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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue increased by 14.7% to HK\$4,389.4 million (2020: HK\$3,826.8 million)
- Gross profit increased by 30.6% to HK\$558.9 million (2020: HK\$427.8 million)
- Net profit for the year attributable to ordinary equity holders of the Company amounted to HK\$46.0 million (2020: net loss of HK\$37.3 million)
- Proposed final dividend of HK1.3 cents per ordinary share (2020: Nil)

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) hereby announces the annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2021 (the “Year”), together with the comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
REVENUE	4	4,389,437	3,826,829
Cost of sales		<u>(3,830,494)</u>	<u>(3,399,007)</u>
Gross profit		558,943	427,822
Other income and gains	4	51,862	95,323
Selling and distribution expenses		(137,164)	(103,107)
Administrative expenses		(322,569)	(305,889)
Write-back of impairment losses/ (impairment losses) on financial assets, net		1,993	(18,438)
Other operating expenses, net		(51,564)	(63,375)
Finance costs		(44,648)	(59,888)
Share of losses of an associate		<u>(141)</u>	<u>(1,501)</u>
PROFIT/(LOSS) BEFORE TAX	5	56,712	(29,053)
Income tax expense	6	<u>(7,616)</u>	<u>(6,539)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>49,096</u>	<u>(35,592)</u>
Attributable to:			
Ordinary equity holders of the Company		45,986	(37,298)
Non-controlling interests		<u>3,110</u>	<u>1,706</u>
		<u>49,096</u>	<u>(35,592)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		<u>HK5.3 cents</u>	<u>(HK4.3 cents)</u>
Diluted		<u>HK5.3 cents</u>	<u>(HK4.3 cents)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	49,096	(35,592)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	78,277	143,620
Share of other comprehensive income of an associate	88	322
Realisation of exchange reserve and derecognition of non-controlling interest upon deregistration of subsidiaries	–	(263)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	78,365	143,679
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	127,461	108,087
Attributable to:		
Ordinary equity holders of the Company	124,351	106,598
Non-controlling interests	3,110	1,489
	127,461	108,087

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,424,404	1,575,354
Right-of-use assets		237,343	246,037
Interests in associates		3,686	3,739
Prepayments		5,848	6,502
Long term receivables		36,038	34,936
Deposits paid		5,034	8,106
Deferred tax assets		29,347	28,471
		<hr/>	<hr/>
Total non-current assets		1,741,700	1,903,145
CURRENT ASSETS			
Properties under development		60,220	58,786
Inventories		1,517,754	949,230
Accounts and bills receivables	9	863,662	837,908
Prepayments, deposits and other receivables		76,590	67,455
Financial asset at fair value through profit or loss		315	147
Tax recoverable		–	1,068
Pledged deposits		69,552	81,695
Cash and cash equivalents		863,437	803,946
		<hr/>	<hr/>
Total current assets		3,451,530	2,800,235
CURRENT LIABILITIES			
Accounts and bills payables	10	844,352	802,139
Accrued liabilities and other payables		268,582	220,499
Due to an associate		947	947
Tax payable		10,693	4,378
Interest-bearing bank borrowings		528,906	575,670
Lease liabilities		7,446	8,031
		<hr/>	<hr/>
Total current liabilities		1,660,926	1,611,664
NET CURRENT ASSETS			
		1,790,604	1,188,571
TOTAL ASSETS LESS CURRENT LIABILITIES			
		3,532,304	3,091,716

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,286,116	968,575
Lease liabilities	29,909	33,979
Deferred tax liabilities	5,358	5,702
	<hr/>	<hr/>
Total non-current liabilities	1,321,383	1,008,256
	<hr/>	<hr/>
Net assets	2,210,921	2,083,460
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	2,121,671	1,997,320
	<hr/>	<hr/>
	2,208,663	2,084,312
	<hr/>	<hr/>
Non-controlling interests	2,258	(852)
	<hr/>	<hr/>
Total equity	2,210,921	2,083,460
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Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss which has been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform - Phase 2</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) 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 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 based on the Hong Kong Interbank Offered Rate (“HIBOR”) and United States dollars based on the London Interbank Offered Rate (“LIBOR”) as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group’s HIBOR-based borrowings. For the LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments 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 the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

As at 31 December 2021, the Group had interest-bearing bank borrowings of HK\$179,477,000 denominated in United States dollars. The interest rates of these instruments are based on the LIBOR with a tenor of six months or twelve months, which will cease to be published after 30 June 2023. Replacement of the benchmark rates of these instruments from LIBOR to an RFR has yet to commence but it is expected that there will be renegotiations of terms in the future. The Group will continue to monitor the development of the reform and take proactive measures for a smooth transition.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$365,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

3. 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 segment engages in the production and sale of knitted fabric and dyed yarn;
- (b) the garment 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 service, 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.

Year ended 31 December 2021

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:				
Revenue from external customers	3,791,705	597,732	–	4,389,437
Intersegment sales	153,429	–	–	153,429
	<u>3,945,134</u>	<u>597,732</u>	<u>–</u>	<u>4,542,866</u>
Elimination of intersegment sales				<u>(153,429)</u>
				<u><u>4,389,437</u></u>
Segment profit/(loss)	84,113	18,494	(5,376)	97,231
Bank interest income	2,363	36	16	2,415
Finance costs (other than interest on lease liabilities)	(42,709)	(84)	–	(42,793)
Share of loss of an associate	–	(141)	–	(141)
	<u>43,767</u>	<u>18,305</u>	<u>(5,360)</u>	<u>56,712</u>
Income tax credit/(expense)	(4,796)	(3,186)	366	(7,616)
	<u>38,971</u>	<u>15,119</u>	<u>(4,994)</u>	<u>49,096</u>
Assets and liabilities				
Segment assets	4,524,219	488,792	147,186	5,160,197
Interests in associates	–	3,686	–	3,686
Deferred tax assets	2,716	–	26,631	29,347
	<u>4,526,935</u>	<u>492,478</u>	<u>173,817</u>	<u>5,193,230</u>
Total assets	<u>4,526,935</u>	<u>492,478</u>	<u>173,817</u>	<u>5,193,230</u>
Segment liabilities	2,848,353	114,241	14,357	2,976,951
Deferred tax liabilities	–	–	5,358	5,358
	<u>2,848,353</u>	<u>114,241</u>	<u>19,715</u>	<u>2,982,309</u>
Total liabilities	<u>2,848,353</u>	<u>114,241</u>	<u>19,715</u>	<u>2,982,309</u>
Other segment information:				
Depreciation of items of property, plant and equipment	287,451	5,349	4,171	296,971
Depreciation of right-of-use assets	12,645	2,616	411	15,672
Gain on early termination of lease arrangements	(20)	–	–	(20)
Gain on disposal of items of property, plant and equipment, net	(546)	(71)	–	(617)
Impairment/(write-back of impairment) of allowance for accounts receivable, net	(2,094)	101	–	(1,993)
Write-back of provision for inventories	(3,232)	–	–	(3,232)
Capital expenditure*	97,900	18,685	141	116,726

* Capital expenditure consists of additions of property, plant and equipment.

Year ended 31 December 2020

	Fabric <i>HK\$ '000</i>	Garment <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Segment revenue:				
Revenue from external customers	3,387,422	439,407	–	3,826,829
Intersegment sales	107,910	–	–	107,910
	<u>3,495,332</u>	<u>439,407</u>	<u>–</u>	<u>3,934,739</u>
Elimination of intersegment sales				<u>(107,910)</u>
				<u><u>3,826,829</u></u>
Segment profit/(loss)	15,727	9,906	(216)	25,417
Bank interest income	4,715	17	23	4,755
Finance costs (other than interest on lease liabilities)	(57,838)	(149)	–	(57,987)
Gain on deregistration of subsidiaries	263	–	–	263
Share of loss of an associate	–	(1,501)	–	(1,501)
	<u>(37,133)</u>	<u>8,273</u>	<u>(193)</u>	<u>(29,053)</u>
Income tax credit/(expense)	(4,517)	(2,278)	256	(6,539)
	<u>(41,650)</u>	<u>5,995</u>	<u>63</u>	<u>(35,592)</u>
Assets and liabilities				
Segment assets	4,250,678	274,472	146,020	4,671,170
Interests 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>
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>
Other segment information:				
Depreciation of items of property, plant and equipment	289,355	4,554	3,507	297,416
Depreciation of right-of-use assets	12,599	3,153	973	16,725
Loss on disposal of items of property, plant and equipment, net	1,417	–	–	1,417
Impairment of allowance for accounts receivable, net	18,553	1	–	18,554
Write-back of impairment of other receivables	(116)	–	–	(116)
Write-off of other receivables	49	–	–	49
Provision for inventories	10,143	–	–	10,143
Write-off of aged liabilities	(1,758)	–	–	(1,758)
Capital expenditure*	114,907	3,863	705	119,475

* Capital expenditure consists of additions of property, plant and equipment.

Geographical information

(a) Revenue from external customers

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Korea	1,581,541	1,343,663
Mainland China	1,001,599	931,247
Taiwan	489,117	331,538
Singapore	346,064	296,887
Hong Kong	187,638	315,254
Others	783,478	608,240
	<u>4,389,437</u>	<u>3,826,829</u>

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

(b) Non-current assets

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland China	1,505,616	1,671,962
Hong Kong	59,697	66,361
Cambodia	72,429	62,600
Singapore	1,756	1,257
Others	36,817	37,558
	<u>1,676,315</u>	<u>1,839,738</u>

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

Information about a major customer

During the year ended 31 December 2021, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue. During the year ended 31 December 2020, revenue of approximately HK\$474,899,000 was derived from sales by the fabric segment to a single customer.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn	3,791,705	3,387,422
Production and sale of garment products and provision of related subcontracting services	597,732	439,407
	<u>4,389,437</u>	<u>3,826,829</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2021

Segments	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services			
Sale of goods	3,791,705	583,419	4,375,124
Subcontracting services	–	14,313	14,313
	<u>3,791,705</u>	<u>597,732</u>	<u>4,389,437</u>
Geographical markets			
Korea	1,581,541	–	1,581,541
Mainland China	900,859	100,740	1,001,599
Taiwan	489,117	–	489,117
Singapore	152,194	193,870	346,064
Hong Kong	177,237	10,401	187,638
Others	490,757	292,721	783,478
	<u>3,791,705</u>	<u>597,732</u>	<u>4,389,437</u>
Timing of revenue recognition			
At a point in time	<u>3,791,705</u>	<u>597,732</u>	<u>4,389,437</u>

For the year ended 31 December 2020

Segments	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services			
Sale of goods	3,387,422	421,752	3,809,174
Subcontracting services	–	17,655	17,655
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>
Geographical markets			
Korea	1,343,663	–	1,343,663
Mainland China	914,225	17,022	931,247
Taiwan	331,538	–	331,538
Hong Kong	254,420	60,834	315,254
Singapore	154,847	142,040	296,887
Others	388,729	219,511	608,240
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>
Timing of revenue recognition			
At a point in time	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>2,899</u>	<u>6,507</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of knitted fabric, dyed yarns and garment products, and provision of related subcontracting services

The performance obligation is satisfied upon delivery of the knitted fabric, dyed yarns and garment products and payment is generally due within one month to three months from delivery, except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months.

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other income			
Fee income from sewage treatment		24,045	20,915
Fee income from freight handling services		13,658	6,984
Bank interest income		2,415	4,755
Subsidy income	5	5,644	52,635
COVID-19-related rent concessions from lessors		365	454
Others		5,567	9,568
		<hr/> 51,694 <hr/>	<hr/> 95,311 <hr/>
Gains			
Fair value gains:			
Financial asset at fair value through profit or loss - held for trading		<hr/> 168 <hr/>	<hr/> 12 <hr/>
Other income and gains		<hr/> 51,862 <hr/>	<hr/> 95,323 <hr/>

5. PROFIT/(LOSS) BEFORE TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories sold and services provided	3,830,494	3,399,007
Depreciation of items of property, plant and equipment	296,971	297,416
Depreciation of right-of-use assets	15,672	16,725
Lease payments not included in the measurement of lease liabilities	2,779	1,147
Gain on early termination of lease arrangements*	20	-
Loss/(gain) on disposal of items of property, plant and equipment, net*	(617)	1,417
Impairment/(write-back of impairment) of financial assets, net:		
Impairment/(write-back of impairment) of allowance for accounts receivable, net	(1,993)	18,554
Write-back of impairment of other receivables	-	(116)
	(1,993)	18,438
Write-off of other receivables*	-	49
Provision/(write-back of provision) for inventories**	(3,232)	10,143
Write-off of aged liabilities*	-	(1,758)
Gain on deregistration of subsidiaries, net*	-	(263)
Foreign exchange differences, net*	27,381	43,165
Subsidy income***	(5,644)	(52,635)

* These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

** These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

*** During the year ended 31 December 2021, subsidy income mainly represented the amount received from governments under research and development schemes and employment schemes. There are no unfulfilled conditions or contingencies related to these grants.

During the year ended 31 December 2020, subsidy income mainly represented the amount received from governments under COVID-19 pandemic relief schemes. There are no unfulfilled conditions or contingencies related to these grants.

The cost of inventories sold and services provided includes depreciation, staff costs and provision/ (write-back of provision) for inventories of HK\$733,628,000 (2020: HK\$713,435,000), which are also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK\$62,673,000 for the year ended 31 December 2021 (2020: HK\$48,816,000), which are also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	6,336	2,695
Underprovision/(overprovision) in prior years	(181)	5
Current tax – Elsewhere		
Charge for the year	2,270	131
Underprovision/(overprovision) in prior years	(140)	3,779
Deferred tax credit	(669)	(71)
	<hr/>	<hr/>
Total tax charge for the year	7,616	6,539
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2020: 16.5%), except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 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.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is 25% for all enterprises in Mainland China.

During the years ended 31 December 2021 and 31 December 2020, certain of subsidiaries of the Group were subject to a preferential tax rate of 15% under High New Technology Enterprises.

During the year ended 31 December 2020, Macao complementary tax had not been provided by a Macau subsidiary of the Group as the subsidiary was exempted from Macao complementary tax and stamp duty levies pursuant to the Decree-Law No. 58/99/M of 18 October (“Macao Offshore Law”). On 18 December 2018, the Macao SAR Government passed the Decree-Law No. 15/2018 to repeal the Macao Offshore Law effective from 1 January 2021. All tax benefits for offshore companies were fully repealed, and all offshore business licenses were terminated on 1 January 2021. The first Macau Pataca 600,000 (equivalent to approximately HK\$583,000) (2020: Nil) of assessable profits of the Macau subsidiary are exempted from Macao complementary tax and the remaining assessable profits are subject to the statutory rate of 12% on the estimated taxable profit arising in Macao during the year ended 31 December 2021.

7. DIVIDEND

The proposed final dividend for the year of HK1.3 cents (2020: Nil) per ordinary share, in aggregate of approximately HK\$11,309,000 (2020: Nil), is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting. These financial statements do not reflect the proposed final dividend payable.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2021 is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$45,986,000 and 869,919,000 ordinary shares in issue during the year.

The calculation of the basic loss per share amount for the year ended 31 December 2020 was based on the loss for the year attributable to ordinary equity holders of the Company of HK\$37,298,000 and 869,919,000 ordinary shares in issue during the year ended 31 December 2020.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2021 and 2020.

9. ACCOUNTS AND BILLS RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Accounts receivable	562,542	529,478
Impairment	(23,502)	(26,391)
	<u>539,040</u>	<u>503,087</u>
Bills receivable	324,622	334,821
	<u>863,662</u>	<u>837,908</u>

The Group's trading terms with its customers are generally on credit with 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 receivables 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 receivables 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 receivables balances.

As at 31 December 2020, included in the Group's accounts receivable was an amount due from an associate of the Group of HK\$2,014,000, which was repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of the Group's accounts and bills receivables as at the end of the reporting period, based on the invoice date and issuance date, respectively, and net of loss allowance, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	452,652	400,168
1 to 2 months	252,268	242,608
2 to 3 months	72,579	80,453
Over 3 months	86,163	114,679
	<u>863,662</u>	<u>837,908</u>

10. ACCOUNTS AND BILLS PAYABLES

An ageing analysis of the Group's accounts and bills payables as at the end of the reporting period, based on the invoice date and issuance date, respectively, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 3 months	744,107	648,392
3 to 6 months	94,895	152,568
Over 6 months	5,350	1,179
	<u>844,352</u>	<u>802,139</u>

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

As at 31 December 2021, included in the Group's accounts payable is an amount due to an associate of the Group of HK\$694,000, which is payable within 2 months, which represents credit terms similar to those offered by the associate to its major customers.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2021, the global textile and garment industry showed signs of improvement despite the persisting COVID-19 pandemic. Increased rate of vaccination and easing of lockdown and social distance policies drove the recovery of long suppressed consumer demand in many western countries, sparking significantly increased number of orders from apparel retailers and brands. However, this rapid increase in demand was underpinned by serious shortage in key raw materials due to geopolitical reason, which drove significant price hikes. As for other manufacturing hubs such as Cambodia and Vietnam, the COVID-19 pandemic reignited during the second half of 2021 and many factories in manufacturing hubs such as Cambodia and Vietnam were hard-hit once again by the re-imposed pandemic control measures, as workers chose to quit their jobs for safety, causing plants to halt production or operate in much lower capacity, which resulted in further pressure to the global textile and garment supply chain. Eventually, increased demand caused the shortage of shipping containers and services as the international logistics industry was still hampered by border control measures, incurring additional expenses for textile and garment manufacturers and eroding profits. In China, coal supply shortage further added cost pressure.

For 2021 as a whole, the market improved notably from 2020. However, lingering impacts of the COVID-19 pandemic and supply chain disruption slowed the overall recovery. According to the China Customs Statistics (CCS) Information Center, for the twelve months ended 31 December 2021, total value of exported textile fabrics increased by 34.5% year-over-year to approximately US\$66.7 billion. In comparison, for the six months ended 30 June 2021, total value of exported textile fabrics grew by 61.1% year-over-year to approximately US\$30.9 billion. The slow down in growth in the second half year of 2021 reflected that the macroeconomic challenges still faced by the textile and garment industry.

BUSINESS OVERVIEW

The year 2021 presented many challenges but also market opportunities. The Group was able to capitalise on the opportunities while minimising the adverse impacts, which led to improvement to our results. Overall revenue of the Group for 2021 increased by approximately 14.7% year-over-year to approximately HK\$4,389.4 million from approximately HK\$3,826.8 million in 2020, with gross profit increased by approximately 30.6% year-over-year to approximately HK\$558.9 million from approximately HK\$427.8 million in 2020. Gross profit margin increased from approximately 11.2% in 2020 to approximately 12.7% in 2021. Profit attributable to ordinary equity holders of the Company for the Year amounted to approximately HK\$46.0 million, compared with a loss attributable to ordinary equity holders of the Company of approximately HK\$37.3 million in 2020. Basic earnings per share for the Year was approximately HK5.3 cents, compared with loss per share of approximately HK4.3 cents in 2020.

For the Year, revenue generated from the fabric business and garment business accounted for 86.4% and 13.6% 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.

The Group's fabric business showed recovery during the Year. Revitalised consumer demand in the U.S. and Europe as a result of vaccination progress and easing of social distancing measures led to order growth from the Group's customers. In recognition of the supply chain difficulties, retailers and brand owners were more inclined to make larger batches of order earlier with longer lead times. This provided a greater degree of visibility to our production planning and led to higher efficiency and improved margins. However, shortage of raw materials such as cotton yarn fueled continuous price surge. In addition, commodity such as coal also spiked in price during the Year. The Group's long-standing strategy of maintaining financial agility proved beneficial during the Year, providing it with sufficient capital to procure necessary raw materials and maintain sufficient inventory, preventing disruption to manufacturing schedules. While the Group employed cost pass-through mechanism to its customers during the Year, the margins for the Group's fabric business was unavoidably eroded due to time lag effect and extra logistics expenses incurred.

At the same time, the Group's garment business recorded recovery and achieved more notable growth, driven by improved consumer sentiment of the western society and supported by the Group's garment expansion of the manufacturing lines in Cambodia to meet rising demand during the Year. The recovery of the garment business faced some constraints as COVID-19 infections spiked during the middle of the Year in Cambodia. Nonetheless, the overall performance of the garment business showed substantial improvement.

During the Year, the Group dedicated efforts towards maintaining financial health, paying off its short-term loans to minimise interest expenses. In addition, the Group carried out a loan refinancing amounting to HK\$1,300.0 million in December 2021 to further strengthen the Group's resilience towards market unpredictability. Nevertheless, the Group was still working on certain capital expenditures such as the investments in the development of the new one-stop textile manufacturing base in Vietnam. The Group is committed to the establishment of a vertical integrated manufacturing complex outside China in the long run, in alignment with customers' development and the Group's ongoing initiative to increase its one-stop textile manufacturing solution.

PROSPECTS

Looking towards to 2022, the business environment is expected to remain cloudy due to the highly transmissible Omicron variant, which has swept the globe since its discovery near the end of 2021. The Group expects that supply side bottlenecks, including the shortage in raw materials and shipping containers and services, will likely continue in 2022. In addition, the Group observed that inflation as caused by shortage of goods and the earlier fiscal stimulus has showed signs of exacerbation in the U.S., which may suppress the recovering consumer sentiment. In terms of geopolitical tension, trade and other bilateral disputes have occurred in increased frequency in recent years among many countries, most notably between China and the U.S.. Over the past few years, the U.S. has levied trade war, which brought much instability to the textile and garment industry considering that China is one of the largest exporters of textile and garment products, while the U.S. is one of the largest importers.

Under this volatile business environment, in the short to medium term the Group will look to diversify its sources of raw material supply to spread out risks, carrying out frequent communication with suppliers to ensure that production will not be hindered due to lack of materials, as well as devoting financial resources to hedge against raw material cost rise. The Group will also continue to proactively communicate with customers about their order demand, to control the lead time and ensure timely delivery of goods.

In the long run, the Group believes that establishment of a textile vertical integrated solution outside of China remains crucial. The many volatile market factors are expected to induce a round of market consolidation in the future, and industry players must strengthen their capabilities to maintain their edge. In 2022, the Group will speed up the development of the Vietnam manufacturing plant, utilising its resources to accelerate its establishment with the aim of commencing its garment production in late 2022 and textile operations in early 2023. This would allow the Group to strengthen its competitive advantage of being able to provide one-stop integrated manufacturing solutions that are cost efficient and resistant to geopolitical risks.

On an operational level, the Group will continue to maintain tight control on its cash flow and be financially prudent, such that it may flexibly allocate resources to respond to precarious market changes, while maintaining capital strength to support future business development, bringing sustainable and long-term returns to its shareholders.

FINANCIAL REVIEW

Revenue

Overall sales turnover reached approximately HK\$4,389.4 million, representing an increase of approximately 14.7% (2020: HK\$3,826.8 million). The increase was mainly attributable to increase of demand as a result of the continued gradual recovery of the global economy from the impact of the COVID-19 pandemic.

Gross Profit and Gross Margin

Gross profit was approximately HK\$558.9 million, representing an increase of approximately 30.6% (2020: HK\$427.8 million). Gross margin increased slightly to approximately 12.7% (2020: approximately 11.2%). Benefiting from the economic recovery of the U.S. and European markets, demand for orders increased. Meanwhile, market consolidation has also enhanced the Group's competitiveness and thus increased gross profit margin. However, logistics costs and energy costs rose sharply during the Year and therefore eroding part of the profit margin.

Finance Costs

Finance costs, which included an amortisation of syndicated loan charges, interest on term loans from banks, trade loans, bank overdraft and interests on discounted bills, decreased by approximately 25.4% to approximately HK\$44.6 million (2020: approximately HK\$59.9 million) as compared with last year. This was primarily due to decrease in average balance of bank borrowings and interest rate during the Year. The Group has tightened its control on cash flow. The Group has sufficient bank balances for operation. The Group decreased the use of trade facilities and repaid those loans before due date. These operations decrease the interest expenses during the Year.

Selling and Distribution Expenses

Selling and distribution expenses increased to approximately HK\$137.2 million (2020: approximately HK\$103.1 million), mainly due to increase in logistic expenses.

Administrative Expenses

Administrative expenses, including salaries, depreciation, customs declaration, and other related expenses increased to approximately HK\$322.6 million (2020: approximately HK\$305.9 million) due to cancellation of policy on temporary reduction of salaries and thus salaries expenses resumed to normal.

Other Operating Expenses, net

Other operating expenses, net, were approximately HK\$51.6 million (2020: approximately HK\$63.4 million), which mainly comprised foreign exchange loss of approximately HK\$27.4 million (2020: approximately HK\$43.2 million) and operating expenses on sewage treatment of approximately HK\$24.8 million (2020: approximately HK\$20.8 million).

Net Profit/Loss

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK\$46.0 million (2020: net loss attributable to ordinary equity holders of the Company of approximately HK\$37.3 million). Net profit was mainly attributable to increase in sales volume which has nearly resumed to the amount before the COVID-19 pandemic.

Liquidity and Financial Resources

As at 31 December 2021, the Group's net current assets were approximately HK\$1,790.6 million (2020: approximately HK\$1,188.6 million). The increase in net current assets was mainly due to increase in inventories. Sales orders received by the Group increased in late 2021 when compared with last year. Also, the Group maintained sufficient raw materials in order to avoid unpredictable logistic delay or significant increase in price. The Group will constantly review its financial position and maintain a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2021, the Group had cash and cash equivalents of approximately HK\$863.4 million (2020: approximately HK\$803.9 million). Current ratio was approximately 2.1 times (2020: approximately 1.7 times).

As at 31 December 2021, total bank borrowings of the Group were approximately HK\$1,815.0 million (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) was approximately 48.8% (2020: approximately 46.4%). Net debts comprise all interest-bearing bank borrowings, accounts and bills payables, an amount due to an associate, lease liabilities and accrued liabilities and other payables less cash and cash equivalents. Equity comprises owners' equity as stated in the consolidated financial statements.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 70.7 days (2020: 79.9 days), 117.5 days (2020: 101.9 days) and 78.4 days (2020: 86.1 days) respectively. Debtors' turnover period has slightly improved. The inventory turnover period increased due to increase in inventories which is mentioned above. Creditors' turnover period has slightly decreased due to improvement in procurement control.

Financing

As at 31 December 2021, total banking facilities of the Group amounted to approximately HK\$5,559.8 million (2020: approximately HK\$5,401.8 million), of which approximately HK\$2,299.6 million (2020: approximately HK\$2,014.0 million) was utilised.

As at 31 December 2021, the Group's long-term loans were approximately HK\$1,286.1 million (2020: approximately HK\$968.6 million), comprising syndicated loan from banks.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.3 cents (2020: Nil) per ordinary share for the Year and will be payable to the shareholders whose names appear on the register of members of the Company on Friday, 10 June 2022. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about Friday, 8 July 2022.

Capital Structure

The capital structure of the Company is composed of equity and debt.

As at 31 December 2021, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

Approximately 75.1% (2020: approximately 72.0%) 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. During the Year, other than that the Renminbi appreciated as China's economy rapidly recovered from the COVID-19 pandemic, exchange rates of other currencies were relatively stable. The Group continued to monitor foreign exchange movements and determined appropriate and prudent hedging measures as needed.

The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employ necessary hedging instruments in a prudent and professional manner.

Capital Expenditure

As at 31 December 2021, the Group invested approximately HK\$116.7 million (2020: approximately HK\$119.5 million) in capital expenditure of which approximately 96.2% (2020: approximately 86.8%) was used for the purchase of plant and machinery, no expenditure (2020: approximately 7.4%) was used for the construction of new factory premises, and the remaining was used for the purchase of other items of property, plant and equipment.

As at 31 December 2021, the Group had capital commitments of approximately HK\$40.6 million (2020: approximately HK\$31.8 million) in property, plant and equipment and right-of-use assets and approximately HK\$197.7 million (2020: approximately HK\$193.0 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources.

Staff Policy

The Group had 4,506 (2020: 4,644) employees in the People's Republic of China ("PRC"), 2,422 employees in Cambodia (2020: 2,074) and 124 employees in Hong Kong, Macau, Singapore and other territories as at 31 December 2021 (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 laws and regulations of various locations worldwide.

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) 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 laws and regulations of various locations worldwide. 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 has adopted 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.

Segment Information

For the Year, the major end-market remained as the U.S.. By analysis of location of customers, by regions, sales to the five largest regions (Korea, Mainland China, Taiwan, Singapore and Hong Kong) accounted for approximately 82.1% (2020: (Korea, Mainland China, Taiwan, Hong Kong and Singapore) approximately 84.1%) of total sales of the Group and sales to the largest region Korea (2020: Korea) included therein accounted for approximately 36.0% (2020: approximately 35.1%) of the Group.

As at 31 December 2021, the Group's assets located in the fabric operation accounted for approximately 87.2% (2020: approximately 90.4%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 83.9% (2020: 96.2%) of the total capital expenditure of the Group.

Significant Investment

As at 31 December 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

There was no material acquisition and disposal of subsidiaries and associates by the Group during the Year.

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 in the Year, nor were there any unutilised proceeds brought forward from any issue of equity securities made in previous financial years.

ANNUAL GENERAL MEETING (“AGM”)

The AGM of the Company will be held at 23A, TML Tower, No. 3, Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Monday, 6 June 2022.

CLOSURE OF REGISTER OF MEMBERS

- (a) For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 31 May 2022 to Monday, 6 June 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 30 May 2022.
- (b) For determining the entitlement to the proposed final dividend for the Year (subject to approval by the shareholders at the AGM), the register of members of the Company will be closed on Friday, 10 June 2022, on which no transfer of shares of the Company will be registered. In order to be eligible for the proposed final dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 9 June 2022.

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 Year.

CORPORATE GOVERNANCE PRACTICES

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 code provisions set out in Part 2 of Appendix 14 (Corporate Governance Code) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the Year.

AUDIT COMMITTEE

The audit committee of the Company, 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, has reviewed the accounting principles and practices adopted by the Group and the annual results of the Group for the Year.

PRELIMINARY ANNOUNCEMENT OF THE GROUP'S RESULTS

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the Year as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young (the "Auditor"), to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Auditor on this preliminary announcement.

APPRECIATION

Taking this opportunity, the Board would like to extend our gratitude to the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support for the Group during the Year.

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, 28 March, 2022