



KTP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)



Interim Report 2003



INTERIM RESULTS

The board of directors (the “Board”) of KTP Holdings Limited (the “Company”) is pleased to present the Interim Report and condensed accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th September 2003, and the consolidated balance sheet as at 30th September 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 16 of this report.

BUSINESS REVIEW AND PROSPECT

For the six months ended 30th September 2003, the Group’s turnover was US\$64.6 million, an increase of 23% from US\$52.5 million over the same period last year. Profit attributable to shareholders grew 6% to approximately US\$3.6 million and the basic earnings per share for the period under review was US\$0.011.

Our improved performance demonstrates our strength in the marketplace during a most challenging period (i.e. the SARS outbreak this year in Mainland China, Hong Kong and other countries) and reflects the benefit of our stringent cost containment measures even with continued investment in research and development.

We continue to reap the benefits of our “Value Creation” Strategy, which enables our customers to realize rapid & measurable returns on their products investments while maintaining our superior product and service quality. Our outstanding performance has once again been recognized by our largest customer-Reebok by presenting us with the “Best Factory Award” for two consecutive years 2001 & 2002.

Despite the increase in revenue, the Group's gross profit margin decreased slightly from 11% to 10% due mainly to the increase in the price of raw materials, especially the petrochemical products used in our sole manufacturing business. Net profit margin remained at approximately 6% for both periods as the lower gross margin was mitigated by reduced general and administrative expenses, which has dropped by 1% as a percentage of sales from 6% to 5% of sales as compared with the same period last year.

We are cautiously optimistic about the financial results for the next half year. In addition to further our stringent cost control, we will invest in our efforts to optimize our overall production efficiency and thus improve profitability and generate better returns to our shareholders.

FINANCIAL AND LIQUIDITY POSITION

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As at 30th September 2003, the Group continued to maintain a strong financial position with bank balances and cash of US\$12.3 million, as compared to US\$4.9 million as at 31st March 2003. Included in the bank balances and cash of the Group were Renminbi deposits and cash of approximately US\$0.6 million (31st March 2003: US\$0.3 million) kept in Mainland China. Renminbi is not a freely convertible currency.

The Group's current ratio and the total liabilities to shareholders' fund ratio improved considerably from 2.0 and 60.2% respectively as at 31st March 2003 to 2.7 and 38.9%. Like the past, the Group is essentially debt free except for a bank overdraft of approximately US\$0.2 million (31st March 2003: US\$0.1 million) and bills payable of US\$0.05 million (31st March 2003: US\$0.3 million) as at 30th September 2003.

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

RISK OF CURRENCY FLUCTUATION

The Group does not have significant exposure to foreign exchange fluctuations as most of its assets, receipts and payments are either in US dollars, Hong Kong dollars and Reminibi.

EMPLOYEES

At 30th September 2003, the Group had approximately 70 (2002: 90) staff stationed in Hong Kong, Taiwan and Mainland China as well as approximately 11,000 (2002: 11,000) workers in Mainland China. In addition to salaries, the Group provides certain benefits including a discretionary bonus programme, a provident fund scheme as well as an in-house training programme for its employees.

Performance of staff is appraised annually to provide a base for the review of the remuneration package.

INTERIM DIVIDEND

The Board has resolved on 18th December 2003 to declare an interim dividend of HK\$0.01 per ordinary share for the year ending 31st March 2004. The interim dividend will be payable on 16th January 2004 to shareholders whose names appear on the register of members of the Company on 9th January 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 7th January 2004 to Friday, 9th January 2004, both days inclusive, during which period no transfers of shares will be registered. In order to qualify for entitlement of the interim dividend declared, the shareholders should lodge all completed transfer forms accompanied by the relevant share certificate with the Company's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 6th January 2004.

DIRECTORS' INTEREST

As at 30 September 2003, the interests of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in shares of the Company

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Name of directors	Number of shares held		Percentage of issued share capital
	Corporate Interests	Family interests	
Lee Chi Keung, Russell ("Mr. Lee")	191,809,484 (Note)	—	56.31%
Yu Mee See, Maria	—	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 Mee See, Maria, the wife of Mr. Lee is deemed to be interested in these shares.

DIRECTORS' INTEREST (CONTINUED)

Share options

The Company has on 30th August 2002, adopted a share option scheme (the "Scheme") whereby, the directors may, 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 Group

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

Save as disclosed above, as at 30th September 2003, none of the directors or chief executives 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 and none of the directors, (including their spouses and children under the age of 18) had been granted any right to subscribe for the equity and debt securities of the Company or any of its associated corporation, or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2003, 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 shares held Corporate Interests	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%

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th September 2003. Neither the Company nor any of its subsidiaries has purchased or sold any shares of the Company during the six months ended 30th September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period for the six months ended 30th September 2003 except that, the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-Laws.

AUDIT COMMITTEE

The audit committee, comprising two independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including the review of the Interim Accounts.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2003

		Unaudited	
		Six months ended	
		30th September	
		2003	2002
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	3	64,601	52,544
Cost of sales		<u>(58,329)</u>	<u>(46,716)</u>
Gross profit		6,272	5,828
Other revenues		676	869
Administrative expenses		<u>(3,328)</u>	<u>(3,286)</u>
Operating profit before finance cost	4	3,620	3,411
Finance cost		<u>(2)</u>	<u>(1)</u>
Profit before taxation		3,618	3,410
Taxation	5	<u>—</u>	<u>—</u>
Profit attributable to shareholders		<u>3,618</u>	<u>3,410</u>
Dividend	6	<u>437</u>	<u>440</u>
Earnings per share			
— Basic	7	<u>1.1 US cents</u>	<u>1.0 US cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2003

		Unaudited 30th September 2003 US\$'000	Audited 31st March 2003 US\$'000
Non-current assets			
Fixed assets	8	<u>11,596</u>	<u>11,760</u>
Current assets			
Inventories		9,878	16,205
Accounts receivable and deposits	9	14,503	16,443
Bills receivable		84	640
Taxation recoverable		4	4
Bank balances & cash		<u>12,312</u>	<u>4,939</u>
		<u>36,781</u>	<u>38,231</u>
Current liabilities			
Accounts payable and accruals	10	13,336	18,317
Bills payable		48	340
Bank overdrafts, unsecured		<u>167</u>	<u>126</u>
		<u>13,551</u>	<u>18,783</u>
Net current assets		<u>23,230</u>	<u>19,448</u>
Total assets less current liabilities		<u>34,826</u>	<u>31,208</u>
Financed by:			
Share capital	11	440	440
Reserves		<u>34,386</u>	<u>30,768</u>
Shareholders' funds		<u>34,826</u>	<u>31,208</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2003

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	US\$'000	US\$'000
Net cash from operating activities	8,208	1,287
Net cash used in investing activities	(876)	(427)
Net cash used in financing activities	—	(1,176)
Increase / (Decrease) in cash and cash equivalents	7,332	(316)
Cash and cash equivalents at 1st April	4,813	4,185
Cash and cash equivalents at 30th September	12,145	3,869
Analysis of balances of cash and cash equivalents		
Bank balances and cash	12,312	4,022
Bank overdrafts	(167)	(153)
	12,145	3,869

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2003

	Unaudited			
	Share capital	Contributed surplus	Retained profits	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1st April 2002	440	1,466	24,124	26,030
Profit for the period	—	—	3,410	3,410
2001/02 final dividend, paid	—	—	(1,319)	(1,319)
At 30th September 2002	440	1,466	26,215	28,121
Profit for the period	—	—	3,527	3,527
2002/03 interim dividend, paid	—	—	(440)	(440)
At 31st March 2003	440	1,466	29,302	31,208
Profit for the period	—	—	3,618	3,618
At 30th September 2003	<u>440</u>	<u>1,466</u>	<u>32,920</u>	<u>34,826</u>

NOTES TO THE INTERIM ACCOUNTS

1. Change in reporting currency

With effect from 1st April 2003, the Group has changed its reporting currency from Hong Kong Dollar to US Dollar as most of the Group's transactions are conducted and denominated in US Dollars. The comparative figures in these accounts have been translated from Hong Kong Dollar to US Dollar using the exchange rates ruling at 31st March 2002 and 31st March 2003.

2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim accounts ("Interim Accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Listing Rules.

The Interim Accounts should be read in conjunction with the annual report of the Company for the year ended 31st March 2003.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has changed of its accounting policies following its adoption of SSAP 12 "Income Taxes" (revised) which is applicable and effective for accounting periods commencing on or after 1st January 2003.

There is no material impact to the financial results and the financial position of the Group by the adoption of the revised SSAP mentioned above.

Certain comparative figures have been reclassified to conform with current period's presentation.

3. Segment information

The Group is principally engaged in the manufacture of athletic and sports leisure footwear products.

The Group is currently marketing to four major geographical segments based on the location of customers. An analysis of the Group's revenue and results for the period by geographical segment based on the country in which the customer is located is as follows:—

	Unaudited			
	Six months ended 30th September			
	2003	2003	2002	2002
	Segment		Segment	
	Turnover	Result	Turnover	Result
	US\$'000	US\$'000	US\$'000	US\$'000
North America	46,896	2,947	32,129	2,154
Europe	7,400	465	10,031	672
Asia (other than PRC)	1,859	117	2,887	343
PRC	7,268	457	5,627	227
Others	1,178	73	1,870	126
		4,059		3,522
Unallocated costs		(439)		(111)
Operating profit before finance cost		3,620		3,411
Finance cost		(2)		(1)
Profit attributable to shareholders		3,618		3,410
Total	64,601		52,544	

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.

4. Operating profit before finance cost

Operating profit before finance cost is arrived at after charging /(crediting) the following:

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	US\$'000	US\$'000
Staff costs	9,289	8,804
Depreciation	1,060	1,288
Operating lease rentals for land and buildings	276	274
Exchange loss / (gain), net	14	(19)
Interest income	(19)	(9)
Rental income	(251)	(249)

5. Taxation

No provision for Hong Kong profits tax and overseas taxation has been made in the accounts as the Group has no assessable profits for the period (2002: Nil).

6. Dividend

	Unaudited Six months ended 30th September	
	2003 US\$'000	2002 US\$'000
Interim, proposed of HK\$0.01 (2002: HK\$0.01) per ordinary share (<i>Note</i>)	<u>437</u>	<u>440</u>

Note:

At a board meeting held on 18th December 2003, the directors declared an interim dividend of HK\$0.01 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2004.

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US\$3,618,000 (2002: US\$3,410,000) and weighted average of 340,616,934 (2002: 340,616,934) shares in issue during the period.

No fully dilutive earnings per share is shown as the Company has no potential dilutive ordinary shares as at 30th September 2003 and 2002.

8. Fixed Assets

	Unaudited 30th September 2003 US\$'000	Audited 31st March 2003 US\$'000
Opening net book value	11,760	12,954
Additions	896	1,708
Depreciation	(1,060)	(2,497)
Disposals	—	(18)
Provision for impairment loss	—	(387)
Closing net book value	<u>11,596</u>	<u>11,760</u>

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9. Accounts receivable and deposits

	Unaudited 30th September 2003 <i>US\$'000</i>	Audited 31st March 2003 <i>US\$'000</i>
Accounts receivable (<i>Note</i>)	13,925	15,946
Prepayments and deposits	578	497
	<u>14,503</u>	<u>16,443</u>

Note:

The Group allows an average credit period of 30 to 60 days to its trade customers and the ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) is as follows:

	Unaudited 30th September 2003 <i>US\$'000</i>	Audited 31st March 2003 <i>US\$'000</i>
Current to 30 days	9,598	8,547
31-60 days	3,876	6,844
Over 60 days	451	555
	<u>13,925</u>	<u>15,946</u>

10. Accounts payable and accruals

	Unaudited 30th September 2003 <i>US\$'000</i>	Audited 31st March 2003 <i>US\$'000</i>
Accounts payable (<i>Note</i>)	8,629	12,326
Accruals	4,707	5,991
	<u>13,336</u>	<u>18,317</u>

10. Accounts payable and accruals (continued)

Note:

The ageing analysis of accounts payable is as follows:

	Unaudited 30th September 2003 US\$'000	Audited 31st March 2003 US\$'000
Current to 30 days	6,018	4,256
31-60 days	161	5,274
Over 60 days	2,450	2,796
	8,629	12,326

11. Share Capital

	Par value of shares HK\$	Number of ordinary shares	Value US\$'000
Authorised:			
At 1st April 2003 and 30th September 2003	0.01 each	36,000,000,000	46,452
Issued and fully paid:			
At 1st April 2003 and 30th September 2003	0.01 each	340,616,934	440

12. Contingent Liabilities

	Unaudited 30th September 2003 US\$'000	Company Audited 31st March 2003 US\$'000
Guarantees executed in favour of banks to secure banking and loan facilities granted to subsidiaries	881	3,423

The Group did not have any contingent liabilities as at 30th September 2003 and 31st March 2003.

13. Commitments under operating leases

At 30th September 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30th September 2003 US\$'000	Audited 31st March 2003 US\$'000
Not later than one year (<i>Note</i>)	460	458
Later than one year and not later than five years (<i>Note</i>)	1,820	1,820
Later than five years (<i>Note</i>)	11,996	12,012
	14,276	14,290

Note:

Included in the balances were operating lease commitments in respect of rentals payable to Bao An Xian provisional government for the use of factory premises by the Group 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 5%, are as follows:

	Unaudited 30th September 2003 US\$'000	Audited 31st March 2003 US\$'000
Not later than one year	370	369
Later than one year and not later than five years	1,482	1,474
Later than five years	11,985	11,972
	13,837	13,815

The Company did not have any commitments as at 30th September 2003 and 31st March 2003.

On behalf of the Board
Lee Chi Keung, Russell
Chairman

18th December 2003