



# Kwong Hing International Holdings (Bermuda) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1131)

## INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30TH SEPTEMBER, 2005

### RESULTS

The Board of directors (the "Board") of Kwong Hing International Holdings (Bermuda) Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2005 with comparative figures for the corresponding periods as follows. The interim results had been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, 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 had also been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statement

For the six months ended 30th September, 2005

	Notes	Six months ended	
		30.9.2005 HK\$'000 (Unaudited)	30.9.2004 HK\$'000 (Unaudited)
Turnover	3	262,536	325,109
Cost of sales		(237,487)	(287,523)
Gross profit		25,049	37,586
Other operating income		666	664
Selling expenses		(5,810)	(7,161)
Administrative and other operating expenses		(15,087)	(16,367)
Impairment loss recognised in respect of goodwill		–	(1,870)
Profit from operations	4	4,818	12,852
Interest on bank borrowings wholly repayable within five years		(551)	(161)
Profit before taxation		4,267	12,691
Taxation	5	(68)	(845)
Profit for the period		4,199	11,846
Attributable to:			
Equity holders of the parent		4,346	10,317
Minority interests		(147)	1,529
Profit for the period		4,199	11,846
Earnings per share	6		
Basic		1.1 cents	2.7 cents
Diluted		N/A	N/A

**Condensed Consolidated Balance Sheet**  
At 30th September, 2005

	Notes	30.9.2005 HK\$'000 (Unaudited)	31.3.2005 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		140,652	146,791
Held-to-maturity investments		15,600	15,600
		<u>156,252</u>	<u>162,391</u>
<b>Current assets</b>			
Inventories		133,657	168,330
Trade and other receivables	7	135,459	99,087
Bills receivable		2,841	1,167
Pledged bank deposits		4,000	4,000
Bank balances and cash		35,704	38,132
		<u>311,661</u>	<u>310,716</u>
<b>Current liabilities</b>			
Trade and other payables	8	39,639	49,205
Bills payable			15,932
– secured		–	–
– unsecured		13,825	–
Taxation		3,675	3,379
Obligations under finance leases – amount due within one year		2,988	2,283
		<u>60,127</u>	<u>70,799</u>
<b>Net current assets</b>		<u>251,534</u>	<u>239,917</u>
		<u>407,786</u>	<u>402,308</u>
<b>Capital and reserves</b>			
Share capital		38,857	38,857
Reserves		359,792	354,318
<b>Equity attributable to equity holders of the parent</b>		<u>398,649</u>	<u>393,175</u>
Minority interests		190	337
		<u>398,839</u>	<u>393,512</u>
<b>Non-current liabilities</b>			
Obligations under finance leases – amount due after one year		4,036	3,885
Deferred tax liabilities		4,911	4,911
		<u>8,947</u>	<u>8,796</u>
		<u>407,786</u>	<u>402,308</u>

**Notes To The Condensed Financial Statements**  
For the six months ended 30th September, 2005

**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 'Listing Rules') and with Hong Kong Accounting Standard 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants (the 'HKICPA').

**2. Principal Accounting Policies**

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the 'Group') for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as 'new HKFRSs') issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

**HKFRS 2 "Share-based Payment"**

HKFRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of directors' and employees' share options of the Company. Previously, the Group did not expense the share options issued by the Company.

The Group had taken advantage of the transitional provisions set out in HKFRS 2. In relation to share options granted on or before 7th November, 2002 and share options granted after 7th November, 2002 and vested before 1st April, 2005, the Group did not recognise and expense those share options. However, in relation to share options granted after 7th November, 2002 and vested on or after 1st April, 2005, such share options should be accounted for retrospectively in accordance with HKFRS 2. However, the application of HKFRS 2 has no material impact to the results of the Group in the current and prior periods.

**Financial Instruments**

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

### Financial assets and financial liabilities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as 'financial assets at fair value through profit or loss', 'available-for-sale financial assets', 'loans and receivables' or 'held-to-maturity financial assets'. Financial liabilities are generally classified as 'financial liabilities at fair value through profit or loss' or 'financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)'. 'Other financial liabilities' are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

### Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1st April, 2005 have not been restated. As there were no bills discounted with recourse at 30th September, 2005, there is no financial impact to the group for the current period.

### Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

## 3. Segment Information

### Business segments

For management purpose, the Group is currently organised into two business activities: (i) manufacture and sale of knitted fabric and dyed yarns; and (ii) manufacturing and 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, 2005

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$ '000</i>	Manufacturing and trading of garment products <i>HK\$ '000</i>	Elimination <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
Turnover				
External sales	253,629	8,907	–	262,536
Inter-segment sales	4,900	–	(4,900)	–
Total turnover	<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 operating income				666
Unallocated corporate expenses				<u>(1,248)</u>
Profit from operations				4,818
Interest on bank borrowings wholly repayable within five years				<u>(551)</u>
Profit before taxation				4,267
Taxation				<u>(68)</u>
Profit for the period				<u>4,199</u>

#### 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>
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				<u>(1,374)</u>
Profit from operations				12,852
Interest on bank borrowings wholly repayable within five years				<u>(161)</u>
Profit before taxation				12,691
Taxation				<u>(845)</u>
Profit for the period				<u>11,846</u>

#### 4. Profit from Operations

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on property, plant and equipment	12,893	11,352
Amortisation of goodwill, included in administrative and other operating expenses	–	1,041
Amortisation of textile quota entitlements, included in cost of sales and after crediting:	–	11,253
Interest income from banks	231	109
Investment income from trading securities (listed)	–	133

#### 5. Taxation

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	213	297
Other jurisdictions	233	264
	446	561
Overprovision in prior years:		
Other jurisdictions	(378)	(500)
Deferred taxation:		
Current period	–	784
	68	845

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. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to equity holders of the parent for the purposes of basic and diluted earnings per share	4,346	10,317
Number of ordinary shares for the purposes of basic and diluted earnings per share	388,573,200	388,573,200

The computation of diluted earnings per share for the six months ended 30th September, 2005 does not assume the exercise of the Company's share options as the exercise prices are higher than the average market price of the shares of the Company for the period.

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.

#### 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 receivables of approximately HK\$131,360,000 (31st March, 2005: HK\$94,603,000). The following is an aged analysis of trade receivables at the balance sheet date:

	30.9.2005	31.3.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	81,869	59,169
61 – 90 days	19,986	16,260
91 – 120 days	14,662	7,355
Over 120 days	14,843	11,819
	131,360	94,603

#### 8. Trade and other Payables

Included in trade and other payables are trade payables of approximately HK\$27,156,000 (31st March, 2005: HK\$33,434,000). The following is an aged analysis of trade payables at the balance sheet date:

	30.9.2005	31.3.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	20,745	28,363
61 – 90 days	2,757	3,245
Over 90 days	3,654	1,826
	27,156	33,434

#### 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, 2005, the Group recorded a turnover of approximately HK\$262,536,000 representing a decrease of 19.2% of the same period last year, and gross profit and profit attributable to shareholders are approximately HK\$25,049,000 and approximately HK\$4,346,000 respectively, which represented decrease of 33.3% and 57.9% respectively as compared to the same period last year. Decrease in turnover is attributable to the disposal of Sweetime Limited and its subsidiary last year which had a turnover contribution of approximately HK\$56,657,000 to the Group in the corresponding period.

The abolishment of quota among the members of WTO since the beginning of 2005 had induced a series of actions in US for the application of reinstate of the quota for certain China textile products, which brought a lot of disputes between US government and Chinese Government. Such uncertainties had delayed the order placement of our ultimate customers, which affected the Group's performance 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 was only approximately HK\$258,529,000 representing a decrease of 13.2% as compared to that of last year. Its production cost had been increased sharply because of the increase of the price of dyed material, coal and electricity, and salary and wages in China, which resulted to its operating result margin was only approximately 3.1%. Manufacture and sales of garment recorded a loss of HK\$2,595,000 as it is still in the initial stage of establishment.

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. The measures also enable the Group to maintain a healthy cash level.

During the period, the Group invested approximately HK\$5,457,000 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 year, the Group is able to satisfy the demands of its product at better economies of scales.

#### **PROSPECTS**

Looking forward, the future of the Group is expected to improve because of the solution of the quota dispute between China and US in November 2005. However, the above other unfavourable factors will continuously affect the Group's performance. The board believed that the business environment in the second half of the year is expected to be highly competitive and more challenging. The Group will continuously focus in cutting costs, rationalizing its operations, pursuing a cautionary credit policy for its customers and improving its product quality in order to achieve a better return for its shareholders.

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

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

As at 30th September, 2005, the Group's shareholders' equity amounted to HK\$398,649,000, while total bank indebtedness amounted to approximately HK\$20,849,000, and cash on hand amount to approximately HK\$39,704,000. The Group's bank indebtedness to equity ratio is only 0.05, Current ratio is 5.2. 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, 2005, the Group has high graded held-to-maturity investments of approximately HK\$15,600,000 including HK\$7,800,000 of which 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 exchange rates between them are relative stable, and therefore the Group's exposure to currency exchange risk was minimal.

#### **PLEDGE OF ASSETS**

At 30th September, 2005, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,340,000 (31st March, 2005: HK\$2,371,000), held-to-maturity investment of HK\$7,800,000 (31st March, 2005: HK\$7,800,000) and bank deposits of approximately HK\$4,000,000 (31st March, 2005: 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, 2005, the Group had approximately 1,700 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 COMPANY'S LISTED SECURITIES**

During the six months ended 30th September, 2005, 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, 2005 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 company's independent non-executive directors are not appointed for a specific terms but are subjected 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 set out in Appendix 10 of the Listing Rules on the Stock Exchange as a Code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

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

Hong Kong, 23rd December, 2005

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 & Chief Executive Officer*)

Li Man Shun

Fung Chi Ki

#### *Independent Non-executive Directors*

Tsui Wai Yin

Lau Chung Man, Louis

So Kin Wah

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