

# 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 2005.

The Group's audited turnover and loss attributable to shareholders for the year ended 31 December 2005 were approximately HK\$67.5 million (2004: HK\$80.7 million) and HK\$0.04 million (2004: HK\$11.9 million) respectively. Basic loss per share for the year under review was 0.0019 HK cent (2004: 0.54 HK cent). The Board does not recommend the payment of any final dividend in respect of the year (2004: 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\$31.8 million and HK\$35.7 million, respectively (2004: approximately HK\$39.8 million and HK\$40.9 million, respectively), accounting for approximately 47% and 53% of the Group's total turnover, respectively.

The year of 2005 was challenging for the operations of the Group. Turnover decreased as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift markets. Nevertheless, the Group managed to significantly narrow its net losses from approximately HK\$11.9 million in 2004 to approximately HK\$0.04 million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. During the year, the Group has increased its interest in Miracles For Fun (HK) Limited ("MFF") from 30% to 63%. MFF is principally engaged in the design and sale of a wide range of toys and decorative gift items. We believe that such acquisition will expand the customer base of the Group and provide cross-selling opportunities between the Group and MFF. Details of the acquisition are set out in the Company's announcement and circular dated 30 December 2005 and 13 January 2006, respectively.

During the year, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("SY Spandex"). As SY Spandex had not commenced any operation, the disposal had negligible impact on the business operations of the Group. Details of the disposal are set out in the Company's announcement and circular dated 25 April 2005 and 1 June 2005, respectively.

Looking forward, we are optimistic about the performance of the Group as the global economy continues to flourish. The Group will continue to strengthen its foothold in the toys and gifts business though the development 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 and to 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. With the committed efforts of the staff and management, we are confident and 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 under review, the Group recorded a net cash outflow of approximately HK\$9.2 million, which decreased the total cash and bank balances to approximately HK\$48.0 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 77% of such borrowings bear interest at fixed lending rate. At 31 December 2005, the Group's bank and other borrowings amounted to approximately HK\$32.9 million, out of which approximately 93% is repayable within one year. The gearing ratio of the Group at 31 December 2005 calculated as a ratio of total bank and other borrowings to total assets is approximately 21% (2004: 20%). Net current assets at 31 December 2005 was approximately HK\$28.7 million and current ratio was at a healthy level of approximately 160%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2005, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK\$10.2 million and HK\$9.3 million, respectively, were pledged to secure general banking facilities granted to the Group.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2005, the Group has a total of 1,053 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, 24 April 2006