# KTP HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 645)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

### INTERIM RESULTS

The board of directors (the "Board") of KTP Holdings Limited (the "Company") is pleased to present the interim report and unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2008 together with the comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th September 2008*

| | | Six months ended 30th September | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **Unaudited** | Unaudited |
| | *Notes* | ***US$'000*** | *US$'000* |
| Turnover | *2* | **40,426** | 55,955 |
| Cost of sales | | **(37,522)** | (51,074) |
| Gross profit | | **2,904** | 4,881 |
| Other income | *2* | **1,663** | 1,352 |
| Distribution costs | | **(445)** | (637) |
| Administrative expenses | | **(2,489)** | (2,217) |
| Other gains, net | *3* | **5,774** | 93 |
| Restructuring provision and assets impairment | *4* | **(2,921)** | — |
| Finance costs | | **—** | — |
| Profit before taxation | *5* | **4,486** | 3,472 |
| Taxation | *6* | **—** | — |
| Profit attributable to shareholders | | **4,486** | 3,472 |
| Interim dividend | *7* | **—** | — |
| | | **US cents** | US cents |
| Earnings per share — Basic | *8* | **1.32** | 1.02 |

## CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30th September 2008*

| | Notes | 30th September 2008 Unaudited US$'000 | 31st March 2008 Audited US$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,925** | 7,722 |
| Investment properties | | **3,236** | 3,236 |
| Prepaid lease payments on land use rights | | **1,134** | 1,151 |
| Deposits for acquisition of land use rights | | **251** | 109 |
| Held-to-maturity investments | | **444** | 444 |
| Available-for-sale investments | | **70** | 247 |
| | | **10,060** | 12,909 |
| **Current assets** | | | |
| Inventories | | **9,765** | 14,401 |
| Trade and bills receivables | 9 | **8,540** | 11,382 |
| Deposits, prepayments and other receivables | | **2,532** | 2,271 |
| Prepaid lease payments on land use rights | | **34** | 34 |
| Bank balances and cash | | **31,682** | 20,883 |
| | | **52,553** | 48,971 |
| **Current liabilities** | | | |
| Trade and bills payables | 10 | **5,579** | 7,486 |
| Accruals and other payables | | **6,077** | 7,819 |
| | | **11,656** | 15,305 |
| **Net current assets** | | **40,897** | 33,666 |
| **Total assets less current liabilities** | | **50,957** | 46,575 |
| **Capital and reserves** | | | |
| Share capital | | **440** | 440 |
| Reserves | | **50,517** | 46,135 |
| **Total equity** | | **50,957** | 46,575 |

*Notes:*

1. **Basis of Preparation and Principal Accounting Policies**

The unaudited condensed consolidated interim financial statements for the six months ended 30th September 2008 ("Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and interpretations and the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements have been prepared under the historical cost convention except for investment properties and certain financial instruments, which are measured at fair values as appropriate.

The accounting policies used in the Interim Financial Statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31st March 2008. These Interim Financial Statements should be read in conjunction with the Group's annual financial statements for the year ended 31st March 2008.

In the current period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA that are relevant to the Group and effective for accounting periods beginning on or after 1st April 2008.

| | |
|---|---|
| HK (IFRIC) — Int 12 | Service Concession Arrangements |
| HK (IFRIC) — Int 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of these new interpretations had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets[4] |
| HKFRS 2 (Amendment) | Share-based Payment - Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) — Int 13 | Customers Loyalty Programmes[4] |
| HK(IFRIC) — Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation[3] |
| HK(IFRIC) — Int 17 | Distribution of Non-cash Assets to Owners[2] |

[1] Effective for annual periods beginning on or after 1st January 2009
[2] Effective for annual periods beginning on or after 1st July 2009
[3] Effective for annual periods beginning on or after 1st October 2008
[4] Effective for annual periods beginning on or after 1st July 2008

## 2. Turnover, Revenues and Segment Information

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

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| | **Unaudited** | Unaudited |
| | ***US$'000*** | *US$'000* |
| **Turnover** | | |
| Sales of goods | **40,426** | 55,955 |
| **Other income** | | |
| Bank interest income | **309** | 444 |
| Interest income from unlisted debt securities | **9** | 9 |
| Gross rental income from investment properties | **226** | 205 |
| Gain on disposal of used property, plant and equipment | **28** | 8 |
| Dividend income from listed securities | **4** | — |
| Subcontracting income | **—** | 20 |
| Net exchange gain | **142** | — |
| Others | **945** | 666 |
| | **1,663** | 1,352 |
| **Total revenues** | **42,089** | 57,307 |

An analysis of the Group's results by geographical segment based on the location of its customers is as follows:

| | Six months ended 30th September | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **Turnover** | **Segment results** | Turnover | Segment results |
| | **Unaudited** | **Unaudited** | Unaudited | Unaudited |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| North America | **22,066** | **1,041** | 34,603 | 2,228 |
| Europe | **3,690** | **174** | 7,719 | 497 |
| Asia (other than Mainland China) | **1,382** | **65** | 2,967 | 191 |
| Mainland China | **12,542** | **592** | 9,812 | 632 |
| Others | **746** | **35** | 854 | 55 |
| | | **1,907** | | 3,603 |
| Unallocated costs | | **(274)** | | (224) |
| Other gains, net | | **5,774** | | 93 |
| Restructuring provision and assets impairment | | **(2,921)** | | — |
| Profit before taxation | | **4,486** | | 3,472 |
| Taxation | | **—** | | — |
| Profit attributable to shareholders | | **4,486** | | 3,472 |
| Total | **40,426** | | 55,955 | |

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.

## 3. Other Gains, Net

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| | **Unaudited** | Unaudited |
| | ***US$'000*** | *US$'000* |
| Compensation income *(note)* | **5,714** | — |
| Fair value change on derivative financial instruments | **—** | (27) |
| Gain on disposal of available-for-sale investments | **60** | 120 |
| | **5,774** | 93 |

*Note:*

As disclosed in the Company's 2008 annual report, Kong Tai Shoes Manufacturing Company Limited ("KTS"), a wholly-owned subsidiary of the Company entered into compensation agreements with both 深圳市華特實業有限公司 and 深圳市龍崗區龍崗鎮南聯村瑞合經濟合作社 (collectively known as the "Landlords") on 14th April 2008, in respect of the early termination of the lease agreements (the "Leases") by the Landlords for the use of factory premises by KTS located at Longgang, Shenzhen, Mainland China.

KTS was entitled to a lump sum compensation of RMB40,000,000, equivalent to US$5,714,000 for the early termination of Leases and the closure of factory, of which RMB38,000,000, equivalent to US$5,429,000 had been received by KTS up to the date of this report. In consideration of the receipt of the above lump sum, KTS undertook not to make further claim or demand against the Landlords and to hand back in an orderly manner the said factory not later than May 2008. The said factory was closed and returned to the Landlords and the Leases were terminated on 31st May 2008.

## 4. Restructuring Provision and Assets Impairment

The Group continued the restructuring plan during the period as disclosed in the Company's 2008 annual report.

In light of the continued impact of higher RMB and rising labour costs as well as the low utilisation of the Group's manufacturing capacity, the Board approved a facility rationalisation program during the period to further consolidate the Group's production for greater efficiency and lower costs. The consolidation will be undertaken on a staged basis until the end of 2009 which expects to incur write-downs on redundant property, plant and equipment and employees redundancy expenses.

## 5. Profit Before Taxation

Profit before taxation has been arrived at after charging:

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| | **Unaudited** | Unaudited |
| | ***US$'000*** | *US$'000* |
| Amortisation of prepaid lease payments on land use rights | **17** | 17 |
| Depreciation of property, plant and equipment | **695** | 867 |
| Cost of inventories recognised as expenses | **37,522** | 51,074 |
| Operating lease rentals in respect of land and buildings | **117** | 278 |
| Staff costs (including directors' emoluments) | **8,821** | 10,988 |
| Net exchange loss | **—** | 51 |

## 6. Taxation

No provision for Hong Kong Profits Tax has been made in the Interim Financial Statements as the Group has no assessable profits for both periods. No provision for Mainland China Enterprise Income Tax as there is no assessable profits for both periods for the subsidiaries operated in Mainland China.

No provision for overseas taxation has been made in the Interim Financial Statements as the Group has no assessable profits for both periods.

There was no other material unprovided deferred taxation for both periods.

From February 2005 to April 2008, Hong Kong Inland Revenue Department ("IRD") had issued additional profits tax assessments, in aggregate, of approximately HK$15,603,000 (equivalent to approximately US$2,000,000) relating to the years of assessment 1998/99, 1999/2000, 2000/2001 and 2001/2002, that is, for the financial years ended 31st March 1999, 2000, 2001 and 2002, respectively, against a wholly-owned subsidiary of the Company and in addition, on 18th February 2008, a tax audit was commenced by the IRD on the said subsidiary in respect of the year of assessment 2006/2007.

The Group had lodged objections with the IRD against these additional assessments and tax reserve certificates in the above amounts had been purchased by the Group pending the outcome of the tax audit and the objections.

The Board is of the opinion that the payment of additional taxes is not probable and therefore, no provision for any liability from these assessments that may result has been made.

## 7. Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2008 (2007: Nil).

## 8. Earnings Per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$4,486,000 (2007: US$3,472,000) and the weighted average number of 340,616,934 (2007: 340,616,934) ordinary shares in issue during the period.

No fully diluted earnings per share has been presented as the Company has no potential dilutive ordinary shares during the six months period ended 30th September 2008 and 2007.

## 9. Trade and Bills Receivables

The Group allows an average credit period of 30 to 90 days to its trade customers. An ageing analysis of trade and bills receivables is as follows:

| | **30th September 2008 Unaudited** ***US$'000*** | 31st March 2008 Audited *US$'000* |
|---|---|---|
| Current to 30 days | **4,680** | 4,673 |
| 31-60 days | **2,456** | 5,571 |
| 61-90 days | **740** | 702 |
| Over 90 days | **664** | 436 |
| | **8,540** | 11,382 |

## 10. Trade and Bills Payables

At 30th September 2008, an ageing analysis of trade and bills payables is as follows:

| | **30th September 2008 Unaudited** ***US$'000*** | 31st March 2008 Audited *US$'000* |
|---|---|---|
| Current to 30 days | **2,547** | 3,996 |
| 31-60 days | **1,777** | 2,030 |
| 61-90 days | **564** | 607 |
| Over 90 days | **691** | 853 |
| | **5,579** | 7,486 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospect

Turnover for the six months ended 30th September 2008 decreased by 27.8% to US$$40.4 million. Profit attributable to shareholders amounted to US$4.5 million, as compared to US$3.5 million reported in 2007. This profit figure is after taking into account of the following:

1. Compensation income of RMB40 million, equivalent to US$5.7 million as compensation to the early termination of leases and closure of the Group's factory located in Longgang, Shenzhen, Mainland China ("Longgang Factory") by the landlords as mentioned in the Company's 2008 annual report ; and

2. Restructuring charges of US$2.9 million relating to the Group's decision to further consolidate the Group's operation.

Excluding these effects, profit attributable to shareholders declined to US$1.7 million for the six months ended 30th September 2008.

The Group's manufacturing operation experienced difficult business conditions during the period. Our major customer has been seriously affected by the slowdown of global economy. Geographically, orders from the major markets, USA and Europe, declined significantly by 36% and 52% respectively as compared to the same period last year. On the cost side, the increased cost of manufacturing in China due to higher direct labour costs and the appreciation of the Renminbi, combined with the effect of business interruption caused by the closure of Longgang Factory during the period put mounting pressure on the Group's profitability. As a consequence, the Group's gross margin decreased from 8.7% to 7.2% for the current period.

Other income increased US$0.3 million or 23% to US$1.7 million, due primarily to the increase in the exchange gain arising from the appreciation of Renminbi during the first half of year 2008/2009 and the disposal of scrap materials following the closure of Longgang Factory.

General and administrative expenses as a percentage of sales, increased by 2.2% to 6.2% over the same period last year mainly due to the one-off PRC government charges for the cessation of business operation of Longgang Factory.

It is going to be a tough year for sports footwear industry, dampened by a sluggish global economy and severe price competition. We are expecting a further decline in revenues for the second half of year 2008/09 and we are responding to the sharpest contraction of demand by tightening cost controls, rationalising operations and raising productivity to ensure our business remains competitive in this difficult operating environment.

**Interim Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30th September 2008 (2007: Nil).

**Financial and Liquidity Resources**

As usual, the Group's financial resources and liquidity continue to be strong and it is substantially debt free, with cash and bank balances at 30th September 2008 amounting to US$31.7 million as compared to US$20.9 million as at 31st March 2008.

Trade receivables as at 30th September 2008 was US$8.5 million, as compared to US$11.4 million as at 31st March 2008. The average turnover days for both periods 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. The level of inventories reduced from US$14.4 million to US$9.8 million at 30th September 2008 as lower sales was expected for second half of year 2008/09.

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

**Capital Expenditures and Commitments**

For the six months ended 30th September 2008, the Group had capital commitments amounting to US$9 million relating to the acquisition of land use rights in Huizhou, Mainland China and capital contributions to an investment in a wholly-foreign owned enterprise in Huizhou, Mainland China.

**Risk of Currency Fluctuations**

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

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

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

## EMPLOYEES AND REMUNERATION POLICY

As at 30th September 2008, the Group had a total of approximately 4,500 (2007: 8,800) full time employees (include contracted manufacturing workers) in Hong Kong, Korea and Mainland China. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes and bonus on performance basis.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions ("Code Provisions") of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th September 2008, except for the following deviations:

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lee Chi Keung, Russell is currently the Chairman & Chief Executive Officer of the Company. The Board is of the view that it is in the best interests of the Group to have an executive Chairman who is more knowledgeable about the Group's business and it would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with a substantial number thereof being non-executive directors of the Company.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company's non-executive directors were not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

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

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding the directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company have confirmed their compliance with the required standard set out in Appendix 10 of the Listing Rules throughout the period.

## AUDIT COMMITTEE

The audit committee comprises all the three independent non-executive directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Interim Financial Statements for the six months ended 30th September 2008.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published at the website of the Company at www.ktpgroup.com and the websites of irasia.com at www.irasia.com/listco/hk/ktp/index.htm and The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The interim report of the Company for the six months ended 30th September 2008 containing all the information required by Appendix 16 of the Listing Rules will be despatched to shareholders and available on the same websites in due course.

By Order of the Board
**Lee Chi Keung, Russell**
*Chairman*

Hong Kong, 22nd December 2008

*As at the date of this notice the Board of the Company comprises Mr. LEE Chi Keung, Russell (Chairman) and Ms. YU Mee See, Maria as executive Directors and Mr. NG Wai Hung and Mr. LEE Siu Leung, Mr. YUEN Sik Ming as independent non-executive Directors.*