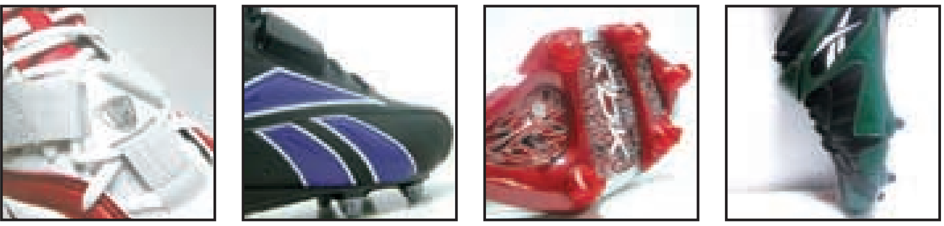

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KTP HOLDINGS LIMITED

Stock Code: 645

Annual Report
2006

CONTENTS

CORPORATE INFORMATION

KTP Holdings Limited

(Incorporated in Bermuda with limited liability)

DIRECTORS

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

* *Independent non-executive directors*

COMPANY SECRETARY

YU Mee See, Maria

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

AUDITORS

ShineWing (HK) CPA Limited

LEGAL ADVISERS

Sidley Austin Brown & Wood
Conyers, Dill & Pearman

PRINCIPAL BANKER

Standard Chartered Bank

CHAIRMAN'S STATEMENT

Without question, this year is another difficult year for KTP. Our sales declined 9% due to anti-dumping disputes over china exports. Nevertheless, this year is also a successful year in our efforts for lean transformation. Our transformation puts the right people in the right place with the right information and resources to achieve our business goals. We are seeing results, particularly in enhancing productivity as well as supply chain efficiency and effectiveness. This transformation process is not unexpected. We have been doing it for years and it is the only way for us to survive in this competitive industry.

Our strategic goal is to create sustained value through operational excellence. To drive for operational excellence, we have focused and will continue to focus on process innovation and improvement as to continuously lower costs, reduce cycle times and improve quality. These include:

- Continue to reinforce our lean manufacturing concept and broaden the application of lean thinking from manufacturing to the entire value stream; and

- Incorporate six sigma concepts into our total quality management program.

Through these actions, we are able to develop a distinctive and sustainable competitive advantage over our competitors. Our vision goes beyond operational excellence. We want to change the competitive landscape by being not just better than our competitors, but by taking the whole KTP to a new level. Doing things we do now and do them better, cheaper and faster will take us so far. But it will not take us far enough. We are going to do new things in new way and we will deliver the next generation KTP.

I would like to take this opportunity to express sincere gratitude to the employees for their valuable contributions and to thank the customers and shareholders of the Company for their continued support.

LEE Chi Keung, Russell
Chairman

Hong Kong, 14th July 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

- Turnover decreased by 9% to US$102 million from last year of US$113 million; and
- Profit attributable to shareholders declined slightly by 5.6% over the previous financial year to US$5.6 million.

BUSINESS REVIEW

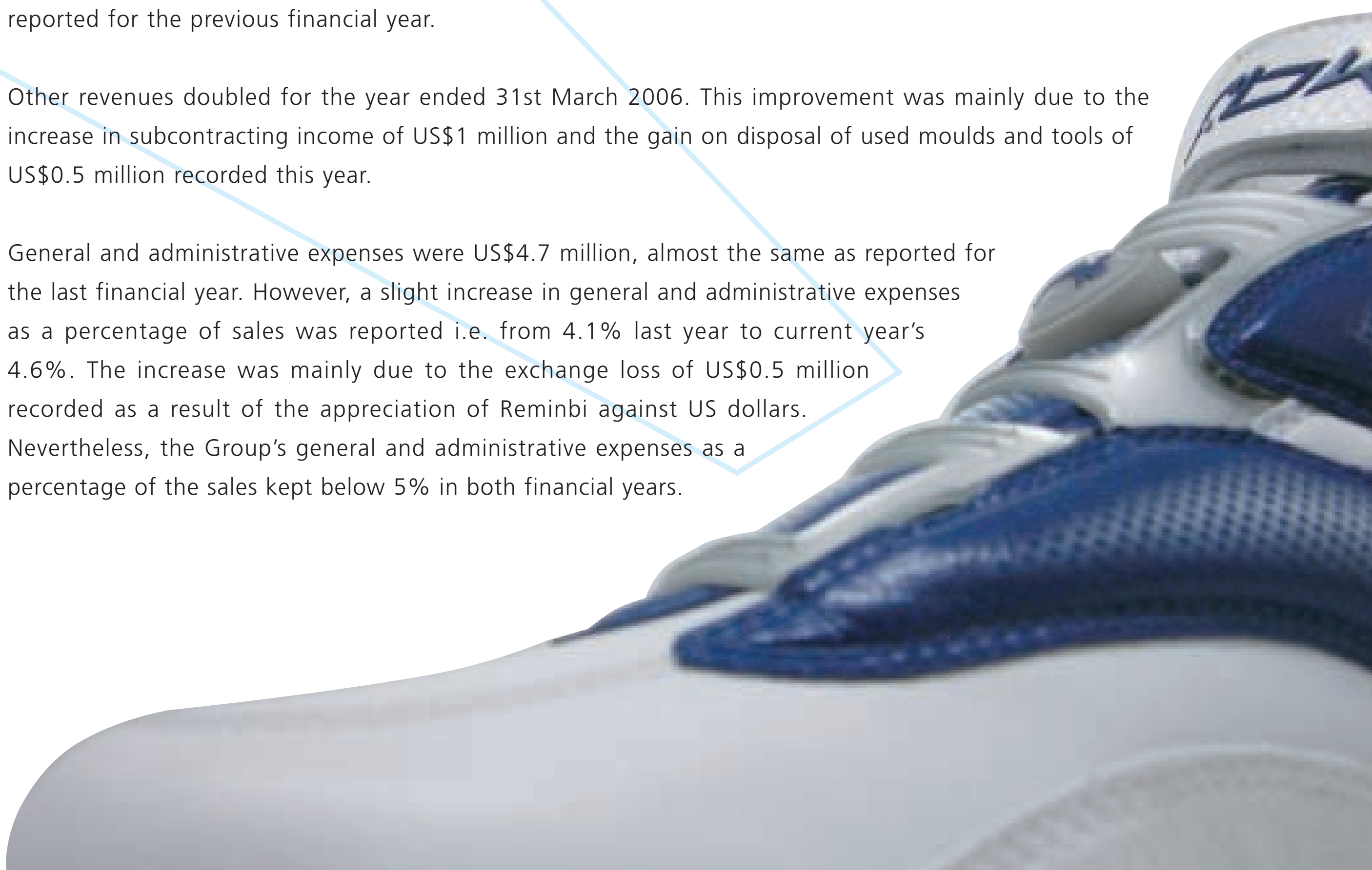
As mentioned in the Group's 2005 interim report, we anticipated a softening of order demand in the second half of financial year 2005/2006. Turnover decreased by 20% for the second half year as compared to the same period last year and resulted in an overall decrease in annual turnover by 9% to US$102 million from last year's US$113 million. Geographically, sales to North America still accounted for the largest portion i.e. 60% of the total sales, and as for the other markets, the sales remained comparatively steady.

Last year was a difficult year with rising production costs. The raising of minimum wage in Mainland China, higher material prices resulting from high oil prices throughout the financial year and the appreciation of Reminbi against US dollar were factors which magnified the cost pressures on the Group.

To strengthen our competitive edge, we continued to improve the Group's operating efficiency. The benefits gained from the implementation of lean operation system greatly improved the Group's production efficiency. It also rationalised the overall materials and components usage and enabled us to have better and effective expense control in the operating facilities. We did well in countering the negative effects of lower turnover and higher operating expenses and the Group's gross margin remained firm at 7.7%, approximately the same as reported for the previous financial year.

Other revenues doubled for the year ended 31st March 2006. This improvement was mainly due to the increase in subcontracting income of US$1 million and the gain on disposal of used moulds and tools of US$0.5 million recorded this year.

General and administrative expenses were US$4.7 million, almost the same as reported for the last financial year. However, a slight increase in general and administrative expenses as a percentage of sales was reported i.e. from 4.1% last year to current year's 4.6%. The increase was mainly due to the exchange loss of US$0.5 million recorded as a result of the appreciation of Reminbi against US dollars. Nevertheless, the Group's general and administrative expenses as a percentage of the sales kept below 5% in both financial years.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to be essentially debt-free with minimal interest expense incurred for small balances of bills payables and bank overdrafts. Profit attributable shareholders decreased by 5.6% to US$5.6 million from last year's US$5.9 million. Excluding the impact of last year's reversal of impairment loss on leasehold buildings of US$1.7 million, the Group reported an increase of profit attributable to shareholders by US$1.4 million to US$5.6 million for the year ended 31st March 2006.

DIVIDENDS

An interim dividend of US$0.4 million (HK$0.01 per ordinary share) for the financial year ended 31st March 2006 was approved and paid during the year and the directors proposed a final dividend of HK$0.03 per ordinary share, totaling US$1.3 million, representing a total dividend of US$1.7 million or HK$0.04 per ordinary share for the financial year ended 31st March 2006. The dividend payout ratio for current year was approximately 31% of the profit attributable to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March 2006, the Group's financial resources and liquidity continued to be healthy. We have focused our management effort to reduce operating expenses and maximize cash flow. The Group's cash flow remained strong with a total of US$9 million net cash generated from operating activities in the year.

The reported cash and bank balances were US$20 million, as compared to US$13 million as at 31st March 2005. Included in the bank balances and cash of the Group were Renminbi deposits and cash of approximately US$5.4 million (31st March 2005: US$2.7 million) kept in Mainland China. Renminbi is not a freely convertible currency. The Group had no bank borrowings except for a small balance of bills payable of US$0.1 million (31st March 2005: US$0.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables as at 31st March 2006 decreased by 15% over the last years' balance to US$13.1 million, which was in line with the decrease in sales for the second half of the financial year. The average turnover days for both years were around 50 days. The Group maintains tight control on its credit and collection policies and we have not experienced any significant bad debts in the past.

Inventories also decreased by 5% to US$14.5 million as compared to US$15.2 million reported last year while the average turnover days remained healthy at around 55 days for these two financial years.

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 present plans for material capital expenditures and investments and we believe that the Group has adequate financial resources to meet its funding requirement for our future business development.

PROSPECT

In light of the rising pressure on production costs and it is likely that these trends will continue in the near future, we are cautiously optimistic about the financial results for the coming year.

REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited consolidated financial statements for the year ended 31st March 2006.

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 28 to the consolidated financial statements.

An analysis of the Group's performance by geographical segments is set out in note 7 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 21.

The directors have declared an interim dividend of HK$0.01 per ordinary share, totalling US$437,000 and were paid on 20th January 2006.

The directors recommend the payment of a final dividend of HK$0.03 per ordinary share, totalling US$1,310,000 for the year ended 31st March 2006.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 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 2006 amounted to US$49,808,000 (2005: US$61,710,000).

Details of the movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 24.

REPORT OF THE DIRECTORS

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 56.

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 were:

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

* *Independent non-executive directors*

In accordance with the Bye-laws of the Company, Ms. YU Mee See, Maria and Mr. LEE Siu Leung 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.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

LEE Chi Keung, Russell, aged 49, is the chairman of the Company and chief executive officer of the Group. He is responsible for the Group's overall strategic planning as well as sales and marketing. He holds a bachelor of arts degree in economics and accounting from the University of Newcastle upon Tyne, the United Kingdom. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in 1993.

YU Mee See, Maria, aged 46, 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 42, is an independent non-executive director of the Company. He is a practising solicitor and a partner in Iu Lai & Li Solicitors & Notaries, a Hong Kong law firm of solicitors and notaries. He has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong. He joined the Company in 1999.

LEE Siu Leung, aged 40, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Company in 2000.

YUEN Sik Ming, aged 49, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Society of Registered Financial Planners. He joined the Company in 2004.

Senior Management

YEH Tsun Hsing, Steve, aged 50, is the vice-president of the Group. He has over 20 years of operational and management experience in footwear industry and he oversees the Group's production operations. He joined the Group in 1990.

WHOA Ru Yeong, Skeat, aged 52, is the vice-president of the Group. He has extensive experience in product development and management of footwear manufacturing business and he is in charge of the research and development operation of the Group. He joined the Group in 1993.

REPORT OF THE DIRECTORS

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 2006, 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")	191,809,484 *(Note)*	56.31%
YU Mee See, Maria ("Ms. Yu")	191,809,484 *(Note)*	56.31%

Note:

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

Save as disclosed above and in the section "Directors' rights to acquire shares" below, none of the directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31st March 2006.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Share Options Scheme

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

Share Options Scheme *(continued)*

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 2006, the register of substantial shareholders maintained under 336 of the SFO showed that the Company had been notified of the following substantial shareholders' interests who are interested in 5% or more of the issued share capital of the Company. These interests have been disclosed above in respect of the directors.

Long position in shares of the Company

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

Note:

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

MANAGEMENT CONTRACTS

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

— the largest supplier	5%
— five largest suppliers combined	18%

Sales

— the largest customer	75%
— five largest customers combined	97%

None of the directors, their associates or any shareholders (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 2006, the Group had a total of 10,000 (2005: 11,000) full time employees (including contracted manufacturing workers) in Hong Kong, Korea and Mainland China. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes, bonus on performance basis and in-house training programmes.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st March 2006.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 15 to 19 to the annual report.

REPORT OF THE DIRECTORS

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years, resigned and Messrs. ShineWing (HK) CPA Limited were appointed as auditors of the Company. A resolution for the re-appointment of Messrs. ShineWing (HK) CPA Limited 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, 14th July 2006

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report in the annual report of the Company for the year ended 31st March 2006.

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 recognize 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 2006, 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 "Re-election 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 page 9.

During the year ended 31st March 2006, 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 director, 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 directors 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.

CORPORATE GOVERNANCE REPORT

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. This deviates 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 established written guidelines regarding the required standards of dealing securities of the Company as reference to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31st March 2006. The Model Code also applies to other specified senior management of the Group.

Board meetings

The Board held four 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	4/4	100%
Ms. YU Mee See, Maria	4/4	100%
Independent non-executive directors		
Mr. NG Wai Hung	2/4	50%
Mr. LEE Siu Leung	3/4	75%
Mr. YUEN Sik Ming	3/4	75%

CORPORATE GOVERNANCE REPORT

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.

Re-election of directors

In accordance with the bye-laws of the Company, Ms. Yu Mee See, Maria and Mr. Lee Siu Leung shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The Company's circular dated 18th July 2006 contained information of the directors standing for re-election.

The chairman of the Board and/or managing director of the Company were/was not subject retirement by rotation in accordance with the relevant provisions of the Bye-laws of the Company. This deviates from Code Provision A.4.2 that specifies every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years. In the spirit of good corporate governance practices, the Board has proposed relevant amendments to be made to the Bye-laws of the Company at the forthcoming annual general meeting.

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

BOARD COMMITTEES

The Company is committed to implement good corporate governance practices and has established three committees that assist the Board in the areas of executive remuneration, nomination and audit. The terms of reference of which describe the authority and duties of these committees were adopted and/or amended to conform with the provisions of the Code.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Remuneration Committee

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. In line of good and fair practice, the committee currently consists of all independent non-executive directors.

Since the remuneration committee has only been established in December last year, no meeting was held during the year ended 31st March 2006. Yet, the remuneration committee considers that the existing employment terms of the executive directors and of the senior management, and the independent non-executive directors are fair and reasonable.

Nomination Committee

The nomination committee was established on December 2005 and is responsible for selecting Board members to maintain the Board's high level of skills and experience as well as ensuring transparency of the selection process. It also has the responsibility to determine what skills, qualities and backgrounds the Board needs to fulfill its responsibilities with a view to diverse representation on the Board. There are four members in the nomination committee and is chaired by the Company's independent non-executive director.

Since the nomination committee has only been established in December last year, no meeting was held during the year ended 31st March 2006. There was no nomination of directors to fill board vacancies in 2006.

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 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 2005 and for the year ended 31st March 2006.

The audit committee endorsed the accounting treatments 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 the Appendix 16 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Audit Committee *(continued)*

The audit committee met three times during the financial year ended 31st March 2006 and the individual attendance of each member is set out below:

Name of Directors	Number of meetings attended	Attendance rate
Mr. NG Wai Hung	2/3	67%
Mr. LEE Siu Leung	3/3	100%
Mr. YUEN Sik Ming	3/3	100%

ACCOUNTABILITY AND INTERNAL CONTROL

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

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Auditor's Report on page 20. For the year ended 31st March 2006, the auditors of the Company only provided audit services to the Company.

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.

The annual general meeting and other general meetings 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 are available to answer questions raised by the shareholders and investors. 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 published in the newspapers on the business day following the general meeting and posted on the website of the Stock Exchange.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors.

AUDITORS' REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, 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 (the "Group") on pages 21 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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 2006 and of the Group's profit and cash flows for the year then ended 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, 14th July 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2006

	Notes	2006 US$'000	2005 US$'000 (Restated)
Turnover	7	**102,245**	112,666
Cost of sales		**(94,366)**	(104,065)
Gross profit		**7,879**	8,601
Other revenues	7	**3,620**	1,607
Distribution costs		**(1,043)**	(1,312)
Administrative expenses		**(4,748)**	(4,669)
Decrease in fair value of investment properties		**(110)**	—
Reversal of impairment loss in respect of leasehold buildings		**—**	1,703
Finance cost	8	**(1)**	(1)
Profit before taxation	9	**5,597**	5,929
Taxation	12	**—**	—
Profit attributable to shareholders		**5,597**	5,929
Dividends	13	**1,747**	1,747
		US	US
Earnings per share — Basic	14	**1.6 cents**	1.7 cents

CONSOLIDATED BALANCE SHEET

As at 31st March 2006

	Notes	2006 US$'000	2005 US$'000 (Restated)
Non-current assets			
Investment properties	15	**4,826**	4,936
Property, plant and equipment	16	**7,687**	9,326
Prepaid lease payments	17	**1,219**	1,253
Available-for-sale investments	18	**—**	—
Investment securities	18	**—**	—
		13,732	15,515
Current assets			
Inventories	19	**14,480**	15,249
Trade and bills receivables	20	**13,175**	15,539
Deposits, prepayments and other receivables	21	**1,370**	1,254
Prepaid lease payments	17	**34**	34
Bank balances and cash	22	**20,494**	12,591
		49,553	44,667
Current liabilities			
Trade and bills payables	23	**9,900**	12,130
Accruals and other payables	24	**7,405**	5,913
Bank overdrafts, unsecured		**—**	9
		17,305	18,052
Net current assets		**32,248**	26,615
Total assets less current liabilities		**45,980**	42,130

CONSOLIDATED BALANCE SHEET

As at 31st March 2006

	Notes	2006 US$'000	2005 US$'000 (Restated)
Capital and reserves			
Share capital	25	**440**	440
Reserves		**44,230**	40,380
Proposed final dividend	13	**1,310**	1,310
Total equity		**45,980**	42,130

The consolidated financial statements on pages 21 to 55 were approved and authorised for issue by the board of directors of the Company on 14th July 2006 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 2006

	Share Capital US$'000	Investment properties revaluation US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1st April 2004	440	—	1,466	32,809	34,715
Surplus on revaluation of investment properties recognised directly in equity	—	3,233	—	—	3,233
Profit for the year	—	—	—	5,929	5,929
Total recognised income for the year	440	3,233	1,466	38,738	43,877
2004 final dividend paid	—	—	—	(1,310)	(1,310)
2005 interim dividend paid	—	—	—	(437)	(437)
At 31st March 2005 and 1st April 2005					
As originally stated	440	3,233	1,466	36,991	42,130
Effect of changes in accounting policies *(Note 3)*	—	(3,233)	—	3,233	—
At 1st April 2005					
As restated	440	—	1,466	40,224	42,130
Profit for the year and total recognised income for the year			—	5,597	5,597
2005 final dividend paid	—	—	—	(1,310)	(1,310)
2006 interim dividend paid	—	—	—	(437)	(437)
At 31st March 2006	**440**	**—**	**1,466**	**44,074**	**45,980**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2006

	2006 US$'000	2005 US$'000 (Restated)
Operating activities		
Profit before taxation	**5,597**	5,929
Finance cost	**1**	1
Interest income	**(494)**	(175)
Decrease in fair value of investment properties	**110**	—
Reversal of impairment loss in respect of leasehold buildings	**—**	(1,703)
Depreciation of property, plant and equipment	**2,083**	2,330
Amortisation of prepaid lease payments	**34**	32
Gain on disposal of property, plant and equipment	**(5)**	—
Operating cash flows before movements in working capital	**7,326**	6,414
Decrease/(increase) in inventories	**769**	(1,093)
Decrease/(increase) in trade and bills receivables	**2,364**	(1,137)
Increase in deposits, prepayments and other receivables	**(116)**	(613)
Decrease in taxation recoverable	**—**	4
(Decrease)/increase in trade and bills payables	**(2,230)**	2,022
Increase in accruals and other payables	**1,492**	24
Cash generated from operations	**9,605**	5,621
Interests paid	**(1)**	(1)
Net cash generated from operating activities	**9,604**	5,620
Investing activities		
Purchase of property, plant and equipment	**(447)**	(1,241)
Proceeds from the disposal of property, plant and equipment	**8**	—
Interest received	**494**	175
Net cash generated from/(used in) investing activities	**55**	(1,066)
Financing activities		
2005/2004 final dividend paid	**(1,310)**	(1,310)
2006/2005 interim dividend paid	**(437)**	(437)
Net cash used in financing activities	**(1,747)**	(1,747)
Net increase in cash and cash equivalents	**7,912**	2,807
Cash and cash equivalents at 1st April	**12,582**	9,775
Cash and cash equivalents at 31st March	**20,494**	12,582
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**20,494**	12,591
Bank overdrafts	**—**	(9)
	20,494	12,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

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

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

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

(a) Financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Financial instruments *(continued)*

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

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

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

Financial assets and financial liabilities other than debt and equity securities

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

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

(a) Financial instruments *(continued)*

Derecognition

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

(b) Owner-occupied leasehold interest in land

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

(c) Investment properties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st June 2006.
3 Effective for annual periods beginning on or after 1st May 2006.
4 Effective for annual periods beginning on or after 1st March 2006.
5 Effective for annual periods beginning on or after 1st January 2006.
6 Effective for annual periods beginning on or after 1st December 2005.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(a) Basis of consolidation

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

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

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

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

(b) Revenue recognition

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

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

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

Subcontracting income is recognised when service is rendered.

(c) Property, plant and equipment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(d) Investment properties

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

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

(e) Impairment

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

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

(f) Inventories

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

(g) Financial instruments

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

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(g) Financial instruments *(continued)*

Financial assets

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

Loans and receivables

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

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

Available-for-sale investments

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

4. *SIGNIFICANT ACCOUNTING POLICIES* *(continued)*

(g) Financial instruments *(continued)*

Financial assets *(continued)*

Available-for-sale investments (continued)

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Derecognition

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

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(g) Financial instruments *(continued)*

Derecognition *(continued)*

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

(h) Leases

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

The Group as lessor

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

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

The Group as lessee

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(i) Foreign currencies

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

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

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

(j) Borrowing costs

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

(k) Retirement benefits costs

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

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(l) Taxation

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

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

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

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

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

(m) Contingent liabilities and contingent assets

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

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(m) Contingent liabilities and contingent assets *(continued)*

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

(n) Segment reporting

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

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

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

5. *KEY SOURCE OF ESTIMATION OF UNCERTAINTY*

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

(a) Depreciation of property, plant and equipment

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

(b) Inventory valuation method

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

6. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

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

(a) Currency risk

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

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

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

(b) Credit risk

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

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

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

(c) Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER, REVENUES AND SEGMENT INFORMATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE COST

	2006	2005
	US$'000	*US$'000*
Interest on bank overdrafts	**1**	1

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

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

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

Note:

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

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

Note: (continued)

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

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

2006

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

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

(a) Directors' emoluments *(continued)*

2005

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

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

(b) Senior management's emoluments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TAXATION

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

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

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

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

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

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

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

12. TAXATION *(continued)*

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

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

13. DIVIDENDS

	2006	2005
	US$'000	*US$'000*
Interim dividend, paid of HK$0.01 (2005: HK$0.01) per ordinary share	**437**	437
Final dividend, proposed of HK$0.03 (2005: HK$0.03) per ordinary share *(Note)*	**1,310**	1,310
	1,747	1,747

Note:

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

14. EARNINGS PER SHARE

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INVESTMENT PROPERTIES

	US$'000
Fair value	
At 1st April 2004	—
Reversal of impairment loss	1,703
Surplus arising on revaluation	3,233
At 31st March 2005 and 1st April 2005	4,936
Decrease in fair value recognised in the consolidated income statement	(110)
At 31st March 2006	**4,826**

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

17. PREPAID LEASE PAYMENTS

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

18. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

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

Available-for-sale investments/investment securities comprise:

	2006 **US$'000**	2005 *US$'000*
Unlisted equity securities outside Hong Kong	**1,718**	1,718
Less: Impairment loss recognised	**(1,718)**	(1,718)
	—	—

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

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

19. INVENTORIES

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

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

20. TRADE AND BILLS RECEIVABLES

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

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

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

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. BANK BALANCES AND CASH

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

23. TRADE AND BILLS PAYABLES

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

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

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

24. ACCRUALS AND OTHER PAYABLES

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

25. SHARE CAPITAL

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

26. COMMITMENTS

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

	2006	2005
	US$'000	*US$'000*
Contracted but not provided for	**—**	9

(b) **Commitments under operating leases**

The Group as a lessee

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

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

Note:

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

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

The Group as a lessor

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SUMMARISED BALANCE SHEET OF THE COMPANY

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

28. PRINCIPAL SUBSIDIARIES

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

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

28. PRINCIPAL SUBSIDIARIES *(continued)*

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

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

* *directly held by the Company*

Note:

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

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

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

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

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31st March				
	2006	2005	2004	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover	**102,245**	112,666	116,300	115,219	92,119
Profit before taxation	**5,597**	5,929	5,263	6,937	3,030
Taxation	**—**	—	—	—	(7)
Profit attributable to shareholders	**5,597**	5,929	5,263	6,937	3,023

ASSETS AND LIABILITIES

	As at 31st March				
	2006	2005	2004	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Total assets	**63,285**	60,182	50,909	49,991	40,751
Total liabilities	**(17,305)**	(18,052)	(16,194)	(18,783)	(14,721)
Equity	**45,980**	42,130	34,715	31,208	26,030