

CHAIRMAN'S STATEMENT

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 results of the Group for the financial year ended 31 December 2006.

RESULTS AND DIVIDENDS

For the financial year ended 31 December 2006, the Group was able to turnaround and recorded net profit attributable to shareholders of approximately HK\$1.1 million, equivalent to basic earnings per share of approximately HK0.0382 cent. The Board recommends the payment of a final dividend of HK0.01 cent per ordinary share in respect of the year.

BUSINESS REVIEW

Toys and Gifts

During the year under review, the Group's toys and gifts business continued to be challenging. Nevertheless, the management has striven to boost its turnover by approximately 43% from HK\$67.5 million in 2005 to HK\$96.6 million in 2006 as the Group has intensified its marketing campaign with an aim to broaden its sales channel in North America and Europe. During the year, the Group has secured new orders from a number of prestigious customers. Gross profit margin was also improved as the management has rectified its operational management and increased its production efficiency. In addition, the Group has also developed new products with value-added features to enhance product profitability.

Decorative Flags and Garden Products

In order to increase the variety of our products and to improve our competitiveness in the decorative flags and garden products area, we commenced the distribution of decorative flags and garden products through the "Toland" brand name during the year. In addition, we have established a joint venture in the United States to strengthen the sales and marketing activities and facilitate the research and development functions of our decorative flags and garden products.

Olympic Mascots

In 2006, the Group has been appointed by the Beijing Organizing Committee of the Games of the XXIX Olympiad as an authorised supplier for the toy products of the Beijing 2008 Olympic Mascots. The Group has obtained the license to manufacture different kinds of Olympic related toys including plush toys, plastic toys, inflatable toys and electronic toys. Being the only company that is capable to supply nano-technology plush toys by applying the licensed Swedish Texcote Technology, we have competitive advantage over other mascot toys manufacturers. Our nano-technology mascot toys, with environmental friendly features of water repellence, stain resistance and anti-bacteria, have received encouraging response from our customers.

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Coal Mining

Riding on the stable toys and gifts business, the Group actively seized diversification opportunities to broaden its revenue base. The Group entered into a capital contribution agreement during the year and various acquisition agreements subsequent to year end date which enable the Group to effectively acquire the entire equity interest in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司, "Mingrunfeng"). The acquisition of Mingrunfeng has been approved by the shareholders of the Company at an extraordinary general meeting held on 16 April 2007.

Mingrunfeng owns the exploration license of a coal mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC"). The coal mine has a site area of approximately 24.91 square kilometres which is situated only approximately 30 kilometres away from Huolinguole City and has close proximity to highways and railways. Mingrunfeng has obtained the exploration license, being the legal certificate for the entire exploration right of the coal mine, in April 2007.

According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting"), the coal mine has estimated coal resource of 106 million tones and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. In addition, as the coal mine has no igneous intrusions and little or no structural features, SRK Consulting concluded that there appears to be no issues that may cause significant impact on the mining of the coal mine. The current on site market price for the coal of the coal mine is around Renminbi 160 Yuan per tonne.

PROSPECTS

Looking forward, we believe our newly diversified coal business is important for the Group as it is our first step to tap the energy and natural resources business. The acquisition provides a starting point for the Group to enter into a diversified and high growth development stage. Our future development strategy will be focused on two directions, energy and natural resources business and industrial business. I am confident that continuous economic growth in China will lead to an increasing demand for natural resources and energy. We expect the Mingrunfeng coal project will commence exploitation and make positive contribution to our Group by the end of 2007. Capitalising on a stable and well-established industrial business foundation, we will tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value.

For our toys and gifts business, being a licensed supplier of the Olympic products is an important milestone for the Group. It can be crucial for the future development of our domestic toys and gifts business as we can attract public awareness, raise our corporate image and strengthen our distribution channels in the PRC by selling our products through thousands of franchised outlets scattered in every province of the PRC. We believe mascot toys will be popular for the Beijing 2008 Olympics and will enhance our turnover and profitability.

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For our decorative flags and garden products business, the acquisition of the "Toland" brand name, which is a renowned brand with a long history in the field of decorative flags and garden products in the US, will strengthen our foothold in the decorative flags and garden products business in North America. Since the decorative flags and garden products command a higher profit margin than traditional toys and gifts products, we are confident that our profitability will be further improved in the coming years.

Going forward, the Group will continue to explore other investment opportunities in the energy and natural resources industries with high profitability in order to expand our business scale and scope. With the committed efforts of the staff and management, we are confident in the prospects of the Group.

APPRECIATION

On behalf of the Board, 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 contribution and hard works of our management and staff in last year.

HUI Kee Fung

Chairman

Hong Kong, 27 April 2007