CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to 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, 2004.

RESULT HIGHLIGHTS

Despite the uncertainties surrounding the global economy in the past financial year, the Group was able to achieve record high turnover. Consolidated turnover of the Group amounted to approximately HK$540,167,000, representing a year-on-year increase of approximately 53%. The Group achieved a five-year high profit of approximately HK$33,629,000, or an increase of approximately 52%.

DIVIDEND

An interim dividend of HK2.5 cents per share was paid to the shareholders during the year. The Board has resolved not to recommend the payment of any final dividend for the financial year ended 31st March, 2004.

BUSINESS REVIEW

In view of the abolishment of quotas on textile and clothes amongst the members of World Trade Organization ("WTO") expected to take place in the beginning of 2005, the Group has been positioning the business to take advantage of opportunities presented by this development. A major initiative has been the strategic acquisition of a 70% stake in a garment trading company, with a view of taking advantage of the imminent regulatory change. At the same time, sales of knitted fabrics and dyed yarns continued to grow and accounted for more than 76% of the Group's turnover for the year ended 31st March, 2004.

The record turnover is attributable in part to the acquisition of a garment trading business in October 2003 and partly to growth of the Group's business, the manufacture of knitted fabrics and dyed yarns, which recorded approximately 17% growth in turnover compared to the corresponding period last year.

Despite severe competition in the market, the gross margin in manufacture and sales of knitted fabric and dyed yarn has improved from approximately 15% to approximately 17%, contributable to the gross profit and net profit of approximately HK$74,362,000 and approximately HK$33,629,000 respectively, representing significant improvement from last year. Earnings per share also rose to approximately HK8.7 cents (2003: HK5.7 cents), representing an approximately 53% increase year-on-year. The impressive rise in profits was achieved despite the rise in cotton prices in the year under review.

The principal reasons for the much improved results were: (i) capital investment into expanding and improving production capacity has generated significant economies of scale; (ii) further efficiencies in the production chain due to the Group's tremendous efforts devoted to research and development; and (iii) stringent cost control, credit policy and inventory management.

The Group has also enjoyed significant cost savings as a result of switching from fuel to coal-fire as the prime source of energy at the Group's production facilities in Nan Hai, Guangdong, China in the previous financial year which has been fully reflected in the financial year under review.

Even more encouraging, the Group recorded a significant rise in orders due to the economic recovery in the US, a major market of the Group's customers. In addition, the customers' requirements in terms of product quality and production lead-time are growing ever higher, presenting continuous opportunities for the Group as the Group's facilities are well-positioned and established to meet this ever-increasing demand.

As another step towards expanding and diversifying its production capacity, the Group invested approximately HK$42 million in fixed assets, which included approximately HK$38 million in full-line production facilities at our Nan Hai plant, across the production cycle from fabric knitting to setting, and yarn bleaching and dyeing. The new investment has already been translated to the bottom line and we anticipate further contribution in the medium and long-term.

The management has continued to achieve satisfactory results in its drive to cut costs, building a strong financial footing with which to withstand challenges presented by the highly competitive global textile sector. Also, the Group continued its prudent and conservative credit policy and effective inventory management, enabling it to maintain a healthy financial position and cash levels.

At the same time, the Group has been actively pursuing greater efficiencies and adjusting its businesses to make the most of opportunities and challenges ahead. The recent acquisition of a 70% equity interest in South Season Industrial Company Limited, a garment trading business, for a cash consideration of HK$24,500,000 is strategic in nature and enables the Group to diversify into the high growth segment of garment sourcing on behalf of its clients. This new business has recorded a loss of approximately HK$2,019,000 after deduction of quota amortisation of approximately HK$5,000,000 during six months since acquisition. However the Board is confident of its ability to contribute to the Group's business and is currently reviewing and consolidating this business in order to ensure its future prosperity.

In February 2004, trading in the shares of the Company was suspended at the direction of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The management understands and shares the concern of the shareholders of the Company in relation to the suspension of the trading of the shares of the Company on the Stock Exchange. The management is now following up and liaising closely with the Stock Exchange on this, with a view to resume the trading of the shares of the Company on the Stock Exchange as soon as possible. Subject to clearance by the Stock Exchange, the Company will issue an announcement to update the shareholders on the progress of resuming the trading of the shares and other related matters. Despite the suspension of trading of the shares of the Company on the Stock Exchange, the management considers that the Group's operations have continued as normal and the outlook for its business remains good.

PROSPECTS

The Board believes that the outlook for the Group is good. The Group is committed to its long-term strategic vision of providing the best quality yarns, fabrics and dyeing services and best garment sourcing services. In the year ahead, the Group aims to build on its solid financial position, and will continue to expand its sales force in Hong Kong, China and the US.

As quotas among the WTO members will be abolished after 2004, our expanded sales force in the US is poised to take advantage from an increase in the market size which is expected to result in a steady growth in our market share.

The Group's long-term focus is to expand its business in China. The Group is already deeply committed to the China market, where all our production facilities are located and where we are sourcing a growing proportion of our raw materials.

During the year, the Group's environment maintenance service centre in China has attained the ISO 14001 standard, aiming to reduce environmental impact and increase long-run sustainability.

Looking ahead, demand for the Group's products is likely to record steady growth given the continual recovery of the US economy, favourable changes underway in the purchasing behavior of the Group's ultimate customers and an expected fall in cotton prices. At the same time, the Group will continue to upgrade its existing operations by rationalising its businesses where it is appropriate to do so, and the management will continue to re-position the Group and make appropriate adjustment for future growth.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2004, the Group's shareholders' equity amounted to approximately HK$391,875,000 while total bank loans and bank indebtedness outstanding amounted to approximately HK$28,747,000, and cash on hand amounted to approximately HK$26,867,000. The Group's bank loans and bank indebtedness to equity ratio remained at a low level of approximately 0.07. Current ratio stood approximately 3.3.

As at 31st March, 2004, the Group has short-term investments of approximately HK$8.6 million in high grade equity securities investments.

The Board believes that the Group's sound and healthy financial position gives the Group a strong footing to face the highly competitive business environment and explore any attractive business development opportunities.

STAFF AND REMUNERATION POLICIES

As at 31st March, 2004, the Group employed approximately 1,550 employees. The Group determines staff remuneration in accordance with market terms and individual qualifications.

The Company also 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 to 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$2,433,000 (2003: HK$2,495,000), value added tax recoverable of approximately HK$15,604,000 (2003: nil) and bank deposits of approximately HK$3,688,000 (2003: nil) have been pledged to banks as security for general banking facilities granted to the Group.

CORPORATE GOVERNANCE

The Group believes good corporate governance is essential to assisting the Board in discharging its responsibilities to shareholders. As a continual effort to strengthen its corporate governance, the Company appointed Mr. So Kin Wah as independent non-executive director on 1st April, 2004, increasing the number of independent non-executive directors to three.

The Company has an audit committee which was established in accordance with the Code of Best Practice of the Stock Exchange. The function of the audit committee is to review and provide supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Group.

On 31st May, 2004, Mr. Li Man Tak resigned from his position as a director of the Company due to personal reasons. The Company has undertaken necessary arrangements to ensure no material interruptions occur to the Group's business activities as a result of Mr. Li's departure.

The Board now comprises seven directors, including four executive directors and three independent non-executive directors.

The Company has compiled throughout the year ended 31st March, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year, sales to the five largest customers amounted to approximately 30.4% of the Group's total sales for the year, in which the sales to the largest customer represented approximately 10.7% of the total sales for the year.

Purchases from the five largest suppliers amounted to approximately 24.6% of the total purchases for the year while total purchases from the largest supplier represented approximately 13% 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

The cheering performance could not have been accomplished without the devotion and commitment of all our staff who contributed tremendously in steering the Group to ongoing growth. 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 achieving the exceptional results in the past year.

Li Man Ching
Chairman

Hong Kong, 23rd July, 2004