

## 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 hereby present the annual report and the audited consolidated results of the Group for the financial year ended 31 December 2004.

The Group's audited turnover and loss attributable to shareholders for the year ended 31 December 2004 were approximately HK\$80.7 million (2003: HK\$84.0 million) and HK\$13.3 million (2003: HK\$4.6 million) respectively. Basic loss per share for the year under review was 0.60 HK cent (2003: 0.21 HK cent). The Board does not recommend the payment of any final dividend in respect of the year (2003: Nil).

### BUSINESS REVIEW AND PROSPECTS

During the year under review, 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 KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK\$39.8 million and HK\$40.9 million, respectively (2003: approximately HK\$52.8 million and HK\$31.2 million, respectively), accounting for approximately 49% and 51% of the Group's total turnover, respectively.

The year of 2004 was a difficult year for the operations of the Group. Turnover and profitability decreased as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift market. The surge in raw material costs resulting from the rise in crude oil price and the PRC labour shortage further affected the profitability of the Group. In addition, the Group has made a provision of approximately HK\$3.7 million in connection with the impairment of certain production and distribution rights, which contributed to the overall loss for the year under review.

We believe the year of 2005 will continue to be difficult for the toy and gift industries due to fierce competition, high raw material costs and the PRC labour shortage. 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. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business.

Subsequent to the year under review, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("Sangyang Spandex") on 19 April 2005. As Sangyang Spandex has not commenced any operation, the disposal would have negligible impact on the business operations of the Group. Details of the disposal are set out in the Company's announcement dated 25 April 2005.

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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 under review, cash generated across the Group remained strong, with approximately HK\$12.2 million being generated from operating activities. The Group recorded a net inflow of approximately HK\$7.5 million during the year, which increased the total cash and bank balances to approximately HK\$56.6 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 76% of such borrowings bear interest at fixed lending rate. At 31 December 2004, the Group's bank and other borrowings amounted to approximately HK\$33.1 million, out of which approximately 91% is repayable within one year. The gearing ratio of the Group at 31 December 2004 calculated as a ratio of total bank and other borrowings to total assets is approximately 14% (2003: 14%). Net current assets at 31 December 2004 was approximately HK\$6.6 million and current ratio was at a healthy level of approximately 111%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2004, certain of the Group's leasehold land and buildings with carrying values of approximately HK\$104.5 million, were pledged to secure general banking facilities granted to the Group.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2004, the Group has a total of 1,021 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 in last year.

**HUI Kee Fung**

*Chairman*

Hong Kong, 26 April 2005