

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Kam Hing International Holdings Limited (the "Company"), I am pleased to announce the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK4.0 cents per share for the year ended 31 December 2006 to shareholders whose names appear on the register of members of the Company on 28 May 2007. The payment is subject to approval by shareholders regarding the payment of final dividend at the forthcoming annual general meeting of the Company.

Business Review

We are delighted to report a significant growth in revenue and net profit in 2006. Revenue for the year ended 31 December 2006 was HK\$2,013.9 million, representing an increase of approximately 34.3% from the previous year. Net profit increased by approximately 28.0% to HK\$101.1 million compared with the previous year.



The increase in revenue was attributable to a strong growth in orders from existing customers and orders received from new customers in Singapore, Hong Kong and Taiwan, as well as the expanded sales of our dyed yarn products, which made significant strides in market development thanks to the efforts of our R&D and marketing teams. As a whole, the Group has successfully developed a variety of new fabrics for the market and solicited new customers and labels to promote continuous and sustainable expansion of its production capacity and product differentiation.

The gross profit margin dropped from 22.6% in 2005 to 19.7% in 2006 mainly due to an increase in outsourcing costs. This resulted from subcontracting some of the manufacturing processes to other fabric suppliers in order to meet the rapid increase in orders in 2006. Despite a drop in the gross profit margin, we have implemented a series of measures to reduce the operating cost so that the net profit margin was maintained at approximately 5.0% in 2006 as compared to 5.3% in 2005.

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With continued market development and expected growth in future, the facilities of the Group's manufacturing base in Panyu is expected to be insufficient to cater for the Group's future development. Thus, the Group has decided to establish a dyeing factory in Enping, Guangdong Province in the PRC, where it will be able to enjoy cheaper production costs and abundant land resources. In this endeavor, the Group decided to establish a joint venture with an independent third party. The joint venture will be held beneficially as to 60% by the Group and as to 40% by the other

independent third party, a major sub-contractor of the Group that has more than 20 years of experience in the industry of dyeing and finishing of knitted fabrics. We believe that the establishment of the factory will enable the Group to syndicate the joint venture parties' expertise in the knitted and dyed fabrics industry. At present, the estimated total investment is approximately HK\$168.5 million and the new factory is scheduled to commence operation in early 2008, with the Group's production capacity expected to increase by 30%.

To satisfy customer demand for production integration, the Group decided to extend its business into the garment industry in 2006. As a result, the Group established a garment factory in Madagascar, a country that enjoys quota and import duty privileges for the United States market. This is an important step in the Group's efforts to diversify its business downstream by using existing competitive strengths, including a well-established sales network and extensive textile market experience. The factory was set up in late 2006 and we are optimistic that this new operation will contribute to the development of the Group.



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Outlook

In order to sustain the Group's competitive edges for future development and maximise the return on capital invested, a production optimisation project was implemented, which included the construction of two production complexes, the relocation of production facilities, the expansion of the power and steam generating plant, and the installation of new production facilities, including knitting, yarn dyeing, fabric dyeing and setting machines. The project was completed in 2006, resulting in increase in the Group's knitting and dyeing capacity by approximately 25% to 9 and 11 million pounds per month, respectively, in 2006 as compared to that in 2005. As the project will also result in a reduction in the proportion of outsourcing, better machinery utilisation and improved logistics flow, we believe that the performance of the Group will further improve in 2007. In addition, the establishment of a new factory in Enping will provide additional production capacity for the Group to sustain future growth.



Renminbi appreciation and increasing labor costs as a result of labor shortages will continue to increase manufacturing costs in the PRC. We are confident that a series of the Group's development plan, including the establishment of a downstream garment manufacturing business, the expansion of sales in the Mainland China market and continued improvements in operating efficiency, will alleviate the impact of these increased costs.

In 2006, the Group enjoyed significant success in market development and achieved both product and market diversification. With the existing effective management at the helm, we are confident of continued growth in 2007.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude and thanks for the devotion of our management team and staff members, who have contributed greatly to the development of the Group.

Tai Chin Chun

Chairman

Hong Kong

19 April 2007