Letter to Shareholders

The board of directors of KTP Holdings Limited (the "Company") is pleased to present the financial results of the Company and its subsidiaries (the "Group") for the year ended 31st March 2001.

FINANCIAL HIGHLIGHTS

- Turnover remained stable with a modest increase of 0.5% to HK$967.1 million from last year of HK$961.8 million;
- Operating profit before interest and tax increased by 169% to HK$50.8 million from last year of HK$18.9 million; and
- Profit attributable to shareholders turned around from last year's loss of HK$38 million to profit of HK$50.5 million.

BUSINESS REVIEW

As an original equipment manufacturer of footwear products, turnover of the Group mainly represents sale of branded athletic shoes, which accounted for 91% of the Group's turnover by value for the year ended 31st March 2001 with the balance of approximately 9% in respect of sale of soles, moulds, and other subcontracting services required for various types of footwear.

The Group's sales are highly dependent on the conditions of the global footwear markets and the performance of our customers. For the year ended 31st March 2001, turnover of the Group amounted to HK$967.1 million, showing a modest increase of HK$5 million or 0.5% from HK$961.8 million reported last year. North America remained as the largest market for athletic shoes and it accounted for 57% of the Group's sales.

The global footwear markets had shown a slight recovery in the past two years. The Group had benefited from the improved market conditions and reported an increase in turnover of HK$45.8 million or 10% for the first half of fiscal 2000/2001 and operating profit increased from HK$13.8 million to HK$28 million as compared with the same period last year.

In spite of the encouraging results for the first half of fiscal 2000/2001, the performance for the second half year was affected by the weakening US economy. Our customers were more prudent on placing orders as the demand of the consumers might be weakened. The accelerated competition in the footwear manufacturing industry had exacerbated the situation which resulted in decreasing price and thereby affected the turnover of the Group.

Indeed, the operating environment of the Group has been difficult since the outbreak of the Asian financial turmoil in 1997. Decreasing sales, increasing margin pressures as well as low utilization of manufacturing facilities are factors affecting the operating performance of the Group in recent years. With that in view, we have promptly adjusted our business strategies and actively consolidated our business in the past few years. We focus on improving efficiency and strengthening the Group's research and development in order to improve its product mix. In addition, we have either closed or scaled down the underperforming factories in China and Indonesia. The implementation of the cost control program further reduces the operating costs of the Group. All these measures enable the Group to reallocate its resources to strengthen its profit-making operations and improve its operational efficiency and profitability.

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We are pleased to report that the Group has achieved an initial success in increasing its profitability. The operating profit before interest and tax increased from HK$18.9 million or 2% of sales last year to HK$50.8 million or 5.3% of sales this year. Excluding the impact of HK$61 million provision made for the Group's remaining investments in the two Indonesian subsidiaries last year, profit attributable to shareholders has increased by HK$27.4 million to HK$50.5 million for the year ended 31st March 2001.

INDONESIAN SUBSIDIARIES

The Group's two Indonesian subsidiaries, namely PT Kong Tai Indonesia Shoes Manufacturing ("KTI") and PT Worldbest Raya Industry ("WRI") have ceased operation since October 1999 and January 1998 respectively. We had made full provision against the Group's total investment exposure in these two subsidiaries in prior years and we do not expect any significant liabilities will arise in respect of the Group's investments in these subsidiaries for which additional provision would be required.

In connection with the closure of KTI, KTI received labour redundancy claims of approximately US$3.5 million (approximately HK$27.1 million). The directors of KTI considered the amount of the claims unjustifiable as it represented twice the amount stipulated under the provisions of the Indonesian manpower regulations. Appeal was filed by KTI to seek to reduce the amount of compensation, however, it was rejected by the High Administrative Court in Indonesia.

On 25th May 2000, the assets of KTI were confiscated and put on public auction by the District Court of Bekasi Regency ("Bekasi Court") for the settlement of redundancy claimed by the workers. The redundancy claims were fully settled by the proceeds from the auction sale.

We considered the action of Bekasi Court unjustifiable. In order to preserve the interest of the Company in KTI, we immediately instructed the Company's Indonesian lawyers to file an appeal to the Supreme Court in Indonesia and to commence the liquidation proceedings for KTI. However, both actions failed due to the objection of the minority shareholder of KTI.

As mentioned in prior years' annual report, we have an intention to wind up or dispose of these two companies when suitable opportunities arise, however, given the current political situation in Indonesia and the lack of cooperation of the minority shareholder of both KTI and WRI, we are not optimistic that these two companies can be successfully dissolved or sold in a short period of time and we consider the full provision made against the Group's total investment exposure in prior years is appropriate to reflect the uncertainty surrounding the recovery of the Group's investments in these two subsidiaries.

FINANCIAL AND LIQUIDITY POSITION

As in the past, the Group generally finances its business needs with cash generated from its operations and trade finance facilities provided by its principal bankers.

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The Group has always placed strong emphasis on inventory control. It is the Group's policy to purchase raw materials for confirmed customer orders and based on production schedule of such orders. This ordering pattern enables the Group to maintain a healthy inventory position. In addition, the Group implements tight credit control policy and a credit period of 30 to 60 days is allowed for our customers. The Group has not experienced any significant bad debts in the past.

As at 31st March 2001, the Group had net current assets of HK$202.5 million, with cash on hand and at banks amounting to approximately HK$109.5 million. The Group's financial and liquidity position remained healthy with current ratio of 2.6 times and the total liabilities to shareholders' fund ratio of 38% as at 31st March 2001. The Group had no bank borrowings except for a bank overdraft of approximately HK$1 million and bills payable of HK$5.1 million at the balance sheet date.

We believe that the Group's cash flows are sufficient to finance its operations.

RISK OF CURRENCY FLUCTUATION

Most of the Group's sales and purchases are transacted in US dollars. We believe that as long as the current pegging of the Hong Kong dollar to the US dollar subsists, the Group's exposure to foreign exchange rate fluctuations will remain minimal.

PROSPECT

In view of an impending downturn of the US economy, we are not optimistic about the business environment of year 2001/2002. We have already noticed a decrease in the orders placed by our existing customers for the first quarter of year 2001/2002 as compared with the same period last year. Under these circumstances, we will continue to improve the Group's production efficiency through tightening cost control and streamlining workflow of our operations.

The footwear industry is known to be subject to the rapid changes of consumer preferences and technology development. As a footwear manufacturer, the Group must respond quickly to the market trends and assist its customers to develop new products for the consumers. With that in view, the Group will continue to step up its efforts in research and development in order to enhance its core competitiveness.

We believe that the Group's success will be attributable very much to its ability in providing high quality and reliable products that meet the market demands and the requirements of our customers.

APPRECIATION

We would like to take this opporunity to thank our employees for their loyalty and dedication to the Group and our customers, suppliers and business associates for their continued confidence and supports of the Group.

On behalf of the Board
Chiu Ruey Lin
Co-chairman

Hong Kong, 25th July 2001