

# CHAIRMAN'S STATEMENT

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## RESULTS

On behalf of the board of the directors (the "Board") of Kiu Hung International Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present the annual report and the audited consolidated results of the Group for the financial year ended 31 December 2000.

The Group's audited turnover and net profit attributable to shareholders for the year ended 31 December 2000 (the "Year") were approximately HK\$139 million and HK\$41 million, respectively, representing increases of approximately 20% and 58%, respectively over the corresponding period in 1999. Earnings per share for the Year stood at 25.1 HK cents.

## BUSINESS REVIEW

This has been an extraordinary year for the Group. The Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001. The net proceeds of the new issue and placing of shares of the Company amounted to approximately HK\$43 million, which will be used to finance the Group's capital expenditure and strengthen its capital base and financial position.

The Group is principally engaged in the design, manufacture and sale of plush stuffed toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KMATES. In respect of the Year, the Group recorded a turnover of approximately HK\$139 million. Revenue from plush stuffed toys and decorative gift items has growth by approximately 19% and 21%, respectively, over the previous year. The Group delivered operating profit of approximately HK\$53 million for the Year, 49% up from 1999. Net profit attributable to shareholders for the Year was approximately HK\$41 million, 58% higher than that of the corresponding period of 1999. The pleasing increase in profitability was attributable to the increase in sales of products with add-on features and functions which commanded higher profit margins. In addition, the Group's vertical integration into the manufacture of certain parts and components for its electronic plush stuffed toys instead of sourcing such components from external suppliers resulted in a reduction of production costs and enhanced production efficiency. By means of our management expertise, thorough understanding of the market and industry, we effectively established a solid production and marketing system.

Our management recognise the importance of quality control. At present, the Group has a quality control and assurance team of over 70 staff members. The Group has adopted continual improvement strategies which require each production process to follow the total quality management guidelines. In addition to the ISO 9002 certificates obtained by the Group in 1997, the Group was awarded the ISO 9001 certificates by the Hong Kong Quality Assurance Agency in November 2000. These certificates are an accreditation of the Group's product quality and quality management system.

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## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the People's Republic of China (the "PRC"). During the Year, the cash generating ability of the Group remained strong, with approximately HK\$46 million being generated from operating activities. The Group recorded a net cash inflow of approximately HK\$27 million, which raised the total cash and cash equivalents to approximately HK\$24 million as at the balance sheet date. The Group's cash and cash equivalents are mostly held in Hong Kong dollars and Renminbi.

The Group's bank borrowings are made in Hong Kong dollars and Renminbi, approximately 73% of such borrowings bear interest at fixed lending rate. At 31 December 2000, the Group's bank borrowings amounted to approximately HK\$36 million, out of which approximately 51% is repayable within one year. The gearing ratio of the Group at 31 December 2000 calculated as a ratio of total debts to total assets is approximately 20%. Net current assets at 31 December 2000 was approximately HK\$26 million and current ratio was maintained at a healthy level of approximately 171%. As the Group's transactions are mostly settled by Renminbi, Hong Kong dollars or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary.

At 31 December 2000, the Group's investment properties and certain of the Group's leasehold land and buildings with carrying values of approximately HK\$980,000 and HK\$95,536,000, respectively, were pledged to secure general banking facilities granted to the Group.

With the above resources and the proceeds from the new issue and placing of shares of the Company, the Group has adequate capital resources to finance its business expansion program.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2000, the Group has a total of 1,721 employees of which 23 are based in Hong Kong and 1,698 in the PRC. The Group always maintains good working relations with its employees and has committed itself to staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

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## FUTURE PLANS AND PROSPECTS

The continual improvement in global living standard, the increasing affluence of the PRC economy and the growth in the consumption power of the public are expected to result in an increase in demand for the Group's products. The Group will continue to develop new series of products with add-on features and functions to enhance its sales and market positions in the decorative gift and toy industries.

To increase its marketing efforts and broaden its customer base, the Group will expand its sales team in both North America and Europe. To capture the rapid growth of consumer purchasing power in the PRC and to expand the market shares, the Group will expand its distribution channels in the PRC market and plan to establish retail outlets in major cities in the PRC, including Beijing, Fuzhou and Shanghai.

Moving forward, the Group will proactively follow a strategy of sustained profitability and competitiveness. The Group will continue to promote the value of its products through effective advertisements. We have highly qualified and experienced management team, possessing in-depth knowledge and expertise in the decorative gift and toy industries to enable the Group to operate effectively and efficiently. Our flexible and versatile production facilities and engineering capability allow us to respond quickly to changing market demand. With the management's committed effort, we are optimistic that the goals of the Group will be attained.

## USE OF PROCEEDS

The shares of the Company was listed on the Stock Exchange on 22 January 2001. After deduction of necessary expenses, the net proceeds amounted to approximately HK\$43 million.

As part of our plan to broaden the customer base, to expand the distribution channels in the PRC market, to increase the production capacity and to develop new models and new products, the Group has entered into an agreement in March 2001 for the acquisition of the entire interest of a Fuzhou-based company which is principally engaged in the manufacture and trading of toys and models at a consideration of approximately HK\$6.5 million. The acquisition is expected to be completed in due course upon obtaining approvals from the relevant PRC government authorities.

In order to cope with the expected increase in demand for the Group's products in the near future, the Group will expand its existing production facilities by acquiring additional machinery and equipment and the aggregate costs will amount to approximately HK\$5 million. In addition, the Group plans to construct two blocks of industrial buildings with a total gross floor area of approximately 6,060 square metres which plans to be completed in 2002. The construction costs are estimated to be approximately HK\$5 million. The costs for the installation of the production lines and the construction of the new production complex will be financed by the proceeds of the new issue and placing of shares of the Company.

The Group has placed the unused balance of the net proceeds with licensed banks and financial institutions in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserving the best interests to the Group and the shareholders.

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## APPRECIATION

I would like to take this opportunity to express our most sincere thanks and gratitude to our shareholders and various parties for their continuing support, and our directors and staff members for their dedication and hard-work.

**HUI Kee Fung**

*Chairman*

Hong Kong

25 April 2001