

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 2002.

The Group's audited turnover and profit attributable to shareholders for the year ended 31 December 2002 (the "Year") were approximately HK\$100 million and HK\$12 million respectively, representing decreases of approximately 18% and 13% respectively over the corresponding period in 2001. Basic earnings per share for the Year was 0.53 HK cent. The Board does not recommend the payment of any final dividend in respect of the Year.

BUSINESS REVIEW AND PROSPECTS

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 brandname KCARE and KITECH. In respect of the Year, the Group recorded a turnover of approximately HK\$100 million. Revenue from toys and decorative gift items has declined by approximately 19% and 17%, respectively, over the previous year. The Group delivered operating profit of approximately HK\$16 million for the Year, 18% down from 2001. Profit attributable to shareholders for the Year was approximately HK\$12 million, 13% lower than that of the corresponding period of 2001.

The year of 2002 was a challenging year for the operations of the Group. Turnover and profitability decreased as our customers are cautious and conservative in placing orders as a result of the "911" Incident, the West Coast Labour Dispute, the global economic recession and the weak consumer confidence. Competition within the industries has also become more severe.

We believe the year of 2003 will be challenging for the toy and gift industries due to the outbreaks of the US-Iraq War and the Atypical Pneumonia. Nevertheless, the Group is cautiously optimistic that the US economy is showing realistic signs of stability. Sales should begin to perk up after the gradual stock clearing and the stabilisation of the global economy.

With the successful hosting of the 2008 Olympics by the People's Republic of China (the "PRC"), its entry into the World Trade Organisation and the exploration of its western part, it is expected that there will be continual development in the PRC economy and the living standard of people in the PRC will be greatly improved. The management is confident about the tremendous potential of our business in the PRC.

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. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC. The Group will explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. We have highly qualified and experienced management team, and we continue to recruit professionals with 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 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.

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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 PRC. During the Year, cash generated across the Group remained strong, with approximately HK\$25 million being generated from operating activities. The Group recorded a net outflow of approximately HK\$5 million during the Year, which reduced the total cash and bank balances to approximately HK\$38 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 78% of such borrowings bear interest at fixed lending rate. At 31 December 2002, the Group's bank and other borrowings amounted to approximately HK\$33 million, out of which approximately 60% is repayable within one year. The gearing ratio of the Group at 31 December 2002 calculated as a ratio of total bank and other borrowings to total assets is approximately 14% (2001:13%). Net current assets at 31 December 2002 was approximately HK\$30 million and current ratio was maintained at a healthy level of approximately 164%. 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 2002, the Group's investment properties and leasehold land and buildings with carrying values of approximately HK\$940,000 and HK\$107,097,000, respectively, were pledged to secure general banking facilities granted to the Group.

EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2002, the Group has a total of 1,231 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and 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.

APPRECIATION

I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, customers, business partners and suppliers, and also for the dedication and hard-working of our directors and staff members.

HUI Kee Fung

Chairman

Hong Kong, 23 April 2003