

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 2005.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK3.1 cents per share for the year ended 31 December 2005 to shareholders whose names appear on the register of members of the Company on 29 May 2006. The payment is subject to approval by shareholders regarding the payment of the final dividend at the annual general meeting of the Company.

Business Review

We are delighted to report continuous growth of the Group despite a challenging operating environment in 2005. The business of the Group experienced a minimal impact as a result of the textile quota dispute in 2005 as the major production plants of the Group's premier customers are not located in the People's Republic of China (the "PRC"). Revenue for the year ended 31 December 2005 was HK\$1,499.4 million, representing an increase of 14% over the previous year due to an increase of orders from existing customers and the addition of new customers. The gross profit margin dropped slightly from 23.9% in 2004 to 22.6% in 2005 due to a substantial increase in outsourcing expenses as a result of water and electricity shortages in 2005. Growth in revenue coupled with optimization of production flow resulted in an increase in administrative expenses of 19.8%. In addition, the bad debt provision of HK\$13 million provided a negative impact on net profit margin resulting in a decrease for the year to 5.3% from 8.0% in the previous year.

The Group has enjoyed significant success in market development and has broadened its diversification in the PRC. Sales in the PRC was HK\$149.7 million in 2005, representing an increase of 7.6 times in comparison to 2004. We are confident that the PRC market will continue to grow in 2006. Meanwhile, the Group will maintain its foundation of long-term relationships with existing customers and pursue growth among potential customers to expand diversification of business risk while compounding growth.

During the year under review, the Group has successfully developed a variety of new fabrics for the market and solicited new customers and labels to promote continuous, sustainable expansion of production capacity and product differentiation. In order to meet increasing customer demands, the Group continued to expand its production capacity with the construction of two new factory complexes in Panyu, the PRC for central knitting and fabric processing respectively. Additional efforts include relocation of a portion of major machinery and optimization of the value chain in an effort to streamline production flow. The Group is confident that the strategic adjustments will not only boost the production capacity, but also enhance the competitiveness of the Group.

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The production capacity of fabric dyeing operations has increased by approximately 20% in early 2006 due to the improvement of operating efficiency following a restructuring of supply chain logistics and the addition of innovative machinery.

Although the new yarn dyeing operation was marginally influenced by the shortage of electricity and water in 2005, the management of the Group was able to successfully minimize the impact through a series of improvements in logistics and the introduction of new machinery. The challenge was alleviated and the yarn dyeing operation has recorded significant improvement in early 2006. We believe that the yarn dyeing operation will play an important role in overall performance and provide a significant contribution to the Group in 2006.

To further cultivate production growth plans, the Group initiated an expansion plan for the water and power plant since 2003. The second phase of power plant construction and expansion of the water supply capacity construction have commenced, but have not yet reached completion due to a delay in the delivery of key machinery and subsequent construction work. However, complications have been successfully minimized through a series of production planning adjustments. Further resolution is expected in the second quarter of 2006 after the new water supply facilities are fully operated and the second phase of the power plant is completed.

Outlook

The Group's knitting and dyeing capacity has increased by 20% to 7.5 million pounds and 11 million pounds per month respectively in early 2006 following the completion of two factory complexes and the addition of new machinery. In addition, the second phase of the power plant project and the expansion of the water supply plant will be completed in May and June 2006 respectively, which will ensure stable energy and water supply. Therefore, we believe that the performance of the Group will improve significantly in 2006. Meanwhile, the Group will endeavour to reduce operating and administrative expenses in 2006 through continuous efforts to improve efficiency.

After a series of meetings focused on the import quota on textile products among members of the World Trade Organization, a consensus was reached in late 2005. Market uncertainty has been removed regarding the potential threat of export restrictions. It is expected that this progress will remove the overhang of market concern, reduce market disruption, and be an advantage to the Group in terms of obtaining stable order sources. The Group maintains an optimistic outlook regarding quota elimination and we believe that we will capture long-term benefits derived from continuous development of the PRC market as well as the continuous market diversification to other Asian countries.

Land supply in Panyu, the PRC for production expansion is limited and therefore, the Group has purchased a piece of land in Enping, Guangdong Province in the PRC for HK\$20.7 million in October 2005. The Group plans to establish another textile factory in Enping for future expansion. This development is in line with the Group's strategy of seeking long-term growth in the field of textile products.

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The Group will continue to dedicate resources to nurture competitive strengths. Research and development will be further enhanced through the recruitment of qualified, knowledgeable professionals to explore and develop new, innovative products. The Group will also consider providing additional value-added textile related products to our customers that will provide beneficial returns for our shareholders.

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 to the development of the Group.

Tai Chin Chun

Chairman

Hong Kong

25 April 2006