

Chairman's Statement

Dear Shareholders,

I announce the audited consolidated financial results of Kwong Hing International Holdings (Bermuda) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March, 2006.

RESULTS

For the year ended 31st March, 2006, the Group recorded a turnover of approximately HK\$405,347,000 representing a decrease 23.3% compared to that of last year, and gross profit is only approximately HK\$17,935,000 which represented decrease of approximately 67.1% compared to that of last year. Decrease in turnover is attributable to the disposal of Sweetime Limited and its subsidiary which had a turnover contribution of approximately HK\$69,565,000 to the Group last year. Taking out this factor, the Group's turnover decreased by 11.7%. Moreover, the increase of production costs and keen competition also have narrowed the Group's gross margin 10.3% to 4.4%. As a result, the Group recorded a net loss of approximately HK\$14,662,000 for the year.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31st March, 2006.

BUSINESS REVIEW

The abolishment of quota among the members of WTO since the beginning of 2005 had induced a series of actions in US for the application of re-instate of the quota for certain China textile products, which brought a lot of disputes between US government and Chinese Government. Such uncertainties had delayed the order placement of our ultimate customers, which affected the Group's performance this year, as US provide a major market to the Group's customers. As a result, the turnover of manufacture and sales of knitted fabric and dyed yarns including inter-segment sales was only approximately HK\$395,711,000 representing a decrease of 12.8% as compared to that of last year. Its production cost had been increased sharply because of the increase of the price of dyed material, coal and electricity, and salary and wages in China, which resulted to its operating result of loss of appropriately HK\$14,294,000 this year. Manufacture and sales of garment recorded a loss of HK\$4,693,000 as it is still in the initial stage of establishment.

Chairman's Statement

BUSINESS REVIEW (continued)

During the year, management focused on controlling its operating cost and enhancing its competitive position. Under the extreme competitive environment, the Group managed to control its other production cost and overhead expenses at competitive level. The Group had also continued its prudent and conservative customers' credit policy and monitored closely its inventory level as well as production requirements. These measures also enable the Group to maintain a healthy cash level.

During the year, the Group invested approximately HK\$6,668,000 in property, plant and equipment to upgrade its factory and production facilities as to increase its productivity and to enhance its production quality. Together with the capital investments in previous years, the Group is able to satisfy the increasing demands of its product at better economies of scales.

PROSPECTS

Looking forward, the future of the Group is expected to improve because of the solution of the quota dispute between China and US in November 2005. However, the above other unfavourable factors will continuously affect the Group's performance. The board believed that the business environment in the coming year is expected to be highly competitive and more challenging. The Group will continuously focus in cutting costs, rationalizing its operations, pursuing a cautionary credit policy for its customers and improving its product quality in order to achieve a better return for its shareholders.

In market front, the Group will strive to expand into the Asian and the PRC markets so as to expand the Group's customers base and to reduce the reliance on the US markets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2006, the Group's shareholders' equity amounted to HK\$379,574,000, while total bank indebtedness amounted to approximately HK\$19,686,000, and cash on hand amount to approximately HK\$78,409,000. The Group's bank indebtedness to equity ratio is only 0.05. Current ratio is 5.1. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31st March, 2006, the Group hold a long-term high graded securities investments of approximately HK\$15,600,000 including HK\$7,800,000 of which has been pledged to a bank as security for general banking facilities granted to the Group.

The Groups' assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars, the exchange rate between them are relative stable, and therefore the Group's exposure to currency exchange risk was minimal.

PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's buildings with an aggregate net book value of approximately HK\$2,308,000, held-to-maturity investment of approximately HK\$7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.

STAFF AND REMUNERATION POLICIES

As at 31st March, 2006, the Group had approximately 1,640 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the option holders to participate and contribute the growth of the Group.

Chairman's Statement

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, sales to the five largest customers amounted to approximately 36.1% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 9.6% of the total sales for the year.

Purchases from the five largest suppliers amounted to approximately 50.2% of the total purchases for the year while total purchases from the largest supplier represented approximately 22.9% of the total purchases for the year.

To the best knowledge of the Directors, and save as disclosed above, none of the Directors, their associates or any shareholder who owned more than 5% of the Company's share capital had any interest in any of the Group's five largest customers and suppliers during the year.

APPRECIATION

For and on behalf of the Board, I would like to express my sincere gratitude to our management and staff, as well as our shareholders, customers and suppliers, for their commitment and support extended to the Group in the past year.



Chairman

Hong Kong, 21st July, 2006