

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I announce the audited consolidated financial results of Kwong Hing International Holdings (Bermuda) Limited (the "Company") and its subsidiaries and associate (the "Group") for the year ended 31st March, 2005.

## **RESULTS**

For the year ended 31st March, the Group recorded a turnover of approximately HK\$528,537,000 representing a slight decrease 2.2% compared to that of last year, and gross profit and net profit are approximately HK\$54,588,000 and approximately HK\$1,300,000 respectively, which represented decrease of approximately 26.6% and approximately 96.1% respectively 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 this year and had a turnover contribution of approximately HK\$125,928,000 to the Group last year. Taking out this factor, the Group's turnover increased by 10.8%. However, owing to the increase of raw material prices, particularly the cotton yarn price and other production costs, and also increased competition resulted in lower product prices, the Group's gross margin was decreased, despite various effective cost control measures, from 13.8% to 10.3%. As a result, the Group's net profit was only approximately HK\$1,300,000 for the year.

## **DIVIDEND**

The directors do not recommend the payment of dividend for the year ended 31st March, 2005.

## **BUSINESS REVIEW**

The abolishment of quota among the members of WTO since the beginning of 2005 has induced a bright business outlook for the China textile industry, and has also 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 in the second half of this financial year, as US provide a major market to the

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Group's customers. During the second half of this financial year, the Group has re-structured its sales forces for market re-positioning, which gave a short-term adverse impact to the Group's performance, but the directors believed that long-term benefits will be realized from this change in the future.

Manufacture and sales of knitted fabric and dyed yarns remains the principal operation of the Group, its turnover including inter-segment sales has recorded approximately 9.2% growth over the last year. However, the production costs increased sharply because of the increase of the price of the cotton yarn, dyed material and coal, salary and wages in China, which resulted in reduction of operating margin to only approximately 1.3%. The Group commenced its investments in garment manufacturing in October 2004, and the garment manufacturing has commenced operation in January 2005. Manufacturing and sales of garment has recorded a turnover of approximately HK\$93,536,000 with a operating margin of approximately 1.8% after the absorption of cost for establishment of the operation.

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.

In October 2004, the Group disposed its entire interest in Sweetime Limited ("Sweetime") and shareholder's loan of approximately HK\$5,797,000 for a cash consideration of HK\$5,800,000. Sweetime is an investment holding company which has 70% interest in South Season Industrial Company Limited. Details of the disposal were set out in the circular to the shareholders of the Company dated 19th November, 2004.

During the year, the Group invested approximately HK\$17,453,000 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.

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Trading in the shares of the Company was suspended at the direction of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") till 19th October, 2004 due to a director, whom subsequently resigned from the Board, suspected of conspiracy to offer advantage to an agent and to cause such agent to purchase and hold Company's shares ("Incidence"), detail of which refer to Company's announcement dated 18th October, 2004. The Incidence did not bring about any material adverse effects on the Company's operations or financial positions, nor the Incidence would bring about any change in directions and focus of the Company. The Company is committed to its mission to further develop its business in view of the vast market opportunity lying ahead and to create profits and shareholders value for our shareholders.

### ***PROSPECTS***

Looking forward, the demand of the Group's product is expected to increase because of the continual strengthening of the US economy, the certainties of the quota dispute between China and US and the decrease and stabilization of the cotton price. However, the above other unfavourable factors will continuously affect the Group's performance. The Group will continuously upgrade its factory and production facilities so as to increase its productivity and to enhance its product quality to cope with these changes. The directors believe that long term benefit derive from expansion of production facilities to cater for increasing demands and to enjoy the benefit of economy of scales are crucial to the Group's profitability. The Group will also continuously pursue its cautionary credit policy for its customers and continuously improve its product quality, cost and inventory control measures.

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, 2005, the Group's shareholders' equity amounted to HK\$393,175,000, while total bank indebtedness amounted to approximately HK\$15,932,000, and cash on hand amount to approximately HK\$42,132,000. The Group's bank indebtedness to equity ratio is only 0.04. Current ratio is 4.4. 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.

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As at 31st March, 2005, 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.

As at 31st March, 2005, the Group's contingent liabilities in relation to bills discounted with recourse were HK\$4,281,000.

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.

### ***STAFF AND REMUNERATION POLICIES***

As at 31st March, 2005, the Group had approximately 1,560 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.

### ***PLEDGE OF ASSETS***

At the balance sheet date, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,371,000, investment in security 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.

### ***MAJOR CUSTOMERS AND MAJOR SUPPLIERS***

During the year, sales to the five largest customers amounted to approximately 28.25% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 11.17% of the total sales for the year.

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Purchases from the five largest suppliers amounted to approximately 28.64% of the total purchases for the year while total purchases from the largest supplier represented approximately 12.54% 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.

**Li Man Ching**

*Chairman*