

There can be no doubt that KTP, along with other athletic footwear manufacturers in China, is facing many significant challenges.

Substantial increase in the raw materials price, overall price deflation on footwear products and slow growth in mature market force us to operate on extremely thin margins. Customers are demanding more made-to-order products delivered with even-shorter time frames.

In spite of the difficult operating environment, KTP has a solid year in 2004/2005. We managed to maintain our revenues, earnings and dividends. Our cashflow is strong and we are essentially debt free, with net cash balance over US\$12 million.

KTP is well equipped to move forward. We have greatly improved productivity as well as supply chain efficiency and effectiveness. We are proactive and innovative throughout the process from product design to materials selection. We have also accelerated our "Value Creation" & "Quick Response" development programs, moving towards a more integrated framework for our whole product design, development and manufacturing process. We challenge ourselves to set the pace of change rather than to react to it.

We are also streamlining KTP even further. Even with the substantial increase in wages and significant shortage in labor and frequent cut-off of power in China, KTP can still achieve a competitive cost structure in this intensified industry competition.

The path going forward will not be easy, we are listening and learning – and changing – in ways that we believe will add value to both our customers and shareholders.

I would like to take this opportunity to thank all the KTP's employees for their hard works and commitments, without which, we can never walk through this difficult path.

Lee Chi Keung, Russell

Chairman

Hong Kong, 27th July 2005

