolete inventories as well as the employees redundancy expenses amounting to approximately US$6,407,000 were recognised in the consolidated income statement.

9. FINANCE COSTS

	2009	2008
	US$'000	*US$'000*
Interest on bank overdrafts	**—**	2

10. PROFIT/(LOSS) BEFORE TAXATION

	2009	2008
	US$'000	*US$'000*
Profit/(loss) before taxation has been arrived at after charging and (crediting):		
Auditors' remuneration	**54**	94
Depreciation of property, plant and equipment	**1,341**	1,796
Amortisation of prepaid lease payments on land use rights	**34**	34
Impairment on property, plant and equipment	**5,549**	2,279
Loss on disposal of property, plant and equipment	**127**	—
Cost of inventories recognised as an expense	**58,782**	90,039
Allowance for bad and doubtful debts	**—**	30
Allowance/(written back of allowance) for inventories (included in cost of sales)	**190**	(93)
Written off of inventories	**670**	—
Staff costs (including directors' emoluments) *(Note 11)*	**13,394**	22,508
Operating lease rentals in respect of land and buildings	**148**	588

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2009	2008
	US$'000	*US$'000*
Wages and salaries	**12,374**	20,532
Termination benefits	**794**	1,711
Contributions to retirement benefit schemes *(Note (a))*	**226**	265
	13,394	22,508

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 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.

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

Notes: (continued)

(b) Directors' emoluments

The emoluments paid or payable to each of the five directors (2008: five) were as follows:

At 31st March 2009		**Other emoluments**		
	Fees	**Basic salaries, other allowances and benefits in kinds**	**Contributions to retirement benefit scheme**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Executive directors				
LEE Chi Keung, Russell	**—**	**133**	**2**	**135**
YU Mee See, Maria	**—**	**15**	**2**	**17**
Independent non-executive directors				
NG Wai Hung	**5**	**—**	**—**	**5**
LEE Siu Leung	**5**	**—**	**—**	**5**
YUEN Sik Ming	**5**	**—**	**—**	**5**
Total emoluments	**15**	**148**	**4**	**167**

At 31st March 2008		Other emoluments		
	Fees	Basic salaries, other allowances and benefits in kinds	Contributions to retirement benefit scheme	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Executive directors				
LEE Chi Keung, Russell	—	256	2	258
YU Mee See, Maria	—	15	—	15
Independent non-executive directors				
NG Wai Hung	5	—	—	5
LEE Siu Leung	5	—	—	5
YUEN Sik Ming	5	—	—	5
Total emoluments	15	271	2	288

11. 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 (2008: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2008: four) during the year which fall within the range of Nil — HK$1,000,000 (2008: Nil — HK$1,000,000) are as follows:

	2009 ***US$'000***	2008 *US$'000*
Basic salaries, other allowances and benefits-in-kinds	**226**	339

No directors and senior management waived or agreed to waive any emoluments in any of the two years ended 31st March 2009 and 2008.

No emoluments were paid to the directors and senior management as inducement to join or upon joining the Group or as compensation for loss of office in the two years ended 31st March 2009 and 2008.

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

12. TAXATION

	2009 ***US$'000***	2008 *US$'000*
Hong Kong Profits Tax		
Under-provision in prior years *(Note (d))*	**3,009**	—

12. TAXATION *(Continued)*

Notes:

(a) On 26th June 2008, the Hong Kong Legislative Council passes the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment of 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profits for the year.

No provision for the Mainland China Corporate Income Tax ("CIT") as there is no assessable profits for both years for the subsidiaries operated in Mainland China.

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 for the years can be reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

	2009 ***US$'000***	2008 *US$'000*
Profit/(loss) before taxation	**3,271**	(4,070)
Calculated at a taxation rate of 16.5% (2008: 17.5%)	**540**	(712)
Effect of different tax rates in other countries	**(1)**	63
Tax effect of income not taxable for tax purpose	**(1,181)**	(432)
Tax effect of expenses not deductible for tax purpose	**177**	1,156
Utilisation of tax losses previously not recognised	**—**	(75)
Tax effect of tax losses not recognised	**465**	—
Under-provision in respect of prior years	**3,009**	—
Taxation for the year	**3,009**	—

(b) Two of the four Mainland China subsidiaries are entitled to the benefit of full exemption from CIT for the first two years commencing on the profit-making year followed by 50% reduction in CIT for each of the subsequent three years. The remaining two Mainland China subsidiaries do not entitle to any exemption from CIT.

(c) Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 17.5%).

At the balance sheet date, the Group has unused tax losses of approximately US$3,692,000 (2008: US$873,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately US$377,000 which will expire in 31st December 2009 and the remaining balances of approximately US$3,315,000 will expire by 31st December 2013.

There was no other material unprovided deferred taxation for the year (2008: Nil).

12. TAXATION *(Continued)*

Notes: (continued)

(d) Since February 2005, Inland Revenue Department ("IRD") has initiated tax enquires and issued additional profits tax assessments, in aggregate, of approximately HK$22,945,000 (equivalent to approximately US$2,942,000) relating to the years of assessment 1998/1999 to 2002/2003 against KTS. A tax audit was also commenced by the IRD on KTS in respect of the year of assessment 2006/2007.

The Group had lodged objections with the IRD against all these additional assessments ("Objections") and the IRD agreed to hold over the tax claimed completely subject to the said subsidiary in question purchasing tax reserve certificates ("TRCs") amounting to HK$19,338,000 (equivalent to approximately US$2,479,000) up to the date of this report.

Of the total TRCs purchased by the Group, an aggregate amount of HK$15,604,000 (equivalent to approximately US$2,000,000) (2008: US$1,608,000) was purchased by the Group and included in the tax reserve certificates in the consolidated balance sheet as at 31st March 2009. The remaining amount of HK$3,734,000 (equivalent to approximately US$479,000) was purchased by the Group in May 2009.

The factory of KTS located in Mainland China was closed in May 2008 as a result of land resumption by the local Mainland China government. In view of the closure of factory and the cessation of whole production operations of KTS, the directors are considering alternative approaches in the best interest of the Group to resolve the dispute with the IRD, bearing in mind the uncertainty, costs and management time and efforts if the dispute continues to prolong. As such, the Group has made provision for the potential tax liabilities as at 31st March 2009 amounting to HK$23,469,000 (equivalent to approximately US$3,009,000) pending the outcome of the Objections and the tax audit.

The directors of the Company considered that there was no material under-provision of tax liabilities as at 31st March 2009.

13. DIVIDEND

The Board does not recommend the payment of a dividend in respect of the year ended 31st March 2009 (2008: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to the equity holders of the Company is based on the profit/(loss) for the year attributable to equity holders of the Company of approximately US$262,000 (2008: loss of US$4,070,000) and the weighted average number of 340,616,934 (2008: 340,616,934) ordinary shares in issue during the year.

No diluted earnings/(loss) per share is presented as the Company did not have any potential shares outstanding for the two years ended 31st March 2009.

15. 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 2007	555	7,956	1,219	8,173	473	171	18,547
Additions	597	—	575	931	290	87	2,480
Reclassification	(1,152)	—	958	—	194	—	—
Disposals/written off	—	—	(431)	(1,441)	(195)	(49)	(2,116)
At 31st March 2008/ 1st April 2008	—	7,956	2,321	7,663	762	209	18,911
Additions	—	—	69	94	9	—	172
Disposals/written off	—	(619)	(449)	(2,542)	(188)	—	(3,798)
At 31st March 2009	**—**	**7,337**	**1,941**	**5,215**	**583**	**209**	**15,285**
Accumulated depreciation and impairment							
At 1st April 2007	—	4,084	758	3,870	390	128	9,230
Charge for the year	—	406	387	780	184	39	1,796
Disposals/written off	—	—	(431)	(1,441)	(195)	(49)	(2,116)
Impairment loss recognised	—	137	17	2,054	71	—	2,279
At 31st March 2008/ 1st April 2008	—	4,627	731	5,263	450	118	11,189
Charge for the year	—	323	266	425	295	32	1,341
Disposals/written off	—	(619)	(418)	(2,385)	(188)	—	(3,610)
Impairment loss recognised	—	2,745	1,281	1,513	10	—	5,549
At 31st March 2009	**—**	**7,076**	**1,860**	**4,816**	**567**	**150**	**14,469**
Carrying values							
At 31st March 2009	**—**	**261**	**81**	**399**	**16**	**59**	**816**
At 31st March 2008	—	3,329	1,590	2,400	312	91	7,722

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

	2009 **US$'000**	2008 US$'000
The Group's property interests comprise:		
Properties situated on land in Mainland China and held under medium-term leases	**261**	3,322
Property situated on land in Hong Kong and held under medium-term lease	**—**	7
	261	3,329

As at 31st March 2009, the Group had not yet obtained the building reality certificates of certain buildings from the relevant government authorities with the aggregate carrying values of approximately US$75,000 (2008: US$104,000). In the opinion of the directors, the absence of building reality certificates to these buildings does not impair the value of the relevant buildings to the Group.

During the year, the Board conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired due to the redundancy of the Group's production facilities following the implementation of restructuring plan and suspension of production operations of a few factories as mentioned in note 8. Accordingly, impairment losses of leasehold buildings, leasehold improvements, plant and machinery and furniture, fixtures and equipment of approximately US$2,745,000, US$1,281,000, US$1,513,000 and US$10,000 respectively have been recognised in the consolidated income statement.

16. INVESTMENT PROPERTIES

	US$'000
Fair value	
At 1st April 2007	3,427
Fair value loss on investment properties *(Note 7)*	(191)
At 31st March 2008/1st April 2008	3,236
Fair value loss on investment properties *(Note 7)*	(544)
At 31st March 2009	**2,692**

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 was revalued at 31st March 2009 on the basis of a valuation carried out on that date by BMI Appraisals Limited, an independent qualified professional valuer not connected with the Group. BMI Appraisals 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 in the same locations and conditions.

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.

17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2009	2008
	US$'000	*US$'000*
The Group's prepaid lease payments on land use rights comprise:		
Leasehold land in Mainland China held under medium-term leases	**1,151**	1,185
Analysed for reporting purposes as:		
Non-current assets	**1,117**	1,151
Current assets	**34**	34
	1,151	1,185

17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS *(Continued)*

As at 31st March 2009, the Group had not yet obtained the title of certain of its land use rights with an aggregate carrying values of US$67,000 (2008: US$69,000). The directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group.

18. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments comprise:

	2009	2008
	US$'000	*US$'000*
Non-current		
Unlisted debt securities outside Hong Kong, at amortised cost	**444**	444

Unlisted debt securities comprise floating rate notes denominated in United States dollars and earn interest with reference to 3-month London Interbank Offered Rate. They will be matured in 2021.

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009	2008
	US$'000	*US$'000*
Non-current		
Listed equity securities in Hong Kong	**—**	247

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

20. INVENTORIES

	2009 US$'000	2008 US$'000
Raw materials	**1,937**	7,798
Work-in-progress	**240**	1,958
Finished goods	**930**	4,645
	3,107	14,401

For the year ended 31st March 2008, the Group had written back of allowance for inventories of US$93,000 relating to those inventories that were subsequently sold during that year.

21. TRADE AND BILLS RECEIVABLES

	2009 US$'000	2008 US$'000
Trade and bills receivables	**3,240**	11,412
Less: Allowance for bad and doubtful debts	**—**	(30)
	3,240	11,382

The Group allows an average credit period of 30 to 90 days to its trade customers and the ageing analysis of trade and bills receivables net of allowance for bad and doubtful debts at the reporting date is as follows:

	2009 US$'000	2008 US$'000
Within 30 days	**1,141**	4,673
31-60 days	**1,623**	5,571
61-90 days	**473**	1,075
Over 90 days	**3**	63
	3,240	11,382

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures.

21. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately US$77,000 (2008: US$654,000) which are past due as at the reporting date for which the Group has not provided for impairment loss as the sales are made with the creditworthy customers and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired:

	2009 ***US$'000***	2008 *US$'000*
31 days to 90 days	**74**	591
Over 90 days	**3**	63
	77	654

Movements in the allowance for bad and doubtful debts during the year are as follows:

	2009 ***US$'000***	2008 *US$'000*
Balance at beginning of year	**30**	—
Allowance recognised on receivables	**—**	30
Receivables written off during the year as uncollectible	**(30)**	—
Balance at end of year	**—**	30

As at 31st March 2008, included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of approximately US$30,000 (2009: Nil) which were due to long outstanding. The Group does not hold any collateral over these balances.

22. DEPOSIT FOR ACQUISITION OF LAND USE RIGHTS

Deposit of US$252,000 (2008: US$109,000) was paid for the acquisition of land use rights in Mainland China. Details of the capital commitment are set out in note 27.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash and bank balances carry interest at prevailing market rates from 0.05% to 0.36% (2008: 0.05% to 1.50%) and short-term bank deposits of fixed interest rates ranging from 0.05% to 4.66% (2008: 0.08% to 5.55%) with an original maturity of three months or less.

23. BANK BALANCES AND CASH *(Continued)*

Included in the bank balances and cash of the Group are Renminbi bank deposits and cash in Mainland China of approximately US$13,094,000 (2008: US$8,631,000). The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

24. TRADE PAYABLES

At 31st March 2009, the ageing analysis of trade payables is as follows:

	2009	2008
	US$'000	*US$'000*
Within 30 days	**289**	3,996
31-60 days	**283**	2,030
61-90 days	**136**	607
Over 90 days	**192**	853
	900	7,486

The average credit period on purchases of goods ranging from 14 days to 90 days.

25. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Par value of shares	**Number of ordinary shares**	**Value**
	HK$		*US$'000*
Authorised:			
At 1st April 2007, 31st March 2008, 1st April 2008 and 31st March 2009	0.01 each	36,000,000,000	46,452
Issued and fully paid:			
At 1st April 2007, 31st March 2008, 1st April 2008 and 31st March 2009	0.01 each	340,616,934	440

25. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options

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.

26. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

At 31st March 2009, the Group had no commitment under operating leases. At 31st March 2008, the Group had commitments for future minimum lease payments for its factory and staff quarters under non-cancellable operating leases which fall due within one year amounting to approximately US$106,000.

(b) The Group as lessor

Property rental income earned during the year was approximately US$454,000 (2008: US$418,000). The properties are expected to generate rental yields of 17% (2008: 13%) on an ongoing basis. The properties held for rental purposes have committed tenant until 31st December 2010.

At 31st March 2009, the Group had contracted with tenants for the following future minimum lease payments:

	2009	2008
	US$'000	*US$'000*
Within one year	**455**	445
In the second to fifth year inclusive	**341**	74
	796	519

27. CAPITAL COMMITMENT

Capital commitment contracted but not provided for in respect of:

	2009	2008
	US$'000	*US$'000*
Acquisition of land use rights	**927**	1,070

28. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the year are disclosed in notes 11(b) and (c).

29. SUMMARISED BALANCE SHEET OF THE COMPANY

	2009 *US$'000*	2008 *US$'000*
Non-current assets		
Plant and equipment	—	7
Investments in subsidiaries	**46,743**	46,672
	46,743	46,679
Current assets		
Deposits and prepayments	**2**	6
Bank balances and cash	**144**	126
	146	132
Current liability		
Accruals and other payables	**(167)**	(152)
Net current liabilities	**(21)**	(20)
Total assets less current liabilities	**46,722**	46,659
Capital and reserves		
Share capital	**440**	440
Reserves	**46,282**	46,219
	46,722	46,659

30. EVENT AFTER BALANCE SHEET DATE

On 6th May 2009, the Company published an announcement regarding the cessation of manufacturing OEM footwear products for the Group's largest customer. The amount of turnover attributable to such major customer represented 64% of the Group's total turnover of footwear products for the year ended 31st March 2009. As such, the Group's turnover for the year ending 31st March 2010 will be materially and adversely affected by the reduction of the OEM footwear orders from its major customer.

31. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st March 2009 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]
China Compass Investments Limited	British Virgin Islands/Hong Kong	Investment holding	1,000 ordinary shares of US$1 each	100%[1]
Kong Tai Shoes Manufacturing Company Limited	Hong Kong/ Mainland China	Investment holding	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/ Mainland 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%
Kenmate Industrial Limited	Hong Kong/ Mainland China	Inactive	1,000 ordinary shares of HK$1 each and 8,000,000 non-voting deferred shares of HK$1 each	100%
China Global International Holdings Limited	Hong Kong	Investment holding	100 ordinary shares of HK$1 each	100%
Dongguan Hung Yip Shoes Manufacturing Co. Ltd.	Mainland China	Manufacture of footwear	Registered capital of HK$125,480,000	100%
Dongguan Hung Fa Shoes Materials Co. Ltd	Mainland China	Inactive	Registered capital of HK$86,290,000	100%
Hang Tian Sporting Goods (Shenzhen) Co. Ltd.	Mainland China	Inactive	Registered capital of HK$1,000,000	100%

[1] *directly held by the Company*

Notes:

As at 31st March 2009, 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 (2008: 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 2009 or at any time during the year.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31st March				
	2009	2008	2007	2006	2005
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover	**64,275**	94,612	101,578	102,245	112,666
Profit/(loss) before taxation	**3,271**	(4,070)	7,603	5,597	5,929
Taxation	**(3,009)**	—	—	—	—
Profit/(loss) attributable to shareholders	**262**	(4,070)	7,603	5,597	5,929

ASSETS AND LIABILITIES

	As at 31st March				
	2009	2008	2007	2006	2005
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Total assets	**53,133**	61,880	67,794	63,285	60,182
Total liabilities	**(6,411)**	(15,305)	(15,896)	(17,305)	(18,052)
Equity	**46,722**	46,575	51,898	45,980	42,130