



Kwong Hing International Holdings (Bermuda) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1131)

INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30TH SEPTEMBER, 2004

RESULTS

The Board of directors (the “Board”) of Kwong Hing International Holdings (Bermuda) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2004 with comparative figures for the corresponding periods as follows. The results have been reviewed by the Company’s audit committee.

Kwong Hing International Holdings (Bermuda) Limited

Condensed Consolidated Income Statement

For the six months ended 30th September, 2004

	<i>Notes</i>	Six months ended	
		30.9.2004 <i>HK\$'000</i> (Unaudited)	30.9.2003 <i>HK\$'000</i> (Unaudited)
Turnover	3	325,109	225,920
Cost of sales		(287,523)	(186,633)
Gross profit		37,586	39,287
Other operating income		664	2,949
Selling expenses		(7,161)	(6,858)
Administrative and other operating expenses		(16,367)	(11,821)
Impairment loss recognised in respect of goodwill		(1,870)	–
Profit from operations	4	12,852	23,557
Interest on bank borrowings wholly repayable within five years		(161)	(45)
Profit before taxation		12,691	23,512
Taxation	5	(845)	(1,057)
Profit after taxation		11,846	22,455
Minority interests		(1,529)	–
Net profit for the period		10,317	22,455
Dividends	6	–	9,714
Earnings per share	7		
Basic		2.7 cents	5.8 cents
Diluted		N/A	5.7 cents

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2004

1. Basis of Preparation

The condensed 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 (the “Stock Exchange”) and with the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost conventions, as modified for the revaluation of certain investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2004.

3. Segmental Information

Business segment

For management purpose, the Group is currently organised into two business activities: (i) manufacture and sale of knitted fabric and dyed yarns; and (ii) trading of garment products. 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, 2004

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Trading of garment products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	266,960	58,149	–	325,109
Inter-segment sales	30,835	–	(30,835)	–
Total turnover	<u>297,795</u>	<u>58,149</u>	<u>(30,835)</u>	<u>325,109</u>

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Results				
Segment results	10,385	6,088		16,473
Other operating income				664
Amortisation of goodwill	–	(1,041)	–	(1,041)
Impairment loss recognised in respect of goodwill	–	(1,870)	–	(1,870)
Unallocated corporate expenses				(1,378)
Profit from operations				12,852
Interest on bank borrowings wholly repayable within five years	(161)	–	–	(161)
Profit before taxation				12,691
Taxation				(845)
Profit after taxation				11,846
Minority interests				(1,529)
Net profit for the period				10,317

For the six months ended 30th September, 2003

Sales of knitted fabric and dyed yarns account for more than 90% of the Group's turnover for the six months ended 30th September, 2003. Accordingly, no analysis for the business segment information is presented.

Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	Six months ended	
	30.9.2004 HK\$'000	30.9.2003 HK\$'000
United States of America	58,149	–
People's Republic of China, including Hong Kong	266,960	225,920
	<u>325,109</u>	<u>225,920</u>

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4. Profit from Operations

	Six months ended	
	30.9.2004 <i>HK\$'000</i>	30.9.2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on property, plant and equipment	11,352	11,880
Amortisation of goodwill, included in administrative and other operating expenses	1,041	–
Amortisation of textile quota entitlements, included in cost of sales	11,253	–
and after crediting:		
Interest income from banks	109	138
Investment income from trading securities (listed)	133	109
	<u>11,585</u>	<u>12,127</u>

5. Taxation

	Six months ended	
	30.9.2004 <i>HK\$'000</i>	30.9.2003 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	297	521
Other jurisdictions	264	328
	<u>561</u>	<u>849</u>
Overprovision in prior years:		
Other jurisdictions	(500)	–
Deferred taxation		
Current period	784	208
	<u>845</u>	<u>1,057</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. Dividends

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend for the current period.

For the six months ended 30th September, 2003, the directors of the Company declared an interim dividend of HK\$2.5 cents per share.

7. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.9.2004	30.9.2003
	HK\$'000	HK\$'000
Net profit for the period	<u>10,317</u>	<u>22,455</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	388,573,200	387,168,196
Effect of dilutive potential ordinary shares in respect of share options (<i>note</i>)	<u>N/A</u>	<u>10,149,756</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share (<i>note</i>)	<u>N/A</u>	<u>397,317,952</u>

Note: No diluted earnings per share has been presented for the six months ended 30th September, 2004 as the average market price of the shares of the Company cannot be determined as the shares of the Company were suspended from trading on the Stock Exchange on 26th February, 2004. Trading of shares was resumed on 20th October, 2004.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the current period (2003: HK2.5 cents per share).

BUSINESS REVIEW

For the six months ended 30th September, 2004, the Group recorded a turnover of approximately HK\$325,109,000 representing a growth of 43.9% compare to the same period last year, and gross profit and net profit are approximately HK\$37,586,000 and approximately HK\$10,317,000 respectively, which represented decrease of approximately 4.3% and approximately 54.1% respectively compare to the same period last year. Increase in turnover is attributable to business of garment trading and growth of the sales and manufacture of knitted fabric and dyed yarns. However, owing to the increase of raw material prices, particularly, the cotton yarn price and other production costs, and increased competition, the Group's gross margin was decreased from 17.4% to 11.6% despite various effective cost control measure were implemented. As a result, the Group's net profit was only approximately HK\$10,317,000 for the period under review.

Manufacture and sales of knitted fabric and dyed yarns remains the principal operation of the Group, its turnover including inter-segment sales has recorded approximately 31.8% growth over the last corresponding period. However, the production costs increased sharply because of the increase of the price of the cotton and dyed material, which reduced its operating result margin to only approximately 3.5%.

During the period, management focused on controlling its operating cost and enhancing its competitive advantage, and achieved satisfactory results. Under the extreme competitive environment, the Group managed to control its other production cost and overhead expenses at competitive level. The Group had also continued its prudent and conservative customers' credit policy and monitored closely its inventory level as well as production requirements. These measures also enable the Group to maintain a healthy cash level.

During the period, the Group invested approximately HK\$13,745,000 in property, plant and equipment to upgrade its factory and production facilities as to increase its productivity and to enhance its production quality. Together with the capital investments in previous years, the Group is able to satisfy the increasing demands of its product at better economies of scales.

Trading in the shares of the Company was suspended from 26th February, 2004 at the direction of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) till 19th October, 2004 due to a director, whom subsequently resigned from the Board, suspected of his personal wrong-doing (“Incidence”), detail of which refer to Company’s announcement dated 18th October, 2004. The Incidence did not bring about any material adverse effects on the Company’s operations or financial positions, nor the Incidence would bring about any change in directions and focus of the Company. The Company is committed to continuous its mission to further develop its business in view of the vast market opportunity lying ahead and to crease profits and shareholders value for our shareholders.

PROSPECTS

Looking forward, the demand of the Group’s product is expected to increase because of the expected recovery of the US economy and the change of Group’s ultimate customers purchasing behaviour and the abolishment of textile quota after 2004 despite quota safeguard may be imposed to restrict certain textile product from China to U.S.A. The Group will continuously upgrade its factory and production facilities so as to increase its productivity and to enhance its product quality to cope with these changes. The directors believe that long term benefit derive from expansion of production facilities to cater for increasing demands and to enjoy the benefit of economy of scales are crucial to the Group’s profitability. the Group will also continuously pursue its cautionary credit policy for its customers and continuously improve its product quality, cost and inventory control measures. Moreover, the Group commenced its investments in garment manufacture in October 2004, and the garment manufacturing will commence operation by January 2005.

In October 2004, the Group has disposed its entire interest in Sweetime Limited (“Sweetime”) and shareholder’s loan of approximately HK\$5,797,000 for a cash consideration of HK\$5,800,000. Sweetime is an investment holding company which has 70% interest in South Season Industrial Company Limited. Details of the disposal were set out in the circular to the shareholders of the Company dated 19th November, 2004.

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

Despite the business environment in the second half of the year is expected to remain highly competitive and challenging, the Board believes that Group is ready to take on the challenges in the future as the benefit from the expanded production facilities together with further improved control measures on the operation of the Group will continuously contribute to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2004, the Group's shareholders' equity amounted to HK\$402,192,000, while total bank indebtedness amounted to approximately HK\$21,521,000, and cash on hand amount to approximately HK\$50,861,000. The Group's bank indebtedness to equity ration is only 0.05. Current ratio is 2.96. 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, 2004, the Group's long-term high graded securities investments of approximately HK\$7,800,000 has been pledged to bank as general banking facilities granted to the Group.

As at 30th September, 2004, the Group's contingent liabilities in relation to bills discount with recourse were HK\$16,329,000.

PLEDGE OF ASSETS

At 30th September, 2004, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,402,000 (31st March, 2004: HK\$2,433,000), investments in securities of HK\$7,800,000 (31st March, 2004: Nil) and value added tax recoverable of nil (31st March, 2004: HK\$15,604,000) were pledged to banks as security for general banking facilities granted to the Group. At 31st March, 2004, bank deposits of HK\$3,688,000 (30th September, 2004: Nil) were also pledged as security for the above banking facilities.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2004, the Group had approximately 1,550 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 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 COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2004, in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on SEHK.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detail results announcement containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

Executive Directors

Li Man Ching (*Chairman*)
Li Mei Lin (*Deputy-Chairman*)
Li Man Shun
Fung Chi Ki

Independent Non-executive Directors

Tsui Wai Yin
Lau Chung Man, Louis
So Kin Wah

Kwong Hing International Holdings (Bermuda) Limited

By Order of the Board
Li Man Ching
Chairman

Hong Kong, 21st December, 2004

Please also refer to the published version of this announcement in International Herald Tribune dated 22 December 2004.