

CHAIRMAN'S STATEMENT

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 2001.

The Group's audited turnover and net profit attributable to shareholders for the year ended 31 December 2001 (the "Year") were approximately HK\$123 million and HK\$13 million respectively, representing decreases of approximately 12% and 68% respectively over the corresponding period in 2000. Earnings per share for the Year stood at HK3.1 cents. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year, to the shareholders on the register of members as at 28 May 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2002 to 28 May 2002 (both dates inclusive). In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on 21 May 2002.

BUSINESS REVIEW

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 in 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.

During the Year, the Group continues to engage in the design, manufacture and sale of 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\$123 million. Revenue from toys and decorative gift items has declined by approximately 5% and 20%, respectively, over the previous year. The Group delivered operating profit of approximately HK\$20 million for the Year, 63% down from 2000. Net profit attributable to shareholder for the Year was approximately HK\$13 million, 68% lower than that of the corresponding period of 2000.

The year of 2001 was a very challenging year. The decrease in turnover and profitability was a result of the worldwide economic recession led by the United States (the "US") economy. Our customers have become more cautious and conservative in placing orders and competition has become more severe. Sales were further dampened as the 911 incident further affected the US economy. The selling prices of our products were under downward pressure and sales were achieved at the expense of margins. Nevertheless, as the People's Republic of China (the "PRC") economy was basically driven by internal demand, the external adverse impact was reduced and the Group managed to maintain its growth and margin in the PRC market.

During the Year, the Group has obtained the exclusive right to manufacture gifts and toys featuring "La La", the mascot of the 21st Universiade held in Beijing. The products bear the Group's brandname "Kcare" and have received encouraging response from the market. The management believes that the manufacturing and sales of the mascot will enhance the Group's reputation in the PRC toy and gift industry and help promoting the Group's brandname in the market.

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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 acquired the entire interest of Fuzhou Zheng Defu Toys Co., Ltd., which is principally engaged in the manufacturing and trading of toys and model kits, at a consideration of approximately HK\$6.5 million in April 2001. This newly acquired business accounted for approximately 6% of the Group's turnover for the Year. In June 2001, the Group has completed the acquisition of Newgary Development Limited ("Newgary"), a related company in which certain executive directors, beneficial shareholders and a senior management of the Company had beneficial interests, at a consideration of approximately HK\$5 million. The assets of Newgary principally includes a property which is used by the Group as its principal place of business and warehouse in Hong Kong. The acquisition will reduce the future operating costs of the Group.

Our management recognise the importance of quality control. At present, the Group has a quality control and assurance team of over 60 staff members. The Group has adopted continual improvement strategies which require each production process to follow the total quality management guidelines and the Group has obtained the ISO 9001 certificates issued by the Hong Kong Quality Assurance Agency and the British Standards Institution. These certificates are an accreditation to the Group's product quality and quality management system.

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 PRC. During the Year, cash generated across the Group remained strong, with approximately HK\$42 million being generated from operating activities. The Group recorded a net inflow of approximately HK\$19 million, which raised the total cash and cash equivalents to approximately HK\$42 million as at 31 December 2001. 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 84% of such borrowings bear interest at fixed lending rates. At 31 December 2001, the Group's bank and other borrowings amounted to approximately HK\$31 million, out of which approximately 88% is repayable within one year. The gearing ratio of the Group at 31 December 2001 calculated as a ratio of total bank and other borrowings to total assets is approximately 13% (2000: 20%). Net current assets at 31 December 2001 amounted to approximately HK\$30 million and current ratio was maintained at a healthy level of approximately 152%. As the Group's operations are all located in Hong Kong and the PRC, no use of financial instruments for hedging purposes is considered to be necessary.

At 31 December 2001, certain of the Group's investment properties and leasehold land and buildings with carrying values of approximately HK\$980,000 and HK\$1,083,200,000, 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 in the Company, the Group has adequate capital resources to finance its business expansion program.

EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2001, the Group has a total of 1,553 employees of which 28 are based in Hong Kong and 1,525 are based in the PRC. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

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Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus is 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.

PROSPECTS

We believe that the first half of 2002 will continue to be challenging for the toy and gift industries. Nevertheless, the successive rate cut by the US Federal Reserve should bring along positive impact to the US economy and sales to the US market should begin to perk up after the gradual retail stock clearing and the stabilisation of the economy. We are confident and optimistic that sales performance is expected to become more satisfactory in the second half of 2002 and the Group will cautiously monitor the development of the US economy.

With the PRC's successful hosting of the 2008 Olympics, its entry into the World Trade Organisation and the exploration of the western part of the PRC, it is expected that there will be rapid economic development in the PRC economy and the living standard of people in the PRC will be greatly improved. Their purchasing power and willingness to spend will be strengthened significantly, generating greater demand for toys and decorative gift items. Due to the large number of single-child families, many parents are willing to spend on children products. The management is confident about the potential growth of our business in the PRC. To fully exploit such opportunities, the Group has already set up retail outlets in Chengdu and Shanghai, reflecting the importance placed on this market by the Group. To further expand the sales and distribution network of the Group, the Group expects to open more retail and franchise shops in the PRC in the next few years. The management believes that further expansion to the PRC market will hold good premise for the Group's future growth.

Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions to enhance its sales and market positions in the toy and decorative gift industries. To increase its marketing efforts and broaden its customer base, the Group will continue to expand its sales team and distribution channel in North America, Europe and the PRC. In addition, 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 toys industries to enable the Group to operate effectively and efficiently. Our flexible and versatile production facility and engineering capability allow us to respond quickly to changing market demand. With the management's committed effort, we are optimistic on the prospects of the Group.

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-working.

HUI Kee Fung

Chairman

Hong Kong, 23 April 2002.