

## Chairman's Statement

On behalf of the Board of Directors, I hereby present to the shareholders the annual report of Bestway International Holdings Limited (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 March 2002.

### Results

#### Turnover & Profits

The Group's consolidated turnover for the year ended 31 March 2002 was HK\$ 267.8 million, a decrease of about 23% when compared with last year's equivalent of HK\$346.6 million. Net loss attributable to shareholder was HK\$96.2 million (2001: loss of HK\$320.1 million). The basic loss per share was HK6.7 cents (2001: the basic loss per share HK22.5 cents).

#### Dividends

The directors do not recommend the payment of any dividends in respect of the year.

### Business Review

The Group's principal business activities are the manufacture of PVC sheets & PVC floor coverings in the PRC.

On 14 August 2001 and 6 September 2001, the Group entered into sale and purchase agreements for the disposal of its entire interest in Shantou Plastics Decorative Materials Manufacturer Ltd. and Zhanjiang Rich Oceans Plastics Ltd., both were former subsidiaries of the Company established in the PRC, for an aggregate consideration of approximately HK\$9.9 million.

The Group registered an operating loss during the year due to (i) higher interest costs as bank creditors in Hong Kong continued to charge interest at default rates; (ii) a longer than expected period of negotiation on the terms of a debt restructuring; (iii) substantial debt restructuring costs and (iv) reduced turnover as a result of the persistent uncertain market conditions in the U.S.A. During the year, the Group's businesses continued to be adversely affected by its tight liquidity.

#### PVC sheetings

The Group's two factories in Dongguan continued to operate at two-thirds of their capacity as a result of a worsening working capital condition and a softening marketplace for their products. Increased raw material costs, in particular PVC resins and other related fuel oil products, have also hurt gross profit margin.

## Chairman's Statement (cont'd)

### PVC floor coverings

PVC floor coverings are manufactured and sold by our factory in Beijing to our customers in the PRC. Due to intense competition in the domestic market, the gross margin for PVC floor coverings have been further reduced during the year ended 31 March 2002.

The management has been in active negotiations with the Group's bank creditors in Hong Kong during the year with a view to finalising the terms of a debt restructuring deed. In the interim, the Group has the support of its bank creditors in Hong Kong by way of an informal standstill on the repayment of all principal and interest owing to them of approximately HK\$198.3 million at 31 March 2002. On 30 May 2002, the Group successfully entered into a Debt Rescheduling and Restructuring Deed ("DRD") with its bank creditors in Hong Kong, details of which are set out in the Company's published announcement and circular to shareholders dated 31 May 2002 and 5 July 2002 respectively.

### Prospect

The Group is pleased to have reached agreement with its bank creditors in Hong Kong as a major event subsequent to the balance sheet date at 31 March 2002. As said, a DRD was executed amongst the bank creditors in Hong Kong and the Group on 30 May 2002. Proceeding to convene a special general meeting of shareholders to approve the DRD and arrangements to effect a capital reduction and subdivision and to implement an open offer to raise about HK\$31.4 million to repay bank debts under the DRD are currently underway. Barring unforeseen circumstances, the open offer, which is now fully underwritten, as well as all conditions precedent of the DRD, shall be completed by September 2002.

The terms reached in the DRD involved restructuring and rescheduling the Group's bank debts and interest burdens. It is meant to enable the Group to service its bank debts and to repay the outstanding principals in a fashion that is pragmatic and realistic to the Group's cash flow projections. The Group is confident in honouring all the terms and conditions stipulated in the DRD when it shall take full effect in this coming September.

Completing the DRD will take the Group forward into new milestones to rebuild its core business. The primary ramifications are (a) substantially reduced finance costs; (b) supplier and customer renewed confidence; (c) a practical debt service and principal repayment plan; (d) a big booster to employees' morale and (e) a new focus of purpose as all non-core activities are gone and the energy of the senior management can now be unleashed to normal business activities.

Due to continuing difficult market circumstances in the U.S. and severe fluctuation of raw material contract pricing since the beginning of February 2002, production orders, factory utilization and gross profit margins have been fluctuating. The Group is hopeful that this position will stabilise as we move forward with the primary mandate now being to achieve full utilization of capacity, currently at about 50,000 metric tons per annum, through the following measures: (i) to continue to strengthen the service level to the Group's existing network of customers; (ii) to reach out to a broader industrial user base of PVC sheeting products within the PRC and (iii) to commence marketing and selling our products to industrial users overseas. As the Group's selling activities have been predominantly concentrated in (i) above, we are optimistic that the new marketing and selling efforts will create substantial additional order potential.

## Chairman's Statement (cont'd)

The Group does recognize the maturity of its current product range, which is still very much evergreen in nature as mass substitute is not yet in sight. We continue to maintain a leadership position in quality PVC sheeting production within the PRC market. New initiatives will be in place by September 2002 to perpetrate a sustained effort in research and development of (a) new surface treatment technology in higher added-value embossing, printing and laminating to our existing product range and (b) new polymer products suitable for the Group's future development. We envisage being in a position to turning out a new range of polymer sheetings within a span of about 3 years.

The Group has a 50-year long lease from 1992 of about 173,000m<sup>2</sup> of land at Qiaotou, Dongguan. In December 2000, the first phase development of the Dongguan Best Faith facility was completed on a parcel of the lot of about 63,000m<sup>2</sup>. The land reserve here shall provide room for the Group's future capacity expansion.

Given the continuing support of the Group's banks, customers and suppliers, and the shortly coming into effect of the DRD, we are confident that the worst times in the Group's history are now behind us. The Group will continue its austerity and cost reduction program, streamline and strengthen its establishment, and refine its production control. We are proud to announce that the Dongguan Bestway facility was given full accreditation of ISO9001:2000 in June 2002. The Dongguan Best Faith facility also followed its footsteps in attaining the same full accreditation on the date of this Statement. As you are aware, these are the Group's primary production facilities and their respective attainment of the highly acclaimed and internationally recognized quality and production management standards is a testimony of the Group's resilience and of its underlying strength. Despite all the distractions of our now past financial predicament, we are very pleased that our major production units have been holding firm to their positions in delivering the highest quality and efficiency and the promise of a solid foundation for the future.

### Employees

As at 31 March 2002, the Group had approximately 400 full-time employees, of which 23 were based in Hong Kong and the rest were stationed in the PRC. The staff number and their respective duties for both of the years are set out in the following table:

	2002	2001
General Administration & Accounting	40	90
Sales & Marketing	28	58
Product Design & Production Planning	24	26
Material procurement & quality control	50	46
Manufacturing & warehousing	261	550
	<b>403</b>	770

The Group remunerated its employees mainly based on the industry practice and individual's experience and performance. The Directors actively review staffing levels and remuneration package with a view to maintaining a cost-effective structure.

## Chairman's Statement (cont'd)

### Appreciation

Finally, I would like to thank my fellow directors, management team and staff for all their hard work, continued loyalty, efforts as well as dedication to the Group's affairs for the year. On behalf of the Board of Directors, I am pleased to express my sincere gratitude to the customers, suppliers and bankers for their patronage, support and confidence in the Group.

**Tang Kuan Chien**

*Chairman*

Hong Kong

11 July 2002