



# KAM HING INTERNATIONAL HOLDINGS LIMITED

錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 2307)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006 (the “Period”). The interim results are unaudited, but have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
	<i>Notes</i>		
<b>REVENUE</b>	3	<b>895,632</b>	<b>760,005</b>
Cost of sales		<b>(713,840)</b>	<b>(570,406)</b>
Gross profit		<b>181,792</b>	<b>189,599</b>
Other income	3	<b>3,771</b>	<b>3,838</b>
Selling and distribution costs		<b>(45,467)</b>	<b>(44,300)</b>
Administrative expenses		<b>(64,736)</b>	<b>(60,913)</b>
Other operating income (net)		<b>8,604</b>	<b>1,186</b>
Finance costs	4	<b>(19,010)</b>	<b>(9,107)</b>
<b>PROFIT BEFORE TAX</b>	5	<b>64,954</b>	<b>80,303</b>
Tax	6	<b>(7,718)</b>	<b>(10,370)</b>
<b>PROFIT FOR THE PERIOD</b>		<b>57,236</b>	<b>69,933</b>
Attributable to:			
Equity holders of the Company		<b>57,236</b>	<b>69,933</b>
Minority interests		<b>–</b>	<b>–</b>
		<b>57,236</b>	<b>69,933</b>
Interim dividend	7	<b>Nil</b>	<b>Nil</b>

### EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic	8	<b>8.94 cents</b>	<b>10.93 cents</b>
Diluted		<b>Nil</b>	<b>10.90 cents</b>

### CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>809,132</b>	<b>741,696</b>
Investment properties		<b>6,908</b>	<b>7,096</b>
Prepaid land lease payments		<b>47,329</b>	<b>39,395</b>
Deferred tax assets		<b>1,941</b>	<b>2,137</b>
Total non-current assets		<b>865,310</b>	<b>790,324</b>
<b>CURRENT ASSETS</b>			
Inventories		<b>513,931</b>	<b>381,102</b>
Accounts and bills receivable	9	<b>462,288</b>	<b>312,630</b>
Prepayments, deposits and other receivables		<b>7,158</b>	<b>4,518</b>
Equity investments at fair value through profit or loss		<b>1,135</b>	<b>497</b>
Pledged deposits		<b>–</b>	<b>2,146</b>
Cash and cash equivalents		<b>90,124</b>	<b>172,171</b>
Total current assets		<b>1,074,636</b>	<b>873,064</b>
<b>CURRENT LIABILITIES</b>	10		
Accounts and bills payable		<b>436,309</b>	<b>221,341</b>
Accrued liabilities and other payables		<b>59,740</b>	<b>38,095</b>
Due to a minority shareholder		<b>114</b>	<b>114</b>
Tax payable		<b>11,893</b>	<b>7,490</b>
Bank advances for discounted bills		<b>107,153</b>	<b>104,894</b>
Interest-bearing bank and other borrowings		<b>330,563</b>	<b>253,456</b>
Total current liabilities		<b>945,772</b>	<b>625,390</b>
<b>NET CURRENT ASSETS</b>		<b>128,864</b>	<b>247,674</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>994,174</b>	<b>1,037,998</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>279,544</b>	<b>360,764</b>
Total non-current liabilities		<b>279,544</b>	<b>360,764</b>
Net assets		<b>714,630</b>	<b>677,234</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital		<b>64,000</b>	<b>64,000</b>
Reserves		<b>650,525</b>	<b>593,289</b>
Proposed final dividend		<b>–</b>	<b>19,840</b>
		<b>714,525</b>	<b>677,129</b>
Minority interests		<b>105</b>	<b>105</b>
Total equity		<b>714,630</b>	<b>677,234</b>

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”) and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). These condensed consolidated financial statements are unaudited but have been reviewed by the Company’s audit committee.

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2005 except for the adoption of the following amendment mandatory for periods beginning on or after 1 January 2006:

HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
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In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the above revised HKFRS has no material impact of the Group’s interim financial statements.

The Group has not early applied the following new and revised HKFRSs relevant to the Group’s financial statements, that have been issued but not yet effective in the period covered by these interim financial statements which are effective for periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group’s financial statements in the period of initial application.
- SEGMENT INFORMATION**

Segment information is presented by way of the Group’s primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group’s business segments as over 90% of the Group’s revenue and assets are related to the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services.

A geographical segment analysis of the Group’s financial results for the period ended 30 June 2006, with comparative figures for the period ended 30 June 2005, is summarized below:

(i) **Geographical segments based on the location of customers**

	Singapore HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 June 2006 (Unaudited)</b>						
Segment revenue:						
Sales to external customers	476,972	152,385	106,911	68,214	91,150	895,632
Other income	240	1,107	1	167	43	1,558
Total	477,212	153,492	106,912	68,381	91,193	897,190
Segment results	92,366	28,151	18,583	12,022	16,043	167,165
Interest and other unallocated income						2,213
Unallocated expenses						(85,414)
Finance costs						(19,010)
Profit before tax						64,954
Tax						(7,718)
Profit for the period						57,236

	Singapore HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 June 2005 (Unaudited)</b>						
Segment revenue:						
Sales to external customers	364,776	95,854	102,770	91,042	105,563	760,005
Other income	1,347	354	379	336	390	2,806
Total	366,123	96,208	103,149	91,378	105,953	762,811
Segment results	77,565	21,299	22,817	20,213	23,188	165,082
Interest and other unallocated income						1,032
Unallocated expenses						(76,704)
Finance costs						(9,107)
Profit before tax						80,303
Tax						(10,370)
Profit for the period						69,933
(ii) <b>Geographical segments based on the location of assets</b>						
	Singapore HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000	
Segment assets						
As at 30 June 2006 (Unaudited)	363	463,419	1,448,869	27,295	1,939,946	
As at 31 December 2005 (Audited)	1,066	402,286	1,259,271	765	1,663,388	
Capital expenditure						
Six months ended 30 June 2006 (Unaudited)	–	981	83,944	26,695	111,620	
Six months ended 30 June 2005 (Unaudited)	33	3,729	150,947	–	154,709	

### 3. REVENUE AND OTHER INCOME

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services provided by the Group. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the revenue and other income is as follows:

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
<b>Revenue</b>		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	895,632	760,005
<b>Other income</b>		
Fee income from freight handling services	1,558	2,806
Bank interest income	549	166
Gross rental income	742	665
Others	922	201
	3,771	3,838
	899,403	763,843

### 4. FINANCE COSTS

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	16,337	7,675
Interest on finance leases	2,673	1,432
	19,010	9,107

### 5. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Cost of inventories sold	713,756	571,012
Cost of services provided	1,502	2,688
Auditors’ remuneration	721	470
Research and development costs	1,900	1,528
Depreciation of property, plant and equipment	34,640	25,626
Depreciation of investment properties	188	188
Amortisation of prepaid land lease payments	444	224
Employee benefits expense (including directors’ remuneration):		
Wages and salaries	51,462	42,565
Equity-settled share option expenses	–	2,000
Pension scheme contributions	1,811	1,421
	53,273	45,986
Minimum lease payments under operating leases in respect of land and buildings	653	445
Loss on disposal of items of property, plant and equipment	474	–
Loss on equity investment at fair value	31	–
Allowance/provision for doubtful debts	129	–
Write back of allowance/provision for doubtful debts	(12,771)	(147)
Foreign exchange difference, net	2,912	(1,078)

### 6. TAX

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Current tax – Hong Kong		
Charge for the period	3,108	4,760
Overprovision in respect of prior periods	(31)	(660)
Current tax – Elsewhere		
Charge for the period	4,445	6,149
Underprovision in respect of prior periods	–	121
Deferred tax charged	196	–
Total tax charge for the period	7,718	10,370

Profits tax in Hong Kong is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Tax in elsewhere is calculated at tax rates prevailing in the respective jurisdictions.

### 7. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (2005: Nil).

### 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$57,236,000 (2005 June: HK\$69,933,000) and the weighted average of 640,000,000 (2005 June: 640,000,000) ordinary shares in issue during the Period.

Diluted earnings per share for the period ended 30 June 2006 has not been disclosed, as the share options outstanding during the Period had an anti-dilutive effect on the basic earnings per share during the Period.

The calculation of diluted earnings per share for the period ended 30 June 2005 was based on the profit for the period attributable to ordinary equity holders of the Company of HK\$69,933,000. The weighted average of 641,324,000 ordinary shares in issue during that period, comprising 640,000,000 ordinary shares used in the basic earnings per share calculation, and the weighted average of 1,324,000 ordinary shares assumed to have been issued on the deemed exercise of all share options outstanding during that period.

### 9. ACCOUNTS AND BILLS RECEIVABLE

The Group’s trading term with its customers generally have credit terms of up to 60 days and non-interest bearing (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days). Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group’s accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group’s accounts and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 30 days	243,491	100,747
31 to 60 days	121,965	83,392
61 to 90 days	59,604	51,530
Over 90 days	37,228	76,961
	462,288	312,630

The carrying amounts of the Group’s accounts and bills receivable approximate to their fair values.

Included in the above accounts and bills receivable as at 30 June 2006, HK\$107,153,000 (2005: HK\$104,894,000) was discounted to banks in exchange for cash and included as bank advances for discounted bills on the face of the consolidated balance sheet.

10. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 90 days	391,073	174,573
91 to 180 days	41,729	29,861
181 to 365 days	3,507	16,565
Over 365 days	–	542
	<u>436,309</u>	<u>221,341</u>

The carrying amounts of the Group's accounts and bills payable approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Result

The Group recorded unaudited revenue of approximately HK\$895.6 million for the six months ended 30 June 2006 comprising fabrics and dyed yarn, representing an overall growth of approximately 17.8% over the same period last year. The growth in revenue was attributable to the expansion of sales network by obtaining new customers and growth of order from the existing customers as well as expansion of the yarn dye operation.

The gross profit for the six months ended 30 June 2006 was approximately HK\$181.8 million, representing a decrease of approximately 4.1% compared with the same period last year. The gross profit margin was approximately 20.3% for the six months ended 30 June 2006 showing a decrease of approximately 4.6% points over the gross profit margin of approximately 24.9% for the same period last year. The decline in gross profit margin was mainly due to the decrease in selling price of fabric in view of the competitive market as well as increase in overhead and costs incurred for restructuring and relocation of machinery.

Unaudited net profit attributable to shareholders for the six months ended 30 June 2006 was approximately HK\$57.2 million, representing a decrease of approximately 18.2% compared with the same period last year. The net profit margin for the six months ended 30 June 2006 was approximately 6.4%, representing a decrease by approximately 2.8% points from the corresponding period of approximately 9.2% last year. Administrative and selling expenses increased by about 4.7%, which is in line with the growth of revenue.

Business Review

1. Manufacture and sale of finished knitted fabrics and dyed yarn

The principal operation of the Group is the manufacture and sale of finished knitted fabrics and dyed yarn. During the Period, revenue amounted to approximately HK\$895.6 million, representing a growth of approximately 17.8% over the same period last year.

The Group's monthly capacity of knitting, fabric dyeing and yarn dyeing was increased by approximately 20% to approximately 8 million, 11 million, and 3 million pound, respectively in the first half of 2006 upon completion of the expansion of the production capacity.

2. Geographical analysis of the Group's revenue

During the Period, customers from Singapore, Hong Kong, Taiwan, PRC and other areas accounted for about 53.3%, 17%, 11.9%, 7.6% and 10.2% of the Group's total revenue respectively. Sales to Singapore, Hong Kong and Taiwan increased by about 30.8%, 59% and 4% respectively as a results of enhancement of customer services in the regions.

Business Outlook

The Group continued to diversify into different markets by supplying fabrics to new labels and develop new European and PRC markets to sustain the growth. As a further strategic step, the Group decided to diversify into garment manufacturing which shall be one of the growth drivers of the Group in the future.

Financial Review

Liquidity, financial resources and capital structure

The Group maintained a healthy financial and liquidity position. As at 30 June 2006, the total current assets and current ratio of the Group were approximately HK\$1,074.6 million (2005: HK\$873.1 million) and approximately 1.1 (2005: 1.4) respectively. The total cash and bank deposits balance of the Group as at 30 June 2006 was approximately HK\$90.1 million (2005: HK\$174.3 million). The reduction in current ratio and cash and bank deposits balance were mainly attributable to the seasonal factors during peak production period from March to August.

As at 30 June 2006, total bank borrowings for the Group, including bank advances for discounted bills of HK\$107.2 million (2005: HK\$104.9 million), amounted to approximately HK\$717.3 million (2005: HK\$719.1 million), of which 61% (2005: 49.8%) was repayable within one year and 39% (2005: 50.2%) was repayable within two to five years. For the total bank borrowings as at 30 June 2006, 12.7% of the balance (2005: 12.7%) was secured under finance lease. Besides, 64% (2005: 72.6%) and 36% (2005: 27.4%) of the balance was denominated in HK\$ and US\$ respectively.

The net debt gearing ratio of the Group as at 30 June 2006 (bank borrowings net of cash on hand and bank deposits to equity) was approximately 87.8% (2005: 80.4%). Increase in net debt gearing ratio was mainly due to the increase in working capital for growth of revenue during the Period and the seasonal effect in the peak production period.

As at 30 June 2006, the Group had net tangible assets of approximately HK\$714.6 million (2005: HK\$677.2 million), comprising non-current assets of approximately HK\$865.3 million (2005: HK\$790.3 million), net current assets of approximately HK\$128.8 million (2005: HK\$247.7 million) and non-current liabilities of approximately HK\$279.5 million (2005: HK\$360.8 million).

Exposure to fluctuation in foreign exchange

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in HK\$, US\$ and RMB. Exchange rates between these currencies with HK\$ were relatively stable during the Period under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

Charge on the Group's Assets

As at 30 June 2006, certain plant and machinery and motor vehicles of the Group with an aggregate net book value of approximately HK\$194.9 million (2005: HK\$191.1 million) were under finance lease.

Capital expenditure

During the Period, the Group invested approximately HK\$111.6 million (2005 June: HK\$154.7 million) in property, plant and equipments as well as prepaid land lease payments, of which approximately 38.5% (2005 June: 64.6%) for the purchase of plant and machinery, approximately 26.5% (2005 June: 26.8%) for the construction of new factory premises, approximately 6.6% (2005 June: Nil) for the acquisition of a piece of land in Enping the PRC, approximately 23.9% (2005 June: Nil) for the establishment of a garment factory in Africa and the remaining for the purchase of other fixed assets.

As at 30 June 2006, the Group had capital commitments of approximately HK\$17.8 million (2005: HK\$27.7 million) and HK\$7.2 million (2005: HK\$4.6 million) in respect of plant and equipment and construction in progress respectively. As mentioned before, the Group will be able to fulfill its capital commitments when they fall due.

Contingent liabilities

The Group's discounted bills with recourse of approximately HK\$95 million (2005: HK\$30.6 million).

Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group for the Period.

Human Resources

As at 30 June 2006, the Group had 3,950 (2005: 3,100) employees in the PRC, and 103 (2005: 107) employees in Hong Kong, Macau and Singapore. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund for all its employees in Hong Kong and social welfare schemes for its employees in the PRC and other locations in accordance with the respective countries' statutory requirements.

Interim Dividend

The Board has resolved not to declare any interim dividend for the Period (2005 June: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In order to ensure full compliance of the Company's Articles of Association with the code provisions A.4.2 as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, a special resolution was passed at the 2006 annual general meeting of the Company held on 29 May 2006 to amend the Company's Articles of Association so that all Directors will be subject to retirement by rotation once every three years. For the six months ended 30 June 2006, in the opinion of the Board, the Company has applied the principles and complied with the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules. Further information concerning our corporate governance practices has been set out on pages 13 to 18 of the Company's 2005 Annual Report.

REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

The remuneration committee comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The remuneration committee is primarily responsible for reviewing and making recommendations to the Board on the remuneration packages of all executive directors and senior management to ensure that such remuneration is reasonable and not excessive.

The nomination committee also comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The nomination committee is primarily responsible for reviewing and making recommendations to the Board on the selection of board members to ensure that suitable individuals are nominated for filling vacancies on the directorships.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Director securities transaction for the six months ended 30 June 2006.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGES'S WEBSITE

The electronic version of this announcement which contains all the relevant information as required by paragraph 46 of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>). An interim report of the Company for the six months ended 30 June 2006 containing the information required under Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange in due course.

GENERAL INFORMATION

As at the date of this announcement, the executive directors of the Company are Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk and Mr. Chong Chau Lam and the independent non-executive directors of the Company are Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony.

By Order of the Board  
**Tai Chin Chun**  
Chairman