

Chairman's Statement

I announce the audited consolidated financial results of Kwong Hing International Holdings (Bermuda) Limited (the "Company") and its subsidiaries and associate (the "Group") for the year ended 31st March, 2001.

RESULTS

For the year ended 31st March, 2001, turnover was approximately HK\$371,177,000 which represents a growth of approximately 8% over that of the previous year. Net loss attributable to shareholders was approximately HK\$16,083,000 as compared with a net profit of approximately HK\$6,379,000 last year. This was mainly attributable to the impairment provision of losses for approximately HK\$22,686,000 which were made and shared by the Group.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2001 (2000: Nil).

BUSINESS REVIEW

Sales of knitted fabrics and dyed yarns account for more than 90% of the Group's turnover for the year ended 31st March, 2001, substantially all of which are made to customers based in Hong Kong.

For the year ended 31st March, 2001, despite the difficult business environment resulted from extreme competition and increase of production cost, the Group recorded a turnover of approximately HK\$371,177,000 and gross profit of approximately HK\$35,926,000 in comparison to approximately HK\$343,664,000 and HK\$29,839,000 respectively last year. The improvement was mainly attributed to the expansion of Group's diversified production capacity which enables the Group to provide excellent services as well as high quality products to its customers. Moreover, the Group has continuously controlled its production costs and overhead expenses which improved its gross margin despite price reduction in the Group's products due to severe competition in the market. As a result, the profit from operation before provision of bad and doubt debt of HK\$6,870,000 was approximately HK\$13,418,000 representing a growth of approximately 79% over that of last year. Moreover, the finance cost was also reduced to HK\$347,000 from HK\$1,691,000 of previous year. However, due to provision for the impairment loss in respect of other securities and share of the loss from an associate and the provision for bad and doubt debt made by the group under the prudent approach adopted by the Board, the Group recorded a net loss of HK\$16,083,000 this year.

Chairman's Statement

During the year, management has focused on controlling its operation cost and satisfactory results have been achieved. Under the extreme competitive environment, the Group could still maintain its production cost and overhead expenses at its normal level, proofing the success of the Group's effective cost management and its competitiveness in the industry.

During the year under review, the Group invested approximately HK\$20,000,000 in property, plant and equipment to upgrade its factory and production facilities as to increase its productivity and to enhance its production quality. These investments and previous capital investments have strengthened Group's competence, as well as its market position, and contributed additional revenues to the Group.

The Group had acquired 7% of shareholding of Victory Tech Investment Limited with an option of acquisition of its further 8% interest within one year commenced from 21st July, 2000, such option was not exercised. Moreover, the Group had also acquired 40% of issued share capital of Global Network Holdings Limited, which in turn hold 8% of shareholding of China Medicine On-line Company Limited. However, worldwide financial market suffered dramatic decline in 2000 leading to a consequence of significant and unfavourable valuation adjustments, especially against high tech investments not limited to internet companies which caused the Group to make provision for impairment loss of HK\$9,409,000 in respect of other securities and have to share the loss of HK\$13,277,000 from an associate which also mainly arisen from the provision for impairment loss for the investment in securities held by the associate.

PROSPECTS

The Group will continuously upgrade and expand its factory and production facilities so as to increase its productivity and to enhance its product quality. These upgrading and expansion will also lower our production cost.

Moreover, the Group will continuously pursue its cautionary credit policy for its customers and continuously improve its product quality, cost and inventory control measures.

Despite the business environment in the coming year is expected to remain highly competitive and challenging, the Board believes that the Group business will be improved in the coming year as the benefit from the enhanced production facilities and the above control measures will continuously contribute to the Group.

Chairman's Statement

Looking forward, the Group will aim to integrate its business to become a total solution provider to create high value-added tailored products and services to the customers, and will also continue to explore any business opportunities as to achieve a better return for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March, 2001, the Group's shareholders' equity amounted to HK\$291,206,000 while total debts amounted to HK\$1,017,000. The ratio of total debts to shareholders' equity is 0.35% while the current ratio is 3.6. Cash on hand was approximately HK\$39,653,000. The Board believes that the Group's sound and healthy financial position will enable the Group to discharge its debts, finance its operation and explore other business development opportunities.

STAFF AND REMUNERATION POLICIES

As at 31st March, 2001, the Group had approximately 800 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management with an appropriate incentive interest in the growth of the Group.

PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,620,000 (2000: HK\$13,848,000) have been pledged to banks as security for general banking facilities granted to the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers amounted to approximately 60% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 17% of the total sales for the year.

Purchases from the five largest suppliers amounted to approximately 29% of the total purchases for the year while total purchases from the largest supplier represented 8% of the total purchases for the year.

Chairman's Statement

To the best knowledge of the Directors, and save as disclosed above, none of the Directors, their associate or any shareholder who owned more than 5% of the Company's share capital had any interest in any of the Group's five largest customers and suppliers during the year.

APPRECIATION

For and on behalf of the Board, I would like to express my sincere thanks to shareholders, my fellow directors, staff, suppliers and customers for their commitment and support to the Group during the year.



Li Man Ching

Chairman

Hong Kong, 27th July, 2001