



# Kwong Hing International Holdings (Bermuda) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1131)

## INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30TH SEPTEMBER, 2006

### RESULTS

The Board of directors (the “Board”) of Kwong Hing International Holdings (Bermuda) Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2006 with comparative figures for the corresponding period as follows. The interim results have been reviewed by the Company’s auditors in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. The interim results have also been reviewed by the Company’s audit committee.

### Condensed Consolidated Income Statement

For the six months ended 30th September, 2006

|                                                                |       | Six months ended |              |
|----------------------------------------------------------------|-------|------------------|--------------|
|                                                                |       | 30.9.2006        | 30.9.2005    |
|                                                                |       | HK\$'000         | HK\$'000     |
|                                                                | Notes | (Unaudited)      | (Unaudited)  |
| <b>Continuing operation</b>                                    |       |                  |              |
| Revenue                                                        | 3     | 193,138          | 253,629      |
| Cost of sales                                                  |       | (183,940)        | (228,193)    |
| Gross profit                                                   |       | 9,198            | 25,436       |
| Other income                                                   |       | 1,488            | 651          |
| Selling expenses                                               |       | (4,149)          | (5,794)      |
| Administrative expenses                                        |       | (13,741)         | (12,895)     |
| Interest on bank borrowings wholly repayable within five years |       | (168)            | (551)        |
| (Loss) profit before taxation                                  | 4     | (7,372)          | 6,847        |
| Income tax credit (expense)                                    | 5     | 31               | (68)         |
| (Loss) profit for the period from continuing operation         |       | (7,341)          | 6,779        |
| <b>Discontinued operation</b>                                  |       |                  |              |
| Loss for the period from discontinued operation                | 3     | (5,500)          | (2,580)      |
| (Loss) profit for the period                                   |       | (12,841)         | 4,199        |
| Attributable to:                                               |       |                  |              |
| Equity holders of the Company                                  |       | (12,841)         | 4,346        |
| Minority interests                                             |       | –                | (147)        |
|                                                                |       | (12,841)         | 4,199        |
| (Loss) earnings per share                                      |       |                  |              |
| From continuing and discontinued operations:                   |       |                  |              |
| – Basic                                                        | 6     | (3.3) HK cents   | 1.1 HK cents |
| From continuing operation:                                     |       |                  |              |
| – Basic                                                        | 6     | (1.9) HK cents   | 1.8 HK cents |

**Condensed Consolidated Balance Sheet**  
At 30th September, 2006

|                                                               | Notes | 30.9.2006<br>HK\$'000<br>(Unaudited) | 31.3.2006<br>HK\$'000<br>(Audited) |
|---------------------------------------------------------------|-------|--------------------------------------|------------------------------------|
| <b>Non-current assets</b>                                     |       |                                      |                                    |
| Property, plant and equipment                                 |       | 117,582                              | 127,166                            |
| Prepaid lease payments                                        |       | 2,070                                | 2,100                              |
| Held-to-maturity investments                                  |       | 15,600                               | 15,600                             |
|                                                               |       | <u>135,252</u>                       | <u>144,866</u>                     |
| <b>Current assets</b>                                         |       |                                      |                                    |
| Inventories                                                   |       | 120,734                              | 141,356                            |
| Trade and other receivables                                   | 7     | 88,386                               | 77,406                             |
| Prepaid lease payments                                        |       | 58                                   | 58                                 |
| Held-for-trading investments                                  |       | 3,958                                | –                                  |
| Pledged bank deposits                                         |       | 4,000                                | 4,000                              |
| Bank balances and cash                                        |       | 65,292                               | 74,409                             |
|                                                               |       | <u>282,428</u>                       | <u>297,229</u>                     |
| Assets classified as held for sale                            |       | 1,938                                | –                                  |
|                                                               |       | <u>284,366</u>                       | <u>297,229</u>                     |
| <b>Current liabilities</b>                                    |       |                                      |                                    |
| Trade and other payables                                      | 8     | 42,720                               | 51,502                             |
| Taxation payable                                              |       | 3,388                                | 3,374                              |
| Obligations under finance leases – amount due within one year |       | 3,186                                | 3,085                              |
|                                                               |       | <u>49,294</u>                        | <u>57,961</u>                      |
| Net current assets                                            |       | <u>235,072</u>                       | <u>239,268</u>                     |
|                                                               |       | <u>370,324</u>                       | <u>384,134</u>                     |
| <b>Capital and reserves</b>                                   |       |                                      |                                    |
| Share capital                                                 |       | 38,376                               | 38,857                             |
| Reserves                                                      |       | 329,004                              | 340,717                            |
| Equity attributable to equity holders of the parent           |       | <u>367,380</u>                       | <u>379,574</u>                     |
| <b>Non-current liabilities</b>                                |       |                                      |                                    |
| Obligations under finance leases – amount due after one year  |       | 851                                  | 2,467                              |
| Deferred tax liabilities                                      |       | 2,093                                | 2,093                              |
|                                                               |       | <u>2,944</u>                         | <u>4,560</u>                       |
|                                                               |       | <u>370,324</u>                       | <u>384,134</u>                     |

**Notes To The Condensed Consolidated Financial Statements**  
For the six months ended 30th September, 2006

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries for the year ended 31st March, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006 or 1st March, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

**3. SEGMENT INFORMATION**

**Business segments**

For management purpose, the Group is currently engaged in the manufacturing and trading of knitted fabric and dyed yarns. The Group was also involved in the manufacturing and trading of garment products. That operation was discontinued on 16th September, 2006. These activities are the basis on which the Group reports its primary segment information.

Segment information about these activities is presented below:

**For the six months ended 30th September, 2006**

|                                                                | Continuing<br>operation                                                              | Discontinued<br>operation                                                    |                                |                                 |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------|---------------------------------|
|                                                                | Manufacture<br>and sale<br>of knitted<br>fabric and<br>dyed yarns<br><i>HK\$'000</i> | Manufacturing<br>and<br>trading of<br>garment<br>products<br><i>HK\$'000</i> | Elimination<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
| Revenue                                                        |                                                                                      |                                                                              |                                |                                 |
| External sales                                                 | 193,138                                                                              | 4,672                                                                        | –                              | 197,810                         |
| Inter-segment sales                                            | 676                                                                                  | –                                                                            | (676)                          | –                               |
| Total revenue                                                  | <u>193,814</u>                                                                       | <u>4,672</u>                                                                 | <u>(676)</u>                   | <u>197,810</u>                  |
| Results                                                        |                                                                                      |                                                                              |                                |                                 |
| Segment results                                                | (7,491)                                                                              | (5,759)                                                                      |                                | (13,250)                        |
| Other income                                                   | 1,488                                                                                | 259                                                                          |                                | 1,747                           |
| Unallocated corporate expense                                  | (1,201)                                                                              | –                                                                            |                                | (1,201)                         |
| Interest on bank borrowings wholly repayable within five years | (168)                                                                                | –                                                                            |                                | (168)                           |
| Loss before taxation                                           | (7,372)                                                                              | (5,500)                                                                      |                                | (12,872)                        |
| Income tax credit                                              | 31                                                                                   | –                                                                            |                                | 31                              |
| Loss for the period                                            | <u>(7,341)</u>                                                                       | <u>(5,500)</u>                                                               |                                | <u>(12,841)</u>                 |

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

For the six months ended 30th September, 2005

|                                                                | Continuing<br>operation                                                              | Discontinued<br>operation                                                    |                                |                                 |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------|---------------------------------|
|                                                                | Manufacture<br>and sale<br>of knitted<br>fabric and<br>dyed yarns<br><i>HK\$'000</i> | Manufacturing<br>and<br>trading of<br>garment<br>products<br><i>HK\$'000</i> | Elimination<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
| Revenue                                                        |                                                                                      |                                                                              |                                |                                 |
| External sales                                                 | 253,629                                                                              | 8,907                                                                        | –                              | 262,536                         |
| Inter-segment sales                                            | 4,900                                                                                | –                                                                            | (4,900)                        | –                               |
| Total revenue                                                  | <u>258,529</u>                                                                       | <u>8,907</u>                                                                 | <u>(4,900)</u>                 | <u>262,536</u>                  |
| Results                                                        |                                                                                      |                                                                              |                                |                                 |
| Segment results                                                | 7,995                                                                                | (2,595)                                                                      |                                | 5,400                           |
| Other income                                                   | 651                                                                                  | 15                                                                           |                                | 666                             |
| Unallocated corporate expense                                  | (1,248)                                                                              | –                                                                            |                                | (1,248)                         |
| Interest on bank borrowings wholly repayable within five years | (551)                                                                                | –                                                                            |                                | (551)                           |
| Profit (loss) before taxation                                  | 6,847                                                                                | (2,580)                                                                      |                                | 4,267                           |
| Income tax expense                                             | (68)                                                                                 | –                                                                            |                                | (68)                            |
| Profit (loss) for the period                                   | <u>6,779</u>                                                                         | <u>(2,580)</u>                                                               |                                | <u>4,199</u>                    |

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

#### Discontinued operation

The results of the garment manufacturing and trading operations for the interim reporting period were as follows:

|                                                  | Six months ended             |                              |
|--------------------------------------------------|------------------------------|------------------------------|
|                                                  | 30.9.2006<br><i>HK\$'000</i> | 30.9.2005<br><i>HK\$'000</i> |
| Revenue                                          | 4,672                        | 8,907                        |
| Cost of sales                                    | (5,573)                      | (9,294)                      |
| Other income                                     | 259                          | 15                           |
| Distribution costs                               | (38)                         | (16)                         |
| Administrative expenses                          | (1,881)                      | (2,192)                      |
| Impairment loss on property, plant and equipment | (2,939)                      | –                            |
| Loss for the period                              | <u>(5,500)</u>               | <u>(2,580)</u>               |

#### 4. (LOSS) PROFIT BEFORE TAXATION

|                                                                   | Six months ended             |                                                      |
|-------------------------------------------------------------------|------------------------------|------------------------------------------------------|
|                                                                   | 30.9.2006<br><i>HK\$'000</i> | 30.9.2005<br><i>HK\$'000</i><br><i>(As restated)</i> |
| (Loss) profit before taxation has been arrived at after charging: |                              |                                                      |
| Cost of inventories recognised                                    | 181,280                      | 228,193                                              |
| Depreciation of property, plant and equipment                     | 12,325                       | 12,893                                               |
| Amortisation of prepaid lease payments                            | 30                           | 30                                                   |
| Allowance for bad and doubtful debts                              | 470                          | –                                                    |
| Allowance for damaged inventories (included in cost of sales)     | 2,660                        | –                                                    |
| Impairment loss on property, plant and equipment                  | 2,939                        | –                                                    |
| and after crediting:                                              |                              |                                                      |
| Interest income from banks                                        | 967                          | 231                                                  |
| Gain on disposal of property, plant and equipment                 | <u>353</u>                   | <u>–</u>                                             |

## 5. INCOME TAX (CREDIT) EXPENSE

|                               | 30.9.2006<br>HK\$'000 | Six months ended<br>30.9.2005<br>HK\$'000 |
|-------------------------------|-----------------------|-------------------------------------------|
| <b>Continuing operation</b>   |                       |                                           |
| Current tax:                  |                       |                                           |
| Hong Kong Profits Tax         | 27                    | 213                                       |
| Other jurisdictions           | 59                    | 233                                       |
|                               | <u>86</u>             | <u>446</u>                                |
| Overprovision in prior years: |                       |                                           |
| Other jurisdictions           | (117)                 | (378)                                     |
|                               | <u>(31)</u>           | <u>68</u>                                 |

Hong Kong Profits Tax is calculated at the rate of 17.5% of the estimated assessable profit for both periods.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

## 6. (LOSS) EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

|                                                                                                                                | 30.9.2006<br>HK\$'000 | Six months ended<br>30.9.2005<br>HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------------------------|
| (Loss) profit for the period attributable to equity holders of the Company for the purposes of basic (loss) earnings per share | <u>(12,841)</u>       | <u>4,346</u>                              |
| Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share                                 | <u>385,378,391</u>    | <u>388,573,200</u>                        |

No diluted loss (2005: earnings) per share for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share.

### From continuing operation

The calculation of the basic (loss) earnings per share from continuing operation attributable to the equity holders of the Company is based on the following data:

|                                                                                             | 30.9.2006<br>HK\$'000 | Six months ended<br>30.9.2005<br>HK\$'000 |
|---------------------------------------------------------------------------------------------|-----------------------|-------------------------------------------|
| (Loss) profit for the period attributable to equity holders of the Company                  | (12,841)              | 4,346                                     |
| Less: Loss for the period from discontinued operation                                       | <u>5,500</u>          | <u>2,580</u>                              |
| (Loss) profit for the purposes of basic (loss) earnings per share from continuing operation | <u>(7,341)</u>        | <u>6,926</u>                              |

The denominators used are the same as those detailed above for basic (loss) earnings per share from continuing and discontinued operations.

No diluted loss (2005: earnings) per share for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share.

### From discontinued operation

Basic loss per share for discontinued operation is 1.4 HK cents per share (2005: 0.7 HK cents per share) and no diluted loss per share for the discontinued operation for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share. The denominators used are the same as those detailed above for both basic loss per share.

## 7. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from cash on delivery to 120 days and are generally based on the financial strength of individual customers. In order to effectively manage the credit risks associated with the trade receivables, credit evaluation of customers are performed periodically.

Included in trade and other receivables are trade and bills receivables of approximately HK\$81,763,000 (31st March, 2006: HK\$70,240,000). The following is an aged analysis of trade receivables at the balance sheet date:

|               | 30.9.2006<br>HK\$'000 | 31.3.2006<br>HK\$'000 |
|---------------|-----------------------|-----------------------|
| 0 – 60 days   | 50,722                | 40,931                |
| 61 – 90 days  | 11,091                | 11,785                |
| 91 – 120 days | 4,127                 | 5,013                 |
| Over 120 days | 15,823                | 12,511                |
|               | <u>81,763</u>         | <u>70,240</u>         |

## 8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK\$30,681,000 (31st March, 2006: HK\$38,214,000). The following is an aged analysis of trade payables at the balance sheet date:

|              | 30.9.2006<br>HK\$'000 | 31.3.2006<br>HK\$'000 |
|--------------|-----------------------|-----------------------|
| 0 – 60 days  | 25,964                | 29,003                |
| 61 – 90 days | 2,682                 | 2,751                 |
| Over 90 days | 2,035                 | 6,460                 |
|              | <u>30,681</u>         | <u>38,214</u>         |

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the current period.

## BUSINESS REVIEW

For the six months ended 30th September, 2006, the Group recorded a turnover of approximately HK\$197,810,000 representing a decrease of 24.7% as compared to same period last year, and gross profit is approximately HK\$8,297,000, representing a decrease of 66.9% as compared to the same period last year. Consequently, the Group recorded a net loss of HK\$12,841,000 for the period.

In 2006, the quota system has been re-instated after mutual agreement by both US and Chinese Governments which has given an adverse impact to the Group's business in the period under review, as US provide a major market to the Group's customers. As a result, the turnover of manufacture and sales of knitted fabric and dyed yarns including inter-segment sales has dropped to approximately HK\$193,814,000 representing a decrease of 25.0% as compared to that of last year. The production costs has increased markedly because of rise in price of dyed material, coal and electricity, and salary and wages in China. Together with a provision of approximately HK\$2,660,000 for some inventories damaged by Typhoon Prapiroon in August, 2006, the Group has recorded a net operating loss of HK\$7,341,000 in this segment. Manufacture and sales of garment sustained a loss of HK\$2,561,000 for the period. In September 2006, the Group decided to discontinue its operation in the segment of manufacture and sales of garment in view of unsatisfactory performance. Certain properties, plants and equipments have been disposed to an independent party, and an impairment loss of approximately HK\$2,939,000 has been recorded.

During the period, management has focused on controlling its operating costs and enhancing its competitive advantage. Under the extreme competitive environment, the Group managed to control other production costs and overhead expenses reasonably well. The Group has also continued its prudent and conservative credit policy towards customers, and has monitored closely its inventory level as well as production requirements. These measures have enabled the Group to maintain a healthy cash level.

During the period under review, the Group has invested approximately HK\$7,017,000 in property, plant and equipment to upgrade its factory and production facilities so as to increase its productivity and to enhance its production quality. Together with the capital investments in previous years, the Group has managed to achieve production at better economies of scale.

#### **PROSPECTS**

Looking forward, the high production costs resulting from price increase in dyed material, coal and electricity, and salary and wages in China will continue to affect the Group's performance. The board believes that the business environment in the second half of the year is expected to be highly competitive and more challenging. The Group will continue to take appropriate cost control measures, rationalizing its operations, applying prudent credit policy for its customers and improving product quality in order to achieve improved return for its shareholders.

In the market front, the Group will strive to expand into the Asian and the PRC markets so as to broaden the Group's customer base and to reduce reliance on the US market.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th September, 2006, the Group's shareholders' equity amounted to HK\$367,380,000, while total bank borrowing amounted to approximately HK\$4,037,000, and cash on hand amounted to approximately HK\$69,292,000. The Group's bank indebtedness to equity ratio is only 0.01, Current ratio is 5.8. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

As at 30th September, 2006, the Group has long-term high graded securities and investments of approximately HK\$15,600,000 of which HK\$7,800,000 has been pledged to bank as securities for general banking facilities granted to the Group.

The Groups' assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. The board is closely monitoring the fluctuation in the exchange rates between them, and believes that there is no substantial exposure in exchange rate risk.

#### **PLEDGE OF ASSETS**

At the balance sheet date, certain of the Group's buildings with an aggregate net book value of approximately HK\$2,277,000, held-to-maturity investment of approximately HK\$7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.

#### **STAFF AND REMUNERATION POLICIES**

As at 30th September, 2006, the Group had approximately 1,180 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting having regard to the Group's operating results, individual performance and comparable market statistics.

The Company 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 the growth of the Group.

#### **PURCHASE, SALE OR REDEMPTION OF THE COMPAN'S LISTED SECURITIES**

During the six months ended 30th September, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

#### **CORPORATE GOVERNANCE**

The Company has complied throughout the six month ended 30th September, 2006 with the code provisions set out in Appendix 14 of the Listing Rules on the Stock Exchange except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. The certain company's independent non-executive directors are not appointed for a specific terms but are subject to retirement by rotation under the Company's Bye-laws, so that every independent non-executive directors shall retire at least once every three years.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as a code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors (as defined below), all Directors confirmed they have complied with the required standard set out in the Model Code.

The Company had established an audit committee whose terms of reference was formulated in accordance with the requirements of the Stock Exchange its current members comprise of three independent non-executive directors. The Audit Committee's primary responsibilities include reviewing the reporting of financial and other information of shareholders, the system of the internal controls, risk management and the effectiveness and objectivity of the audit process.

#### **PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE**

The Company's interim report containing all the information required by the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited and despatched to Shareholders in due course.

By Order of the Board  
**Li Man Ching**  
Chairman

Hong Kong, 21st December, 2006

The following are directors of the Company as at the date of this announcement:

|                                                                     |                                            |
|---------------------------------------------------------------------|--------------------------------------------|
| <i>Executive Directors</i>                                          | <i>Independent Non-executive Directors</i> |
| Li Man Ching ( <i>Chairman</i> )                                    | Tsui Wing Yin                              |
| Li Mei Lin ( <i>Deputy-Chairman &amp; Chief Executive Officer</i> ) | Lee Pui Shing                              |
| Li Man Shun                                                         | So Kin Wah                                 |
| Fung Chi Ki                                                         |                                            |

Please also refer to the published version of this announcement in International Herald Tribune.