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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: 02307)

**INTERIM RESULTS ANNOUNCEMENT FOR
THE SIX MONTHS ENDED 30 JUNE 2021**

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2021 (the “Period”), together with the comparative figures for the corresponding period in 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June 2021	Six months ended 30 June 2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	2, 3	2,036,283	1,609,965
Cost of sales		(1,736,456)	(1,467,812)
Gross profit		299,827	142,153
Other income and gains, net	3	23,910	48,606
Selling and distribution expenses		(68,413)	(45,043)
Administrative expenses		(161,227)	(146,826)
Other operating expenses, net		(26,160)	1,353
Finance costs		(19,784)	(38,448)

		Six months ended 30 June 2021	Six months ended 30 June 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
PROFIT/(LOSS) BEFORE TAX	4	48,153	(38,205)
Income tax expense	5	(8,901)	(678)
PROFIT/(LOSS) FOR THE PERIOD		39,252	(38,883)
Attributable to:			
Ordinary equity holders of the Company		39,519	(37,862)
Non-controlling interests		(267)	(1,021)
		39,252	(38,883)
Interim dividend	6	Nil	Nil
EARNINGS/(LOSSES) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE COMPANY			
Basic	7	HK4.5 cents	(HK4.4 cents)
Diluted	7	HK4.5 cents	(HK4.4 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June 2021 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2020 <i>HK\$'000</i> (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	39,252	(38,883)
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	—	(122,242)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD	39,252	(161,125)
Attributable to:		
Ordinary equity holders of the Company	39,519	(160,104)
Non-controlling interests	(267)	(1,021)
	39,252	(161,125)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	30 June	31 December
	2021	2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	1,478,027	1,575,354
Right-of-use assets	241,843	246,037
Goodwill	–	–
Interest in an associate	2,387	3,739
Prepayments	6,175	6,502
Long term receivables	35,488	34,936
Deposits paid	13,749	8,106
Deferred tax assets	28,471	28,471
	1,806,140	1,903,145
CURRENT ASSETS		
Properties under development	58,786	58,786
Inventories	1,362,900	949,230
Accounts and bills receivables	8 749,217	837,908
Prepayments, deposits and other receivables	47,934	67,455
Financial assets at fair value through profit or loss	434	147
Tax recoverable	–	1,068
Pledged deposits	59,161	81,695
Cash and cash equivalents	779,057	803,946
	3,057,489	2,800,235

		30 June	31 December
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Accounts and bills payable	9	690,778	802,139
Accrued liabilities and other payables		163,854	220,499
Due to an associate		947	947
Tax payable		12,986	4,378
Interest-bearing bank borrowings		1,182,054	575,670
Lease liabilities		6,641	8,031
		<hr/>	<hr/>
Total current liabilities		2,057,260	1,611,664
		<hr/>	<hr/>
NET CURRENT ASSETS		1,000,229	1,188,571
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,806,369	3,091,716
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		646,361	968,575
Lease liabilities		31,792	33,979
Deferred tax liabilities		5,504	5,702
		<hr/>	<hr/>
Total non-current liabilities		683,657	1,008,256
		<hr/>	<hr/>
Net assets		2,122,712	2,083,460
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital		86,992	86,992
Reserves		2,036,839	1,997,320
		<hr/>	<hr/>
		2,123,831	2,084,312
Non-controlling interests		(1,119)	(852)
		<hr/>	<hr/>
Total equity		2,122,712	2,083,460
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). These condensed consolidated financial statements are unaudited but have been reviewed by the Company’s audit committee.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the Period’s financial information.

Amendments to HKFRS 9, *Interest Rate Benchmark Reform – Phase 2*
HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

The nature and impact of the revised HKFRSs are described below:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the fabric products segment engages in the production and sale of knitted fabric and dyed yarn and the provision of related subcontracting services;
- (b) the garment products segment engages in the production and sale of garment products and provision of related subcontracting services; and
- (c) the “others” segment includes the provision of sewage treatment services, the provision of air and ocean freight handling services, mining and property development.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Intersegment revenue and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2021				
(Unaudited)				
Segment revenue:				
Revenue from external customers	1,860,152	176,131	–	2,036,283
Intersegment sales	94,392	–	–	94,392
	<u>1,954,544</u>	<u>176,131</u>	<u>–</u>	<u>2,130,675</u>
Elimination of intersegment sales				<u>(94,392)</u>
				<u><u>2,036,283</u></u>
Segment profit/(loss)	69,515	270	(2,883)	66,902
Bank interest income	1,400	15	10	1,425
Finance costs (other than interest on lease liabilities)	(18,821)	(1)	–	(18,822)
Share of loss of an associate	–	(1,352)	–	(1,352)
	<u>52,094</u>	<u>(1,068)</u>	<u>(2,873)</u>	<u>48,153</u>
Profit/(loss) before tax	52,094	(1,068)	(2,873)	48,153
Income tax credit/(expense)	(7,650)	(1,448)	197	(8,901)
	<u>44,444</u>	<u>(2,516)</u>	<u>(2,676)</u>	<u>39,252</u>
Profit/(loss) for the period	44,444	(2,516)	(2,676)	39,252
As at 30 June 2021 (Unaudited)				
Assets and liabilities				
Segment assets	4,308,389	381,247	143,135	4,832,771
Interest in associates	–	2,387	–	2,387
Deferred tax assets	2,475	–	25,996	28,471
	<u>4,310,864</u>	<u>383,634</u>	<u>169,131</u>	<u>4,863,629</u>
Total assets	4,310,864	383,634	169,131	4,863,629
Segment liabilities	2,615,482	109,867	10,064	2,735,413
Deferred tax liabilities	76	–	5,428	5,504
	<u>2,615,558</u>	<u>109,867</u>	<u>15,492</u>	<u>2,740,917</u>
Total liabilities	2,615,558	109,867	15,492	2,740,917
Other segment information:				
Six months ended 30 June 2021				
(Unaudited)				
Depreciation of property, plant and equipment	143,694	2,468	2,030	148,192
Depreciation of right-of-use assets	6,351	1,525	553	8,429
Capital expenditure	38,013	13,076	70	51,159
	<u>143,694</u>	<u>2,468</u>	<u>2,030</u>	<u>148,192</u>
	<u>6,351</u>	<u>1,525</u>	<u>553</u>	<u>8,429</u>
	<u>38,013</u>	<u>13,076</u>	<u>70</u>	<u>51,159</u>

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2020				
(Unaudited)				
Segment revenue:				
Revenue from external customers	1,466,914	143,051	–	1,609,965
Intersegment sales	70,205	–	–	70,205
	<u>1,537,119</u>	<u>143,051</u>	<u>–</u>	<u>1,680,170</u>
Elimination of intersegment sales				<u>(70,205)</u>
				<u><u>1,609,965</u></u>
Segment profit/(loss)	(380)	(4,678)	346	(4,712)
Bank interest income	3,760	7	12	3,779
Finance costs (other than interest on lease liabilities)	(37,244)	(28)	–	(37,272)
Profit/(loss) before tax	<u>(33,864)</u>	<u>(4,699)</u>	<u>358</u>	<u>(38,205)</u>
Income tax credit/(expense)	(867)	–	189	(678)
Profit for the period	<u><u>(34,731)</u></u>	<u><u>(4,699)</u></u>	<u><u>547</u></u>	<u><u>(38,883)</u></u>
As at 31 December 2020				
(Audited)				
Assets and liabilities				
Segment assets	4,250,678	274,472	146,020	4,671,170
Interest in associates	–	3,739	–	3,739
Deferred tax assets	2,474	–	25,997	28,471
	<u>4,253,152</u>	<u>278,211</u>	<u>172,017</u>	<u>4,703,380</u>
Total assets	<u><u>4,253,152</u></u>	<u><u>278,211</u></u>	<u><u>172,017</u></u>	<u><u>4,703,380</u></u>
Segment liabilities	2,550,832	50,853	12,533	2,614,218
Deferred tax liabilities	76	–	5,626	5,702
	<u>2,550,908</u>	<u>50,853</u>	<u>18,159</u>	<u>2,619,920</u>
Total liabilities	<u><u>2,550,908</u></u>	<u><u>50,853</u></u>	<u><u>18,159</u></u>	<u><u>2,619,920</u></u>
Other segment information:				
Six months ended 30 June 2020				
(Unaudited)				
Depreciation of property, plant and equipment	148,629	2,249	1,762	152,640
Depreciation of right-of-use assets	3,139	2,558	–	5,697
Capital expenditure	61,549	2,901	321	64,771
	<u>148,629</u>	<u>2,249</u>	<u>1,762</u>	<u>152,640</u>
	<u>3,139</u>	<u>2,558</u>	<u>–</u>	<u>5,697</u>
	<u>61,549</u>	<u>2,901</u>	<u>321</u>	<u>64,771</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Korea	753,596	568,511
Mainland China	429,473	389,958
Taiwan	305,160	131,736
Singapore	141,693	69,368
Hong Kong	89,292	182,668
Bangladesh	64,240	77,698
Others	252,829	190,026
	<u>2,036,283</u>	<u>1,609,965</u>

The revenue information above is based on the location of the customers.

(b) Non-current assets

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Mainland China	1,570,741	1,671,962
Hong Kong	71,834	66,361
Cambodia	62,093	62,600
Singapore	562	1,257
Others	36,951	37,558
	<u>1,742,181</u>	<u>1,839,738</u>

The non-current assets information above is based on the location of assets and excludes long term receivables and deferred tax assets.

Information about a major customer

During the Period, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

3. REVENUE, OTHER INCOME AND GAINS, NET

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 rendered by the Group.

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

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Revenue		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	1,860,152	1,466,914
Production and sale of garment products and provision of related subcontracting services	176,131	143,051
	2,036,283	1,609,965
Other income		
Subsidy income from the Chinese and overseas governments	2,584	30,066
Sewage treatment provided	10,778	9,780
Bank interest income	1,425	3,779
Fee income from freight handling services	5,305	3,184
Others	3,531	1,822
	23,623	48,631
Gains, net		
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss – held for trading	287	(25)
Other income and gains, net	23,910	48,606

4. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Cost of inventories sold and services provided	1,736,456	1,467,812
Research and development costs	65,983	62,050
Depreciation of items of property, plant and equipment	148,192	152,640
Depreciation of right-of-use assets	8,429	5,697
Employee benefits expense (including directors' remuneration):		
Wages and salaries	255,167	234,008
Pension scheme contributions	26,963	17,428
	282,130	251,436
Gain on disposal of items of property, plant and equipment	(15)	–
Impairment of accounts receivable, net	3,929	13,134
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss – held for trading	(287)	25
Foreign exchange differences, net	9,028	(23,674)

5. INCOME TAX

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Current tax – Hong Kong		
Charge for the period	7,806	–
Current tax – Elsewhere		
Charge for the period	1,292	867
Deferred tax credit	(197)	(189)
	<hr/>	<hr/>
Total tax charge for the period	8,901	678

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (six months ended 30 June 2020: 16.5%), except for one subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019/2020. The first HK\$2,000,000 (six months ended 30 June 2020: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

6. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2020: Nil).

7. EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/losses per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company of HK\$39,519,000 (six months ended 30 June 2020: loss for HK\$37,862,000), and the number of 869,919,000 (six months ended 30 June 2020: 869,919,000) ordinary shares in issue during the Period.

The Group had no potentially dilutive ordinary shares in issue for the periods ended 30 June 2021 and 30 June 2020.

8. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading with its customers are generally on credit terms of up to three months and are non-interest bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding receivable and has a credit control department to minimise credit risk. 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

An aged analysis of the Group's accounts and bills receivable as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	366,237	400,168
1 to 2 months	203,049	242,608
2 to 3 months	94,876	80,453
Over 3 months	85,055	114,679
	<u>749,217</u>	<u>837,908</u>

9. ACCOUNTS AND BILLS PAYABLE

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 3 months	562,526	648,392
3 to 6 months	125,505	152,568
Over 6 months	2,747	1,179
	<u>690,778</u>	<u>802,139</u>

The accounts and bills payable are non-interest bearing and are normally settled on credit terms of one to four months.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The global textile and garment industry continued to be clouded by many uncertainties during the first half of 2021. In China, the COVID-19 pandemic was largely put under control, which enabled manufacturing activities to resume since mid-2020. Globally, the prospect of effective vaccination has brought about optimistic consumer sentiments, sparking increasing number of orders from apparel retailers and brands. According to the China Customs Statistics (CCS) Information Center, for the six months ended 30 June 2021, total value of exported textile fabrics increased by approximately 61.1% from the same period last year to approximately US\$30.9 billion.

Despite growing demand, the industry faced structural challenges during the Period in the form of instability in the supply chain. The political tension between China and the West has intensified, sparking sanctions and embargos on certain Chinese enterprises. This has affected the supply of core raw materials such as cotton yarns. Textile and garment industry players hurried to source materials from other markets such as India and Pakistan, where the supply was already diminished due to the COVID-19 pandemic. This caused raw material prices to hike significantly. Furthermore, lockdowns and social distancing measures adopted by many countries and regions caused a shortage of shipping containers, incurring additional costs for manufacturers to deliver orders to customers on time.

In addition, the mutated variants of the COVID-19 virus have caused the pandemic's recurrence in many regions during the Period. A number of countries in Southeast Asia were hard-hit. In recent years, countries in South-East Asia such as Cambodia and Vietnam have become an important hub for textile and garment manufacturing, and this new wave of the pandemic caused many manufacturing plants to pause production, creating further upstream pressure to the supply chain.

Overall, the market has showed improvements during the first half of 2021 when compared with 2020. However, due to the lingering impacts of the COVID-19 pandemic, supply chain pressure and deteriorating geopolitical relations, the industry faced much uncertainty, and the business environment was challenging. While market consolidation continues, it is expected that full market recovery back to pre-pandemic levels will take much more time.

Business Overview

During the first half of 2021, external challenges continued to affect the Group's business. Overall revenue increased by approximately 26.5% year-on-year ("yoy") from HK\$1,610.0 million for the six months ended 30 June 2020 to HK\$2,036.3 million during the Period. Gross profit increased by 110.8% from HK\$142.2 million for the six months ended 30 June 2020 to HK\$299.8 million during the Period. Gross profit margin increased by 5.9 percentage points to 14.7% during the Period. Profit attributable to ordinary equity holders of the Company for the Period amounted to HK\$39.5 million, as compared with loss attributable to ordinary equity holders of the Company amounted to HK\$37.9 million for the six months ended 30 June 2020. The basic earning per share for the Period was HK4.5 cents, compared to basic loss per share of HK4.4 cents for the six months ended 30 June 2020.

During the first half of 2021, revenue generated from the fabric business and garment business accounted for 91.4% and 8.6% of the overall revenue respectively. The fabric business was mostly supported by the Group's two production sites in Enping and Nansha in China, while the factories in Cambodia mainly manufactured garment products.

For the Group's fabric business, the segment showed recovery early on during the Period, as customer demand increased. Effective vaccination and distribution in Europe and the U.S. have helped to revitalise consumer demand. Customer behaviour had also changed amidst the pandemic as the people are adapting to a new normal. Sportswear saw increased demand during the Period as people became more health conscious, and demand for sportswear's constituent synthetic fabrics therefore increased accordingly. However, the rise of online shopping over offline has brought new challenges. E-commerce platforms tended to keep smaller inventory due to the absence of physical retail locations, and their orders typically came in smaller batches with shorter lead time as a result. Together with the logistics shortage for product delivery and the additional raw material costs caused by the imbalance of demand and supply of cotton yarn, the Group's fabric business was therefore under much pressure during the Period.

As for the garment business, although there has been an uptake in garment products during the Period, supported by recovering consumer sentiments in western society, overall growth of the garment business was curtailed due to the new wave of mutated COVID-19 pandemic that swept across Southeast Asian countries such as Cambodia. The business segment recorded a loss for the Period. This was mainly attributable to regional lockdown measures which paused manufacturing of the Group's Cambodian factories. Logistics services in short supply caused further drag to the business segment.

During the Period, the Group focused its efforts in maintaining financial stability and healthy cash flow. Capital expenditures such as the investments for the development of the new one-stop textile manufacturing base in Vietnam have been deferred due to the local lock-down. In the long run, diversification of the Group's production bases will continue, including that of the garment operations in Cambodia and Vietnam's one-stop textile manufacturing complex.

Prospects

Looking towards the second half of 2021, the Group anticipates the challenges and uncertainties remain. In China, the new wave of mutated COVID-19 pandemic has caused concern but given China's excellent track record in swiftly containing the initial outbreak in 2020, the Group is confident that the impacts brought by this new wave will be limited. In Cambodia, the latest outbreak in June 2021 has shown signs of abating, as vaccination is progressing steadily. Throughout the entirety of July 2021, the number of infected cases recorded in Cambodia displayed a continually downward trend. Due to these hopeful evolvments, the Group is cautiously optimistic about the gradual recovery of the textile and garment industry.

Regarding the supply of raw materials, it is unknown when the political tension between China and the U.S. will alleviate. With current sanctions in place, it is anticipated that the shortage and price fluctuations of cotton yarns will persist for some time. The Group will proactively communicate with its key suppliers to maintain stable supplies such that the impact of raw material shortage to the Group's business operations will be contained. The Group will also look to diversify its sources of raw materials to spread out geopolitical risks. As for international logistics, the Group will diligently seek out alternative additional freight channels to ensure timely delivery of products to its customers.

While it is unclear when this global pandemic will end, it is observed that industry players and consumers alike are adapting to a new normal. Specifically, consumer demand is shifting away from physical fast fashion retail to E-commerce. This change in market trend as well as the general volatility of the global business environment have reinforced the necessity of a reliable manufacturing partner with diverse and agile capability for apparel brands. To alleviate such external risks as well as to align with its customers' development plans, the Group will continue to invest in establishing a one-stop vertically integrated manufacturing network in Southeast Asia in the long run. The Group will remain attentive to external market changes, to resume its expansion plans for its garment operations in Cambodia. As for the Group's new one-stop textile manufacturing base in Vietnam, it is tentatively anticipated to commence production in 2022, subject to local pandemic control efforts.

In recent years, China’s domestic consumer market has displayed strong potential. Stepping into 2021, the Chinese Government announced the commencement of the “14th Five-Year Plan”, which reinforced the need to promote local consumption and to develop a new economic model primarily driven by domestic demand. In addition, the overall economy of China showcased strong resilience, recovering quickly from the COVID-19 impacts. The Group sees great potential in the Chinese consumer market and will actively explore opportunities to expand operations and customer portfolio in China.

To support the Group’s future endeavors and uphold its resistance to market downsides, the Group will also continue to strengthen its financial discipline, prioritising on the maintenance of strong cash flow, flexibly allocating financial resources to remain operationally lean and stringent, such that it may deliver sustainable and long-term returns to its shareholders.

Financial Review

Revenue

Overall sales turnover during the Period reached approximately HK\$2,036.3 million, representing an increase of approximately 26.5% (six months ended 30 June 2020: HK\$1,610.0 million). The increase was mainly attributable to increase in sales to the U.S. and China markets caused by the recovery of customers sentiment.

Gross Profit and Gross Profit Margin

Gross profit during the Period was approximately HK\$299.8 million, representing an increase of approximately 110.8%. (six months ended 30 June 2020: HK\$142.2 million). Gross profit margin increased to approximately 14.7% (six months ended 30 June 2020: approximately 8.8%). This was mainly attributable to improvement of margins of our product mix by reducing the proportion of supermarket chain’s order with low margins and tighter cost control on production.

Other Income and Gains, Net

Other income during the Period of approximately HK\$23.9 million (six months ended 30 June 2020: approximately HK\$48.6 million) mainly comprised income received from provision of sewage treatment of approximately HK\$11.5 million (six months ended 30 June 2020: approximately HK\$9.8 million), fee on air and ocean freight of approximately HK\$5.3 million (six months ended 30 June 2020: approximately HK\$3.2 million), subsidy income from the Chinese and overseas governments of approximately HK\$2.8 million (six months ended 30 June 2020: approximately HK\$30.1 million), bank interest income of approximately HK\$1.4 million (six months ended 30 June 2020: approximately HK\$3.8 million). The remaining balance was mainly derived from sales of scrap.

Selling and Distribution Expenses

Selling and distribution expenses during the Period increased to approximately HK\$68.4 million (six months ended 30 June 2020: approximately HK\$45.0 million). This was in line with the increase in sales. Also, there was an increase in logistic cost due to higher in freight price during the Period.

Administrative Expenses

Administrative expenses, including salaries, depreciation, customs declaration and other related expenses, increased to approximately HK\$161.2 million during the Period (six month ended 30 June 2020: approximately HK\$146.8 million). Administrative expenses increased in line with the growth in sales. The Group is continuing its efforts on cost-saving measures whilst maintaining high quality product and services.

Other Operating Expenses, Net

During the Period, other operating expenses, net were a loss of approximately HK\$26.2 million (six months ended 30 June 2020: a gain of approximately HK\$1.4 million), mainly comprising operating expenses on sewage treatment of approximately HK\$11.9 million (six months ended 30 June 2020: approximately HK\$9.2 million) and foreign exchange differences, net of approximately HK\$9.0 million loss (six months ended 30 June 2020: approximately HK\$23.7 million gain) together with impairment of accounts receivable, net of approximately HK\$3.9 million (six months ended 30 June 2020: approximately HK\$13.1 million).

Finance costs

Finance costs for the Period were approximately HK\$19.8 million (six months ended 30 June 2020: approximately HK\$38.4 million), comprising interest on bank loans of approximately HK\$14.8 million (six months ended 30 June 2020: approximately HK\$31.8 million), amortization of bank charges on syndicated loans of approximately HK\$2.8 million (six months ended 30 June 2020: approximately HK\$2.8 million), interest on trade loan and discounted bills of approximately HK\$1.3 million (six months ended 30 June 2020: approximately HK\$2.7 million) and interest on lease liabilities of approximately HK\$1.0 million (six months ended 30 June 2020: approximately HK\$1.0 million). The significant decrease in finance costs was mainly due to early repayment of short term loans and trade loans under a prudent measurement of financial control.

Net Profit/(Loss) and Net Profit/(Loss) Margin

Net profit attributable to ordinary equity holders of the Company for the Period was approximately HK\$39.5 million (six months ended 30 June 2020: net loss of approximately HK\$37.9 million). The profit was mainly attributable to increase in sales in fabric business due to the resumption of demand and market consolidation of fabric business. Although there were increase in demand for both fabric and garment sector, the pandemic still brings adverse effect to the operation of the Group during the Period. Regional lockdown measures in Southeast Asian countries have impeded the production and transportation, hence, increased costs and time.

Liquidity and Financial Resources

As at 30 June 2021, the Group's net current assets were approximately HK\$1,000.2 million (31 December 2020: approximately HK\$1,188.6 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan due in August 2021 to current liabilities. The Group regularly reviews its financial position and maintains a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 30 June 2021, the Group had cash and cash equivalents of approximately HK\$779.1 million (31 December 2020: approximately HK\$803.9 million). Current ratio as at 30 June 2021 was approximately 1.5 times (31 December 2020: approximately 1.7 times).

As at 30 June 2021, total bank borrowings of the Group were approximately HK\$1,828.4 million (31 December 2020: approximately HK\$1,544.2 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) as at 30 June 2021 was at approximately 47.8% (31 December 2020: approximately 46.4%). Net debts comprise all interest-bearing bank borrowings, accounts and bills payables, accrued liabilities and other payables, an amount due to an associate and lease liabilities less cash and cash equivalents. Sum of equity comprises owners' equity as stated in the consolidated financial statements.

Financing

As at 30 June 2021, the Group's long-term loans were approximately HK\$646.4 million (31 December 2020: approximately HK\$968.6 million), primarily made up of the syndicated loan. The long-term loans remained at a stable level.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the Period (six months ended 30 June 2020: Nil).

Foreign Exchange Risk and Interest Rate Risk

Approximately 76.6% (six months ended 30 June 2020: approximately 70.2%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Period and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary. The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 30 June 2021, none of the Group's land and buildings were pledged (31 December 2020: Nil).

Capital Expenditure

For the Period, the Group invested approximately HK\$51.2 million (six months ended 30 June 2020: approximately HK\$64.8 million) in capital expenditure of which approximately 78.1% (six months ended 30 June 2020: approximately 93.7%) was used for the purchase of plant and machinery, approximately 17.3% (six months ended 30 June 2020: approximately 0.2%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment.

As at 30 June 2021, the Group had capital commitments of approximately HK\$38.4 million (31 December 2020: approximately HK\$31.8 million) in property, plant and equipment and approximately HK\$193.0 million (31 December 2020: approximately HK\$193.0 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources.

Contingent Liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

Significant Investment

As at 30 June 2021, the Group did not hold any significant investment with a value of 5% or more of the Group's total assets.

Material Acquisition and Disposal

During the Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Treasury Policy

The Group adopted conservative treasury policies in cash and financial management, and attached high importance to the risk control and transactions related to the Group's principal business. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's financial risks. The Group's liquidity and financing requirements are reviewed regularly.

Equity Fund Raising Exercise

There was no equity fund raising by the Company during the Period, nor were there any proceeds brought forward from any issue of equity securities made in previous financial years.

Staff Policy

The Group had 4,645 (31 December 2020: 4,644) employees in the PRC, 2,113 employees in Cambodia (31 December 2020: 2,074) and 128 employees in Hong Kong, Macau, Singapore, South Korea and others as at 30 June 2021 (31 December 2020: 134). Remuneration packages are generally structured by reference to market terms and individual qualification. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are offered to the Group's staff depending on their performance and the results of the Group. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the relevant laws and regulations of applicable jurisdictions.

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the relevant laws and regulations of applicable jurisdictions. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options may be granted to selected eligible participants, with a view to providing an appropriate incentive package for the growth of the Group.

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.

Corporate Governance

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders value. The Company has applied the principles and complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the Period.

Audit Committee

The Audit Committee, comprising all the three independent non-executive Directors, namely Mr. Wu Tak Lung (as Chairman), Mr. Ho Gilbert Chi Hang and Mr. Ting Kay Loong, is primarily responsible for reviewing and supervising the financial reporting, risk management and internal control of the Group. The Audit Committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited interim financial statements of the Group for the Period before recommending them to the Board for approval.

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 code for securities transactions by directors of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code for the Period.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, investors and business partners for their continual support and to its staff for their dedicated work.

GENERAL INFORMATION

As at the date of this announcement, the Board comprises Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk and Mr. Lei Heong Man as executive Directors; and Mr. Ho Gilbert Chi Hang, Mr. Ting Kay Loong and Mr. Wu Tak Lung as independent non-executive Directors.

By Order of the Board
Kam Hing International Holdings Limited
Tai Chin Chun
Chairman

Hong Kong, 23 August 2021