

Chairman's Statement

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, 2002.

RESULTS

For the year ended 31st March, 2002, turnover was approximately HK\$336,032,000 which represents a decrease of approximately 9.5% compared to that of last year. Net loss attributable to shareholders was approximately HK\$20,303,000. This was mainly attributable to significant decrease in the gross margin as well as its gross profit and losses for approximately HK\$19,997,000 shared by the Group from its associate.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2002 (2001: Nil).

BUSINESS REVIEW

Sales of knitted fabrics and dyed yarns account for more than 90% of the Group's turnover for the year ended 31st March, 2002, substantially all of which are made to customers based in Hong Kong and all of the manufacturing operation of the Group are located in the People's Republic of China, other than Hong Kong.

For the year ended 31st March, 2002, the business environment was worse than that of last year. The US economy was seriously hit by the event of 11th September, which had a significant impact on the Group's business as the US provides the major market to the Group's customers whom had been cautious about the inventory policy to decrease stock level. Moreover, the keen competition from our rivals and the event of 11th September had resulted to a significant price reduction on our products, which narrowed our gross margin to approximately 7.3% from approximately 9.7% last year despite the measures on the control of operation cost had been taken. Consequently, gross profit decreased by approximately 32% to approximately HK\$24,441,000 from approximately HK\$35,926,000 last year.

During the year, management has focused on controlling its operation cost, under the extreme competitive environment, the Group could still maintain its production cost and overhead expenses at their normal level.

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During the year, the Group spent approximately HK\$15,157,000 on additions to property, plant and equipment to upgrade its factory and production facilities, for the purpose of enhancing its productivity and its product quality. These investments and previous capital investments have strengthened Group's competence, as well as its market position, and contributed additional revenues to the Group.

On 4th September, 2001, the Board put forward proposals under which the shareholders were invited to consider approving the Capital Re-organization and By-law Amendments, the details of which were set out in the circular dated 29th September, 2001. The above proposals had been approved subsequently by the shareholders in the special general meeting held on 22nd October, 2001.

On 19th November, 2001, the Company announced share placement and share subscription, pursuant to which 322,200,000 shares had been issued at the price of HK\$0.05 per share on 29th November, 2001. The net proceeds had been applied in accordance with the intended uses as stated in the announcement. The Board considered that the placement and subscription would increase the liquidity of the Company's shares in the stock market, and would also improve the financial strength and liquidity of the Group.

On 8th January, 2002, the Company announced that the Company would issue by way of 1,933,200,000 right shares of HK\$0.01 each in the share capital of the Company (the "Right Shares") on the basis of one Right Shares for every then issued share held on the close of business on 4th February, 2002 at a subscription price of HK\$0.04 per Right Shares payable in full on the acceptance. The right issue was completed on 5th March, 2002 and the Group raised a net amount of approximately HK\$75,000,000, of which, as at 31st March, 2002, approximately HK\$1,800,000 was used to repay bank indebtedness, and the balance was placed into short-term bank deposits.

PROSPECTS

As the global economy is not expected to be improved shortly, the Board believes the business environment in the coming year is expected to remain highly competitive and challenging, and the Group's business will not significantly improve in the near future, although the benefit from the enhanced production facilities will be steadily realized.

In order to combat with the difficult and competitive business environment, the Group will continuously upgrade its factory and production facilities so as to increase its productivity and to enhance its product quality and reduce our production cost. Moreover, the Group will continuously pursue its cautionary credit policy for its customers and continuously improve its product quality, cost and inventory control measures.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2002, the Group's shareholders' equity amounted to approximately HK\$362,258,000, while total bank indebtedness amounted to approximately HK\$21,867,000, and net cash on hand amounted to approximately HK\$121,649,000. Current ratio is 5.3. The Board believes that the Group's sound and healthy financial position will enable it to discharge its debts, finance its operation in such difficult and competitive business environment and explore other business development opportunities.

STAFF AND REMUNERATION POLICIES

As at 31st March, 2002, the Group had approximately 830 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management with an appropriate incentive interest in the growth of the Group. The Board propose to adopt a new share option scheme ("Scheme") at the forthcoming annual general meeting to be held on 23rd August 2002. A circular setting out the terms and conditions of the Scheme will be sent to the shareholders.

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\$2,558,000 (2001: HK\$2,620,000) have been pledged to bank as security for general banking facilities granted to the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers amounted to approximately 49% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 14% of the total sales for the year.

Purchases from the five largest suppliers amounted to approximately 45% of the total purchases for the year while total purchases from the largest supplier represented approximately 16% of the total purchases for the year.

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To the best knowledge of the Directors, and save as disclosed above, none of the Directors, their associate 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 thanks to shareholders, my fellow directors, staff, suppliers and customers for their commitment and support to the Group during the year.

A handwritten signature in black ink, appearing to read 'Li Man Ching', with a long, sweeping underline that extends downwards and to the right.

Li Man Ching

Chairman

Hong Kong, 26th July, 2002