

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2022

FINANCIAL HIGHLIGHTS

- Revenue decreased by 6.5% to HK\$4,106.2 million (2021: HK\$4,389.4 million)
- Gross profit decreased by 36.6% to HK\$354.3 million (2021: HK\$558.9 million)
- Net loss for the year attributable to ordinary equity holders of the Company amounted to HK\$58.0 million (2021: net profit of HK\$46.0 million)
- No final dividend was proposed (2021: HK1.3 cents per ordinary share)

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 2022 (the “Year”), together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
REVENUE	4	4,106,168	4,389,437
Cost of sales		<u>(3,751,875)</u>	<u>(3,830,494)</u>
Gross profit		354,293	558,943
Other income and gains	4	57,981	51,862
Selling and distribution expenses		(107,276)	(137,164)
Administrative expenses		(297,615)	(322,569)
Write-back of impairment losses/(impairment losses) on financial assets, net		(6,689)	1,993
Other operating income/(expenses), net		5,739	(51,564)
Finance costs		(58,647)	(44,648)
Share of loss of an associate		(1,626)	(141)
PROFIT/(LOSS) BEFORE TAX	5	(53,840)	56,712
Income tax expense	6	(874)	(7,616)
PROFIT/(LOSS) FOR THE YEAR		<u>(54,714)</u>	<u>49,096</u>
Attributable to:			
Ordinary equity holders of the Company		(57,958)	45,986
Non-controlling interests		3,244	3,110
		<u>(54,714)</u>	<u>49,096</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY	8		
Basic		<u>HK(6.7) cents</u>	<u>HK5.3 cents</u>
Diluted		<u>HK(6.7) cents</u>	<u>HK5.3 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	<u>(54,714)</u>	<u>49,096</u>
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(225,972)	78,277
Share of other comprehensive income/(expenses) of an associate	<u>(225)</u>	<u>88</u>
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	<u>(226,197)</u>	<u>78,365</u>
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	<u><u>(280,911)</u></u>	<u><u>127,461</u></u>
Attributable to:		
Ordinary equity holders of the Company	(284,155)	124,351
Non-controlling interests	<u>3,244</u>	<u>3,110</u>
	<u><u>(280,911)</u></u>	<u><u>127,461</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,135,129	1,424,404
Right-of-use assets		223,752	237,343
Interests in associates		1,835	3,686
Prepayments		5,110	5,848
Long term receivables		37,175	36,038
Deposits paid		14,724	5,034
Deferred tax assets		31,888	29,347
Total non-current assets		1,449,613	1,741,700
CURRENT ASSETS			
Properties under development		56,114	60,220
Inventories		826,214	1,517,754
Accounts and bills receivables	9	561,529	863,662
Prepayments, deposits and other receivables		64,639	76,590
Financial asset at fair value through profit or loss		556	315
Tax recoverable		2,991	–
Pledged deposits		37,788	69,552
Cash and cash equivalents		1,074,555	863,437
Total current assets		2,624,386	3,451,530
CURRENT LIABILITIES			
Accounts and bills payables	10	436,470	844,352
Accrued liabilities and other payables		208,597	268,582
Due to an associate		947	947
Tax payable		3,877	10,693
Interest-bearing bank borrowings		495,578	528,906
Lease liabilities		6,639	7,446
Total current liabilities		1,152,108	1,660,926
NET CURRENT ASSETS		1,472,278	1,790,604
TOTAL ASSETS LESS CURRENT LIABILITIES		2,921,891	3,532,304

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*31 December 2022*

	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	966,688	1,286,116
Lease liabilities	32,937	29,909
Deferred tax liabilities	4,617	5,358
	<hr/>	<hr/>
Total non-current liabilities	1,004,242	1,321,383
	<hr/>	<hr/>
Net assets	1,917,649	2,210,921
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	1,826,207	2,121,671
	<hr/>	<hr/>
	1,913,199	2,208,663
	<hr/>	<hr/>
Non-controlling interests	4,450	2,258
	<hr/>	<hr/>
Total equity	1,917,649	2,210,921
	<hr/> <hr/>	<hr/> <hr/>

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 and financial assets at fair value through other comprehensive income which have 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 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendment to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendment to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 2022

	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	3,293,006	813,162	–	4,106,168
Intersegment sales	142,709	–	–	142,709
	<u>3,435,715</u>	<u>813,162</u>	<u>–</u>	<u>4,248,877</u>
Elimination of intersegment sales				<u>(142,709)</u>
				<u><u>4,106,168</u></u>
Segment profit/(loss)	(19,484)	19,448	(1,722)	(1,758)
Bank interest income	6,429	130	24	6,583
Finance costs (other than interest on lease liabilities)	(57,039)	–	–	(57,039)
Share of loss of an associate	–	(1,626)	–	(1,626)
	<u>(70,094)</u>	<u>17,952</u>	<u>(1,698)</u>	<u>(53,840)</u>
Income tax credit/(expense)	1,880	(2,949)	195	(874)
	<u>(68,214)</u>	<u>15,003</u>	<u>(1,503)</u>	<u>(54,714)</u>
Assets and liabilities				
Segment assets	3,452,425	471,523	116,328	4,040,276
Interests in associates	–	1,835	–	1,835
Deferred tax assets	7,300	–	24,588	31,888
	<u>3,459,725</u>	<u>473,358</u>	<u>140,916</u>	<u>4,073,999</u>
Total assets				
Segment liabilities	(2,068,894)	(77,541)	(5,298)	(2,151,733)
Deferred tax liabilities	–	–	(4,617)	(4,617)
	<u>(2,068,894)</u>	<u>(77,541)</u>	<u>(9,915)</u>	<u>(2,156,350)</u>
Total liabilities				
Other segment information:				
Depreciation of items of property, plant and equipment	268,894	6,405	4,062	279,361
Depreciation of right-of-use assets	11,995	3,051	864	15,910
Loss on disposal of items of property, plant and equipment, net	1,238	–	–	1,238
Impairment allowance for accounts receivable, net	6,656	33	–	6,689
Provision for inventories	1,540	–	–	1,540
Capital expenditure*	76,405	2,745	–	79,150

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

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>
	<u><u>38,971</u></u>	<u><u>15,119</u></u>	<u><u>(4,994)</u></u>	<u><u>49,096</u></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>
	<u><u>4,526,935</u></u>	<u><u>492,478</u></u>	<u><u>173,817</u></u>	<u><u>5,193,230</u></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>
	<u><u>2,848,353</u></u>	<u><u>114,241</u></u>	<u><u>19,715</u></u>	<u><u>2,982,309</u></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
	<u>97,900</u>	<u>18,685</u>	<u>141</u>	<u>116,726</u>
	<u><u>97,900</u></u>	<u><u>18,685</u></u>	<u><u>141</u></u>	<u><u>116,726</u></u>

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

Geographical information

(a) Revenue from external customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Korea	1,357,034	1,581,541
Mainland China	740,561	1,001,599
Taiwan	408,113	489,117
Singapore	199,372	346,064
United Kingdom	274,574	135,816
Hong Kong	255,342	187,638
United States	217,430	94,636
Vietnam	124,207	94,566
Others	529,535	458,460
	<u>4,106,168</u>	<u>4,389,437</u>

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

(b) Non-current assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Mainland China	1,210,992	1,505,616
Hong Kong	58,361	59,697
Cambodia	73,582	72,429
Singapore	763	1,756
Others	36,852	36,817
	<u>1,380,550</u>	<u>1,676,315</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 2022, the revenue from the Group's largest customer amounted to less than 10% (2021: less than 10%) of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn	3,293,006	3,791,705
Production and sale of garment products and provision of related subcontracting services	813,162	597,732
	<u>4,106,168</u>	<u>4,389,437</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2022

Segments	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services			
Sale of goods	3,293,006	776,223	4,069,229
Subcontracting services	–	36,939	36,939
	<u>3,293,006</u>	<u>813,162</u>	<u>4,106,168</u>
Geographical markets			
Korea	1,357,034	–	1,357,034
Mainland China	617,952	122,609	740,561
Taiwan	408,113	–	408,113
Singapore	139,121	60,251	199,372
United Kingdom	–	274,574	274,574
Hong Kong	228,647	26,695	255,342
United States	19,550	197,880	217,430
Vietnam	124,207	–	124,207
Others	398,382	131,153	529,535
	<u>3,293,006</u>	<u>813,162</u>	<u>4,106,168</u>
Timing of revenue recognition			
At a point in time	3,293,006	813,162	4,106,168

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
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<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
United Kingdom	–	135,816	135,816
Hong Kong	177,237	10,401	187,638
United States	–	94,636	94,636
Vietnam	94,566	–	94,566
Others	396,191	62,269	458,460
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<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>

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>55,566</u>	<u>2,899</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.

As a practical expedient, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to sale of knitted fabric, dyed yarns and garment products, and provision of related subcontracting services are a part of contracts that have an original expected duration of less than one year.

	<i>Note</i>	2022 HK\$'000	2021 HK\$'000
Other income			
Fee income from sewage treatment		23,996	24,045
Fee income from freight handling services		8,821	13,658
Bank interest income		6,583	2,415
Subsidy income	5	11,134	5,644
COVID-19-related rent concessions from lessors		126	365
Others		7,080	5,567
		<hr/> 57,740	<hr/> 51,694
Gains			
Fair value gains:			
Financial asset at fair value through profit or loss – held for trading		<hr/> 241	<hr/> 168
Other income and gains		<hr/> 57,981	<hr/> 51,862

5. PROFIT/(LOSS) BEFORE TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold and services provided	3,751,875	3,830,494
Depreciation of items of property, plant and equipment	279,361	296,971
Depreciation of right-of-use assets	15,910	15,672
Lease payments not included in the measurement of lease liabilities	1,956	2,779
Gain on early termination of lease arrangements*	–	(20)
Loss/(gain) on disposal of items of property, plant and equipment, net*	1,238	(617)
Impairment/(write-back of impairment) of financial assets, net:		
Impairment/(write-back of impairment) allowance for accounts receivable, net	6,689	(1,993)
Provision/(write-back of provision) for inventories, net**	1,540	(3,232)
Foreign exchange differences, net*	(44,957)	27,381
Subsidy income***	(11,134)	(5,644)
	<u><u> </u></u>	<u><u> </u></u>

* These amounts are included in “Other operating income/(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.

*** 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.

The cost of inventories sold and services provided includes depreciation, staff costs and provision for inventories, net of HK\$692,372,000 (2021: HK\$733,628,000), which are also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	3,421	6,336
Overprovision in prior years	(115)	(181)
Current tax – Elsewhere		
Charge for the year	240	2,270
Underprovision/(overprovision) in prior years	2,424	(140)
Deferred tax credit	(5,096)	(669)
	<hr/>	<hr/>
Total tax charge for the year	874	7,616

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2021: 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 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

During the years ended 31 December 2022 and 31 December 2021, certain subsidiaries of the Group were entitled to a preferential tax rate of 15% under the status of High New Technology Enterprises.

On 18 December 2018, the Macao SAR Government passed the Decree-Law No. 15/2018 to repeal the Decree-Law No. 58/99/M of 18 October effective from 1 January 2021. All tax benefits for offshore companies were fully repealed, and all offshore business licences were terminated on 1 January 2021. The first Macau Pataca 600,000 (equivalent to approximately HK\$583,000) (2021: Macau Pataca 600,000 (equivalent to approximately HK\$583,000)) 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% (2021: 12%).

7. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: HK1.3 cents per ordinary share, in aggregate of approximately HK\$11,309,000).

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

The calculation of the basic loss per share amount for the year ended 31 December 2022 is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$57,958,000 and 869,919,000 ordinary shares in issue during the year.

The calculation of the basic earnings per share amount for the year ended 31 December 2021 was 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 ended 31 December 2021.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2022 and 2021.

9. ACCOUNTS AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Accounts receivable	364,991	562,542
Impairment	(16,675)	(23,502)
	<hr/>	<hr/>
	348,316	539,040
Bills receivable	213,213	324,622
	<hr/>	<hr/>
	561,529	863,662
	<hr/> <hr/>	<hr/> <hr/>

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).

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	263,266	452,652
1 to 2 months	176,173	252,268
2 to 3 months	60,329	72,579
Over 3 months	61,761	86,163
	<hr/>	<hr/>
	561,529	863,662
	<hr/> <hr/>	<hr/> <hr/>

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	383,126	744,107
3 to 6 months	51,716	94,895
Over 6 months	1,628	5,350
	<hr/> 436,470 <hr/>	<hr/> 844,352 <hr/>

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 2022, bills payable of HK\$262,842,000 (2021: HK\$181,362,000) were included in the above accounts and were secured by the Group's pledged bank deposits of HK\$37,788,000 (2021: HK\$69,552,000).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2022, the textile and garment industry faced yet another challenging year. Despite a steady recovery and building of a momentum at the beginning of the Year, the economic slowdown had a significant impact in the second half of 2022. The Russia-Ukraine conflicts and resulting disruption to global supply chains for energy and commodities caused global inflation and interest rate hikes, leading to a higher cost of living in the U.S. and Europe. The Consumer Price Index (CPI) maintained a high level throughout the Year, with a record high of 9.1% in June 2022 in the U.S. and a 10.7% inflation rate in October 2022 in the Eurozone. The high CPI led to lower consumer sentiment, causing consumers to prioritise staple necessities such as food and utilities rather than consumer discretionary like clothing and fashion items. This resulted in a downturn in the textile and garment industry, with retailers needing to destock their inventories instead of procuring new products.

China's market was also impacted by COVID-19 outbreaks and pandemic measures throughout 2022. The government imposed periodic lockdowns in cities in China, halting economic activities, including factory production and logistics. In the fourth quarter, China's government announced the gradual relaxation of the COVID-19 related measures and restrictions. Meanwhile, a new wave of widespread COVID-19 infections spread nationwide, followed by the reopening of border in January 2023. Major textile and garment manufacturing hubs in Southeast Asia, which had reopened upon the relaxation of pandemic-related restrictions in 2021, on the other hand, benefited from the order shift from China during the Year. This had further accelerated of the trend of supply chain diversification in the industry.

Overall, the textile and garment industry faced significant pressure in 2022 due to unpredictable global economic slowdowns and the COVID-19 situation in China. These challenges have led to a new round of market consolidation, where only those companies that can withstand external uncertainties and overcome challenges have been able to safeguard their position in the market.

BUSINESS OVERVIEW

In 2022, the Group experienced a tumultuous year and faced numerous challenges that had a significant impact on its profitability. Overall revenue of the Group for 2022 decreased by approximately 6.5% year-over-year to approximately HK\$4,106.2 million from approximately HK\$4,389.4 million in 2021, with gross profit decreased by approximately 36.6% year-over-year to approximately HK\$354.3 million from approximately HK\$558.9 million in 2021. Gross profit margin decreased from approximately 12.7% in 2021 to approximately 8.6% in 2022. Loss attributable to ordinary equity holders of the Company for the Year amounted to approximately HK\$58.0 million, compared with a profit attributable to ordinary equity holders of the Company of approximately HK\$46.0 million in 2021. Basic loss per share of the Year was approximately HK6.7 cents, compared with basic earnings per share of approximately HK5.3 cents in 2021.

For the Year, revenue generated from the fabric business and garment business accounted for 80.2% and 19.8% of the overall revenue respectively. The textile 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 textile business faced immense pressure in 2022 mainly due to rising costs and a slowdown in order demand in the second half of year 2022, resulting in a decline in the Group's profitability. The escalation of hostilities between Russia and Ukraine had added to the global economic and political uncertainty, leading to rapid hikes in essential commodities such as food, utilities, and necessities in the West. The hiking inflation and interest rates had weighed on consumer sentiment and prompted order hauls from brand customers in the U.S.. The severe COVID-19 outbreaks and strict pandemic measures in China also had a negative impact on the economy, which in turn led to a reduction in domestic customer orders. To manage the shrinking demand, the Group promptly altered its product mix to cater more mass market orders, in order to maintain sales stability and maximise manufacturing efficiency. However, the change in product mix resulted in a decrease in average selling prices and profit margins. In the fourth quarter, there were widespread infections among the employees in Enping and Nansha after the relaxation of the COVID-19 related measures and restrictions. As a result, the operations of production lines were impacted, leading to certain delays in production delivery.

On the other hand, the garment business achieved satisfactory performance throughout 2022. The Group's early expansion of its garment business in Cambodia helped to navigate its regional risks and lessen the impact of the pandemic-related lockdowns in China. This enabled the garment business to record strong order growth despite the fall in global garment demand. With a manufacturing base in Cambodia, the Group capitalised its regional benefits to maintain relatively low production costs and diversify its customer portfolio to include more customers in Europe and new retailers in the U.S. that allocated orders to Southeast Asia.

In the midst of the challenging business environment, the Group remained committed to enhancing its operational efficiency and cost management. To this end, in the fourth quarter of 2022, the Group undertook a one-off HK\$15 million organisational restructuring, which the Group considered necessary for its long-term development. This strategic action aimed to enhance the Group's flexibility in cash flow and ensure financial agility, enabling it to withstand the prolonged economic uncertainty and further improve its resilience to future challenges.

PROSPECTS

Stepping into 2023, the global business environment remains clouded by economic and political uncertainties. The ongoing Russia-Ukraine conflicts and the interest rate-rise cycle are expected to continue in the foreseeable future. Nevertheless, there are some positive signs, as inflation in the U.S. has slowed down recently. The CPI dropped from 9.1% in mid-2022 to 6.4% in January 2023. Additionally, supply chain recovery and deflationary impulses in the goods sector have been observed. The reopening of borders in China following its exit from a zero-Covid policy is also expected to drive global economic growth.

These positive developments offer a glimmer of hope for the textile and garment industry. While the full recovery is expected to be slow, the Group is cautiously optimistic about a moderate recovery for the textile and garment industry in the second half of 2023. Retailers in the U.S. are expected to restock their inventory in stores to embrace the potential return of consumption after almost a year of destocking. Additionally, the reopening of borders in China offers the Group opportunities to source more clients and diversify its market, presenting a good timing for its business expansion.

As part of its continuing strategic plan of geographic expansion into Southeast Asia, the Group signed agreements to acquire the interest in a parcel of land of 56,542 sq.m. in Nam Dinh Province, Vietnam in January 2023 for approximately HK\$22.58 million. The land together with our existing land in Vietnam will be used to build a new integrated textile and garment manufacturing base network that can provide one-stop solutions to the Group's global customers in Southeast Asia. The new Vietnam base will enhance the Group's production flexibility against geopolitical risks, improve cost efficiency, and create synergy with its existing textile factories in China. Currently, the garment factory is planned to construct before the third quarter of 2023 and the integrated textile manufacturing base is ready to start construction. The garment section is expected to begin production by the end of 2023, and the textile production will commence trial run in the first quarter of 2024.

Considering the growing orders received from the Group's garment factories in Cambodia, the Group has accelerated its expansion plan by setting up a new factory with self-owned land in 2022. The overall manufacturing capacity in Cambodia will be enhanced by 50% with stronger capability in research and development and other value-added products and services. The new garment factory will start its production in mid-2023 in time to catch the high season demand for the second half of the year. The investments in offshore production capacity represent a significant step of the Group's ongoing expansion into Southeast Asia and underscore its commitment to invest in strategic growth opportunities that will create sustainable long-term value for its stakeholders.

Having said that, the Group remains committed to navigate the ongoing uncertainties by implementing effective cost-management strategies and enhancing operational efficiency. The Group's resilient business model and proactive approach to market diversification position it well for sustainable development in the years ahead.

FINANCIAL REVIEW

Revenue

Overall sales turnover was approximately HK\$4,106.2 million, representing decrease of approximately 6.5% (2021: approximately HK\$4,389.4 million). The sales of fabric decreased by approximately 13.2% to approximately HK\$3,293.0 million (2021: approximately HK\$3,791.7 million). Meanwhile, the sales of garment increased by approximately 36.0% to approximately HK\$813.2 million (2021: approximately HK\$597.7 million) which is a record high in the past five years.

Gross Profit and Gross Margin

Gross profit was approximately HK\$354.3 million, representing decrease of approximately 36.6% (2021: approximately HK\$558.9 million). Gross margin dropped to approximately 8.6% (2021: approximately 12.7%). The decrease in gross profit margin was attributable to a range of factors. Global economic and political uncertainty led to an overall increase in price. The rise in prices of transportation costs and raw materials has had a direct impact on the profit margin. Moreover, the keen competition in fabric business due to the decrease in demand, especially in the second half of the Year, has led to a more challenging environment for the Group. The Group promptly altered its product mix to cater more mass market orders with lower gross profit margins, in order to maintain sales stability and maximise manufacturing efficiency. This has further constrained the ability of the Group to maintain its profit margins.

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, increased by approximately 31.4% to approximately HK\$58.6 million (2021: approximately HK\$44.6 million) as compared with last year. This was primarily due to increase in average bank borrowings interest rate during the Year. The Group has tightened its control on cash flow and has sufficient bank balances for its operations. The Group relied less on trade loan facilities and repaid those loans before due date.

Selling and Distribution Expenses

Selling and distribution expenses decreased to approximately HK\$107.3 million (2021: approximately HK\$137.2 million), which is mainly due to decrease in freight charges. Freight charges decreased significantly due to the decrease in sales volume and freight rate during the Year.

Administrative Expenses

Administrative expenses, including salaries, depreciation, customs declaration, and other related expenses decreased to approximately HK\$297.6 million (2021: approximately HK\$322.6 million) mainly due to decrease in employee salaries and pension.

Other Operating Income/Expenses, net

Other operating income, net, was approximately HK\$5.7 million (2021: other operating expenses, net, approximately HK\$51.6 million), which mainly comprised foreign exchange gain of approximately HK\$45.0 million (2021: loss of approximately HK\$27.4 million), operating expenses on sewage treatment of approximately HK\$22.6 million (2021: approximately HK\$24.8 million) and one-off redundancy payment of HK\$15.0 million in connection with the internal organisational restructuring for the Year.

Net Profit/Loss

Net loss attributable to ordinary equity holders of the Company for the Year was approximately HK\$58.0 million (2021: net profit attributable to ordinary equity holders of the Company of approximately HK\$46.0 million). Net loss was mainly attributable to the significant drop in gross profit margin.

Liquidity and Financial Resources

As at 31 December 2022, the Group's net current assets were approximately HK\$1,472.3 million (2021: approximately HK\$1,790.6 million). The decrease in net current assets was mainly due to decrease in inventories as a result of: (i) decrease in sales orders during the Year; and (ii) lower inventory level to retain more cash. 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 2022, the Group had cash and cash equivalents of approximately HK\$1,074.6 million (2021: approximately HK\$863.4 million). Current ratio was approximately 2.3 times (2021: approximately 2.1 times).

As at 31 December 2022, total bank borrowings of the Group were approximately HK\$1,462.3 million (2021: approximately HK\$1,815.0 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was approximately 35.9% (2021: approximately 48.8%). 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 63.3 days (2021: 70.7 days), 114.0 days (2021: 117.5 days) and 62.3 days (2021: 78.4 days) respectively. Debtors' turnover period decreased due to the decrease in sales in PRC that have a longer payment terms on average. This led to a lower level of trade receivables balance. The inventory turnover period also decreased. During the Year, the Group strived to reduce its inventory level. This helps to maintain sufficient funds to prepare for any uncertainties under the current uncertain economic environment. Creditor's turnover period decreased due to the decrease in purchases during the Year.

Financing

As at 31 December 2022, total banking facilities of the Group amounted to approximately HK\$5,225.6 million (2021: approximately HK\$5,559.8 million), of which approximately HK\$1,739.0 million (2021: approximately HK\$2,299.6 million) was utilised.

As at 31 December 2022, the Group's long-term loans were approximately HK\$966.7 million (2021: approximately HK\$1,286.1 million), comprising syndicated loan from banks.

Dividend

The Board has resolved not to recommend the payment of a final dividend (2021: HK1.3 cents per ordinary share).

Capital Structure

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

As at 31 December 2022, 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 80.3% (2021: approximately 75.1%) 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 risks arising from currency exposures, primarily in respect to the Renminbi. During the Year, the U.S. dollars is strong relative to other currencies. The Group continued to monitor foreign exchange movements and is determined to adopt appropriate and prudent hedging measures as and when necessary and appropriate.

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 2022, the Group invested approximately HK\$79.2 million (2021: approximately HK\$116.7 million) in capital expenditure of which approximately 97.7% (2021: approximately 96.2%) was used for the purchase of plant and the remaining was used for the purchase of other items of property, plant and equipment.

As at 31 December 2022, the Group had capital commitments of approximately HK\$48.6 million (2021: approximately HK\$40.6 million) in property, plant and equipment and right-of-use assets and approximately HK\$221.7 million (2021: approximately HK\$197.7 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources.

Staff Policy

The Group had 3,919 (2021: 4,506) employees in the People’s Republic of China (“PRC”), 2,703 employees in Cambodia (2021: 2,422) and 121 employees in Hong Kong, Macau, Singapore and others territories (2021: 124) as at 31 December 2022. 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 the location of customers, by regions, sales to the five largest regions (Korea, Mainland China, Taiwan, United Kingdom and Hong Kong) accounted for approximately 73.9% (2021: Korea, Mainland China, Taiwan, Singapore and Hong Kong, approximately 82.1%) of total sales of the Group and sales to the largest region, Korea (2021: Korea), included therein accounted for approximately 33.0% (2021: approximately 36.0%) of the Group.

As at 31 December 2022, the Group’s assets for the fabric operation accounted for approximately 84.9% (2021: approximately 87.2%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 96.5% (2021: 83.9%) of the total capital expenditure of the Group.

Significant Investment

As at 31 December 2022, 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.

Future Plans for Material Investments or Capital Assets

The Group plans to construct a textile manufacturing base on our leased land in Vietnam. The construction costs are funded or will be funded by internal resources or bank borrowings.

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

Contingent Liabilities

As at 31 December 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).

Charge of Group's Assets

As at 31 December 2022, none of the Group's land and buildings were pledged (31 December 2021: Nil).

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, 5 June 2023.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 31 May 2023 to Monday, 5 June 2023, 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 30 May 2023.

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 (the “Listing Rules”) throughout the Year.

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. 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 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 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, 31 March, 2023