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: 2307)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

KEY HIGHLIGHTS

– Revenue	HK$2,013.9 million
– Gross Profit	HK$395.9 million
– Profit for the year	HK$101.1 million
– Proposed final dividend per share	HK4.0 cents

HIGHLIGHTS

- Revenue and net profit increased by approximately 34.3% and 28.0% to approximately HK$2,013.9 million and HK$101.1 million, respectively
- Business vertically extended to garment manufacturing
- Knitting and dyeing capacity increased by approximately 25% in 2006
- Established a joint venture to set up a dyeing factory in Enping, Guangzhou Province, the PRC, with an aim to further increase the production capacity by 30% in 2008

The board (the "Board") of directors ("Directors") of Kam Hing International Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 (the "Year"), together with the comparative figures for the year ended 31 December 2005, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	4	**2,013,889**	1,499,403
Cost of sales		**(1,618,023)**	(1,161,055)
Gross profit		**395,866**	338,348
Other income and gain	4	**9,281**	8,466
Selling and distribution costs		**(89,842)**	(93,850)
Administrative expenses		**(143,508)**	(123,203)
Other operating expenses, net		**(9,170)**	(13,418)
Finance costs	5	**(40,821)**	(26,081)
PROFIT BEFORE TAX	6	**121,806**	90,262
Tax	7	**(20,659)**	(11,312)
PROFIT FOR THE YEAR		**101,147**	78,950
Attributable to:			
Equity holders of the Company		**101,125**	78,959
Minority interests		**22**	(9)
		101,147	78,950
DIVIDEND – Proposed final	8	**25,600**	19,840
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		**15.8 cents**	12.3 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**883,249**	741,696
Investment properties		**7,055**	7,096
Prepaid land lease payments		**48,990**	39,395
Deferred tax assets		**41**	2,137
Total non-current assets		**939,335**	790,324
CURRENT ASSETS			
Inventories		**483,347**	381,102
Accounts and bills receivable	*10*	**367,396**	312,630
Prepayments, deposits and other receivables		**9,405**	4,518
Equity investments at fair value through profit or loss		**1,382**	497
Due from a minority shareholder		**140**	–
Pledged deposits		**2,152**	2,146
Cash and cash equivalents		**193,076**	172,171
Total current assets		**1,056,898**	873,064
CURRENT LIABILITIES			
Accounts and bills payable	*11*	**384,657**	221,341
Accrued liabilities and other payables		**45,802**	38,095
Due to a minority shareholder		**–**	114
Tax payable		**17,076**	7,490
Bank advances for discounted bills		**85,796**	104,894
Interest-bearing bank and other borrowings		**475,720**	253,456
Total current liabilities		**1,009,051**	625,390
NET CURRENT ASSETS		**47,847**	247,674
TOTAL ASSETS LESS CURRENT LIABILITIES		**987,182**	1,037,998
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**188,447**	360,764
Total non-current liabilities		**188,447**	360,764
Net assets		**798,735**	677,234
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**64,000**	64,000
Reserves		**708,818**	593,289
Proposed final dividend		**25,600**	19,840
		798,418	677,129
Minority interests		**317**	105
Total equity		**798,735**	677,234

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of an outside shareholder not held by the Group in the results and net assets of a Company's subsidiary.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

In prior years, financial guarantees provided by the Company to various banks in connection with the bank loans and other banking facilities granted to its subsidiaries were disclosed as contingent liabilities. Upon the adoption of this amendment, the scope of HKAS 39 has been revised to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The Group had assessed all the relevant financial guarantee contracts and concluded that this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) **HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease***

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group had reassessed all the relevant arrangements and concluded that this interpretation has had no material impact on these financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group's business segments as over 90% of the Group's revenue and assets are related to the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services.

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) Singapore;

(b) Taiwan;

(c) Hong Kong;

(d) The People's Republic of China (other than Hong Kong and Macau) (the "PRC"); and

(e) Others

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers, and where segment revenue from external customers or segment assets are 10% or more of the Group's total amount. The Group's asset-based geographical segments are Singapore, Hong Kong, the PRC (other than Hong Kong and Macau) and Others.

(i) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group – 2006

	Singapore	Taiwan	Hong Kong	PRC	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	**1,135,710**	**192,602**	**285,736**	**186,349**	**213,492**	**2,013,889**
Other income	**1,248**	**5**	**2,546**	**218**	**58**	**4,075**
Total	**1,136,958**	**192,607**	**288,282**	**186,567**	**213,550**	**2,017,964**
Segment results	**190,770**	**32,817**	**52,081**	**32,027**	**36,558**	**344,253**
Interest and other unallocated income and gain						**5,206**
Unallocated expenses						**(186,832)**
Finance costs						**(40,821)**
Profit before tax						**121,806**
Tax						**(20,659)**
Profit for the year						**101,147**
Assets and liabilities						
Segment assets	**175,138**	**17,850**	**60,392**	**90,036**	**23,980**	**367,396**
Unallocated assets						**1,628,837**
Total assets						**1,996,233**
Segment liabilities	**70,776**	**13,060**	**140,226**	**184,772**	**61,619**	**470,453**
Unallocated liabilities						**727,045**
Total liabilities						**1,197,498**

Group – 2006 *(continued)*

	Singapore *HK$'000*	**Taiwan** *HK$'000*	**Hong Kong** *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						**69,960**
Depreciation of investment properties, unallocated						**377**
Amortisation of prepaid land lease payments, unallocated						**949**
Capital expenditure, unallocated						**180,207**
Loss on disposal of items of property, plant and equipment, unallocated						**480**
Allowance for doubtful debts	**–**	**–**	**69**	**–**	**–**	**69**
Write back of allowance for doubtful debts	**(377)**	**–**	**(925)**	**(62)**	**(129)**	**(1,493)**

Group – 2005

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Sales to external customers	769,444	181,027	173,587	149,731	225,614	1,499,403
Other income	1,052	9	3,022	96	95	4,274
Total	770,496	181,036	176,609	149,827	225,709	1,503,677
Segment results	124,275	32,974	33,794	27,362	41,112	259,517
Interest and other unallocated income						4,192
Unallocated expenses						(147,366)
Finance costs						(26,081)
Profit before tax						90,262
Tax						(11,312)
Profit for the year						78,950
Assets and liabilities						
Segment assets	134,164	42,255	47,998	81,718	6,495	312,630
Unallocated assets						1,350,758
Total assets						1,663,388
Segment liabilities	76,011	40,448	79,075	72,640	58,061	326,235
Unallocated liabilities						659,919
Total liabilities						986,154
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						55,860
Depreciation of investment properties, unallocated						376
Amortisation of prepaid land lease payments, unallocated						449
Capital expenditure, unallocated						294,187
Gain on disposal of items of property, plant and equipment, unallocated						(160)
Allowance for doubtful debts	12,109	–	854	–	67	13,030
Write back of allowance for doubtful debts	(131)	–	(16)	–	–	(147)

(ii) Geographical segments based on the location of assets

The following tables present certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group – 2006

	Singapore *HK$'000*	**Hong Kong** *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Segment assets	**476**	**437,880**	**1,534,135**	**23,742**	**1,996,233**
Capital expenditure	**–**	**1,568**	**165,965**	**12,674**	**180,207**
Group – 2005					
Segment assets	1,066	402,286	1,259,271	765	1,663,388
Capital expenditure	33	6,077	288,077	–	294,187

4. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered by the Group. All significant intra-group transactions have been eliminated on consolidation.

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

	Note	**2006** *HK$'000*	2005 *HK$'000*
Revenue			
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services		**2,013,889**	1,499,403
Other income			
Fee income from freight handling services		**4,075**	4,274
Bank interest income		**888**	671
Gross rental income		**1,372**	1,347
Others		**2,883**	2,120
		9,218	8,412
Gain			
Fair value gain on equity investments at fair value through profit or loss	*6*	**63**	54
		9,281	8,466

5. FINANCE COSTS

	Group	
	2006 *HK$'000*	2005 *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**34,238**	21,379
Interest on finance leases	**4,983**	3,702
Amortisation of bank charges on a syndicated loan	**1,600**	1,000
	40,821	26,081

6. PROFIT BEFORE TAX

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

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**1,618,023**	1,161,055
Auditors' remuneration	**1,350**	1,180
Research and development costs	**4,107**	5,006
Depreciation of items of property, plant and equipment	**69,960**	55,860
Depreciation of investment properties	**377**	376
Amortisation of prepaid land lease payments	**949**	449
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	**98,502**	73,829
Equity-settled share option expenses	**–**	3,010
Pension scheme contributions	**6,601**	3,962
	105,103	80,801
Minimum lease payments under operating leases in respect of land and buildings	**1,931**	2,049
Loss/(gain) on disposal of items of property, plant and equipment	**480**	(160)
Allowance for doubtful debts	**69**	13,030
Write back of allowance for doubtful debts	**(1,493)**	(147)
Fair value gain on equity investments at fair value through profit or loss	**(63)**	(54)
Foreign exchange differences, net	**8,385**	481

Cost of inventories sold and services provided includes depreciation and staff costs of HK$124,352,000 for the year ended 31 December 2006 (2005: HK$90,112,000), which is also included in the respective total amounts disclosed separately above.

Research and development costs include depreciation and staff costs of HK$3,462,000 for the year ended 31 December 2006 (2005: HK$3,172,000), which is also included in the respective total amounts disclosed separately above.

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

7. TAX

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**10,243**	6,014
Overprovision in prior years	**(1,227)**	(1,178)
Current tax – Elsewhere		
Charge for the year	**9,547**	8,439
Underprovision in respect of prior years	**–**	121
Deferred tax charge/(credit)	**2,096**	(2,084)
Total tax charge for the year	**20,659**	11,312

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2005: 17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Panyu Kam Hing Textile Dyeing Co. Ltd. ("Panyu KH Textile"), a wholly-owned PRC subsidiary of the Company, is entitled to a 50% reduction in the corporate income tax in the PRC. The applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

The Group has tax losses arising in Hong Kong of HK$2,565,000 (2005: HK$2,017,000) that are available indefinitely for offsetting against future taxable profits of the Company and its respective subsidiaries. No deferred tax assets has been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

8. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK 4.0 cents per ordinary share (2005: HK 3.1 cents)	**25,600**	19,840

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "AGM').

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$101,125,000 (2005: HK$78,959,000) and the weighted average of 640,000,000 (2005: 640,000,000) ordinary shares deemed to have been in issue during the year.

Diluted earnings per share for the years ended 31 December 2006 and 2005 has not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

10. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are generally on credit with terms of up to 60 days and non-interest-bearing (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days). Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's accounts and bills receivable as at the balance sheet date, based on the invoice date and net of allowances, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**138,659**	100,747
31 to 60 days	**100,241**	83,392
61 to 90 days	**83,166**	51,530
Over 90 days	**45,330**	76,961
	367,396	312,630

The carrying amounts of the Group's accounts and bills receivable approximate to their fair values.

Included in the above accounts and bills receivable as at 31 December 2006, HK$85,796,000 (2005: HK$104,894,000) was discounted to banks in exchange for cash and included as "Bank advances for discounted bills" on the face of the consolidated balance sheet.

11. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at the balance sheet dates, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**322,382**	174,573
91 to 180 days	**50,865**	29,861
181 to 365 days	**11,322**	16,565
Over 365 days	**88**	342
	384,657	221,341

The accounts and bills payable are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of the Group's accounts and bills payable approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are delighted to report a significant growth in revenue and net profit in 2006. Revenue for the year ended 31 December 2006 was HK$2,013.9 million, representing an increase of approximately 34.3% from the previous year. Net profit increased by approximately 28.0% to HK101.1 million compared with the previous year.

The increase in revenue was attributable to a strong growth in orders from existing customers and orders received from new customers in Singapore, Hong Kong and Taiwan, as well as the expanded sales of our dyed yarn products, which made significant strides in market development thanks to the efforts of our R&D and marketing teams. As a whole, the Group has successfully developed a variety of new fabrics for the market and solicited new customers and labels to promote continuous and sustainable expansion of its production capacity and product differentiation.

The gross profit margin dropped from 22.6% in 2005 to 19.7% in 2006 mainly due to an increase in outsourcing costs. This resulted from subcontracting some of the manufacturing processes to other fabric suppliers in order to meet the rapid increase in orders in 2006. Despite a drop in the gross profit margin, we have implemented a series of measures to reduce the operating cost so that the net profit margin was maintained at approximately 5.0% in 2006 as compared to 5.3% in 2005.

With continued market development and expected growth in future, the facilities of the Group's manufacturing base in Panyu is expected to be insufficient to cater for the Group's future development. Thus, the Group has decided to establish a dyeing factory in Enping, Guangzhou Province in the PRC, where it will be able to enjoy cheaper production costs and abundant land resources. In this endeavor, the Group decided to establish a joint venture with an independent third party. The joint venture will be held beneficially as to 60% by the Group and as to 40% by the other independent third party, a major sub-contractor of the Group that has more than 20 years of experience in the industry of dyeing and finishing of knitted fabrics. We believe that the establishment of the factory will enable the Group to syndicate the joint venture parties' expertise in the knitted and dyed fabrics industry. At present, the estimated total investment is approximately HK$168.5 million and the new factory is scheduled to commence operation in early 2008, with the Group's production capacity expected to increase by 30%.

To satisfy customer demand for production integration, the Group decided to extend its business into the garment industry in 2006. As a result, the Group established a garment factory in Madagascar, a country that enjoys quota and import duty privileges for the United States market. This is an important step in the Group's efforts to diversify its business downstream by using existing competitive strengths, including a well-established sales network and extensive textile market experience. The factory was set up in late 2006 and we are optimistic that this new operation will contribute to the development of the Group.

Outlook

In order to sustain the Group's competitive edges for future development and maximise the return on capital invested, a production optimisation project was implemented, which included the construction of two production complexes, the relocation of production facilities, the expansion of the power and steam generating plant, and the installation of new production facilities, including knitting, yarn dyeing, fabric dyeing and setting machines. The project was completed in 2006, resulting in increase in the Group's knitting and dyeing capacity by approximately 25% to 9 and 11 million pounds per month, respectively, in 2006 as compared to that in 2005. As the project will also result in a reduction in the proportion of outsourcing, better machinery utilisation and improved logistics flow, we believe that the performance of the Group will further improve in 2007. In addition, the establishment of a new factory in Enping will provide additional production capacity for the Group to sustain future growth.

Renminbi appreciation and increasing labor costs as a result of labor shortages will continue to increase manufacturing costs in the PRC. We are confident that a series of the Group's development plan, including the establishment of a downstream garment manufacturing business, the expansion of sales in the Mainland China market and continued improvements in operating efficiency, will alleviate the impact of these increased costs.

In 2006, the Group enjoyed significant success in market development and achieved both product and market diversification. With the existing effective management at the helm, we are confident of continued growth in 2007.

Operational and Financial Review

The Group is principally engaged in the manufacture and sale of knitted fabrics and dyed yarn. The Group purchases raw yarn and through a series of production processes including knitting, yarn dyeing, fabric dyeing and final processing to produce dyed yarn and fabric. To ensure stable production, the Group has established self-sufficient production facilities including a water supply plant, a sewage treatment plant and a power and steam generating plant to ensure 24-hour non-stop production at the manufacturing base in Panyu, the PRC. Most of the Group's products are supplied to garment manufacturers in various countries around the world for the production of branded casual wear which is ultimately supplied to major global retail chain stores.

During the year under review, the Group established a garment factory in Madagascar to diversify its business downstream. The factory mainly produces finished knitted garment to major global retail chain operators.

Revenue

For the financial year ended 31 December 2006, the Group recorded a revenue of HK$2,013.9 million (2005: HK$1,499.4 million), representing an increase of approximately 34.3% in comparison to the previous financial year. The increase in revenue was mainly attributable to the increase in sales to the existing customers and new customers, together with the expansion of sale of dyed yarn.

Gross Profit

The gross profit of the Group for the year ended 31 December 2006 was HK$395.9 million (2005: HK$338.3 million), representing an increase of approximately 17.0% in comparison to the previous year. The gross profit margin decreased from 22.6% in the previous year to 19.7% in the year under review. The decrease in gross profit margin was mainly due to the increase in outsourcing cost resulting from subcontracting part of the manufacturing processes to other fabric suppliers as a result of the strong orders received in 2006.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2006 was HK$101.1 million (2005: HK$79.0 million), representing a year-on-year increase of 28.0%. Net profit margin for the year ended 31 December 2006 was 5.0% similar to last year (2005: 5.3%).

Other Income and Expense

Other income of approximately HK$9.3 million was mainly comprised of HK$4.1 million in shipping and handling charges earned by Kam Hing International Shipping Limited and its subsidiaries. The remaining balance was primarily the result of rental income and the sale of scrap materials. Selling and distribution costs of HK$89.8 million consisted of HK$82.7 million in shipping and delivery costs, that represented a decrease of 4.3% in comparison to the previous year which is due to reduction of shipping charges and improvement in logistics flow. Administrative expenses, which includes salaries, depreciation and other related expenses, increased 16.5% year-on-year to HK$143.5 million. The increase was due to additional administrative staff and depreciation charges for the business expansion.

Finance costs, which mainly includes interest on long-term loans from banks, short-term trust receipt loans and finance lease interest, increased by 56.5% to HK$40.8 million (2005: HK$26.1 million) as compared with the previous year. This was primarily a result of the increase in working capital requirement due to the expansion of the Group's operations and the increase in debt financing for the investment in production equipment and production facilities.

Liquidity and Financial Resources

As at 31 December 2006, the Group had net current assets of HK$47.8 million (2005: HK$247.7 million). The reduction in net current assets was mainly attributable to the classification of the current portion of a term loan from banks due from 2007 to 2008. The Group will constantly review its financial position and maintains a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2006, the Group had cash and cash equivalents of HK$193.1 million (2005: HK$172.2 million). The current ratio of the Group was 1.0 times (2005: 1.4 times).

The total bank and other borrowings of the Group as at 31 December 2006 were HK$750 million (2005: HK$719.1 million), netting off the cash and cash equivalents of HK$193.1 million (2005: 172.2 million), the Group's net debt gearing ratio was approximately 69.7% (2005: 80.8%). Decrease in net debt gearing ratio was mainly due to the improvement of cash flow as a result of strengthened credit control.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 66.6 days (2005: 76.1 days), 87.6 days (2005: 92.8 days) and 86.8 days (2005: 69.5 days) respectively. The decrease in the debtors' turnover period was due to early settlement of some customers as a result of better credit control. The decrease in the inventory turnover period was attributable to the stringent inventory control during the year. The creditors' turnover period increased was due to longer credit days offered by some suppliers.

Financing

As at 31 December 2006, the total banking and loan facilities of the Group amounted to HK$1,416.5 million (2005: HK$1,433.5 million), of which HK$672.7 million (2005: HK$678.4 million) was utilised.

As at 31 December 2006, the Group's long-term loans were HK$188.4 million (2005: HK$360.8 million) comprised of term loans from banks of HK$151.7 million (2005: HK$311.9 million) and long-term finance lease payable of HK$36.7 million (2005: HK$48.9 million). The decrease in long-term loan was mainly due to the shift of current portion of the term loans and finance lease to current liability as well as the repayment of the term loans and finance lease.

The Group's long-term bank loans comprised of loans drawn down by Kam Hing Piece Works Limited, which were not secured by any assets of the Group but by corporate guarantees provided by other members within the Group.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK4.0 cents (2005: HK3.1 cents) per share in respect of the year ended 31 December 2006 to shareholders of record as of 28 May 2007. The decision is subject to approval by shareholders regarding the payment of the final dividend at the annual general meeting of the Company.

Capital Structure

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

76.3% (2005: 78.1%) of the Group's sales were denominated in US dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's cost of sales was denominated in US dollars, Hong Kong dollars and Renminbi. The Group has transactional currency exposures. Such exposure arise from substantial portion of sales or purchases by operating units in US dollars and RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

All bank borrowings of the Group were denominated in US dollars and Hong Kong dollars on inter-bank borrowing interest rate and prime rate bases. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

Charge on Group's Assets

As at 31 December 2006, certain items of property, plant and equipment of the Group with an aggregate net book value of HK$194.6 million (2005: HK$191.1 million) were under finance leases.

Capital Expenditure

During the year under review, the Group invested HK$180.2 million (2005: HK$294.2 million) in property, plant and equipment, as well as prepaid land lease payments, of which 77.2% (2005: 68.5%) was used for the purchase of plant and machinery, 14.2% (2005: 18.3%) was used for the construction of new factory premises, 4.7% (2005: 7%) was used for the acquisition of pieces of land in preparation for future production capacity expansion and the remaining was used for the purchase of other property, plant and equipment.

As at 31 December 2006, the Group had capital commitments of HK$21.9 million (2005: HK$32.3 million) in property, plant and equipment, which are to be funded by net proceeds from internal resources.

Staff Policy

The Group had 4,050 (2005: 3,100) employees in the PRC, and 1,293 (2005: 107) employees in Hong Kong, Macau, Singapore and Madagascar as at 31 December 2006. Remuneration packages are generally structured by reference to market terms and individual qualifications. 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 operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options are granted to select eligible executives, with a view to provide senior management an appropriate incentive package for the growth of the Group.

Contingent Liabilities

As at 31 December 2006, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to HK$672.7 million (2005: HK$678.4 million). The Group also had bills discounted with recourse of HK$103.3 million (2005: HK$30.6 million). The Group had a contingent liability in respect of possible future long service payments to employees with a maximum possible amount of HK$2.1 million (2005: HK$1.4 million).

Major Customers and Suppliers

In the year ended 31 December 2006, sales to the five largest customers accounted for 55.7% (2005: 53.5%) of the total sales and sales to the largest customer included therein accounted for 20.9% (2005: 21.6%).

Purchases from the five largest suppliers accounted for 37.2% (2005: 30.1%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 9.5% (2005: 6.9%).

None of the Directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or shareholders of the Company who own more than five percent of the issued share capital of the Company had any interest in the Group's five largest customers and/or suppliers during the year under review.

AGM

The AGM will be held at Units 1-9, 8/F., Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, N.T., Hong Kong on Monday, 28 May 2007 at 11:00a.m.. For details of the AGM, please refer to the notice of AGM which will be published in due course.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members will be closed from 22 May 2007 to 28 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the AGM and the dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 May 2007.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors (the "Directors") of the Company. Having made specific enquiry of all Directors, the Company has confirmed that the Directors have complied with the required standard set out in the Model Code for the year ended 31 December 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company is committed to maintain good corporate governance practices. The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year under review, with deviations from certain Code provisions as explained below:

Under the Code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A special resolution approving the relevant amendment to the articles of association (the "Articles") of the Company to comply with Code provision A.4.2 was passed at the 2006 annual general meeting of the Company held on 29 May 2006.

Full details on the subject of corporate governance are set out in the Corporate Governance Report of the Annual Report.

The audit committee of the Company has met with the external auditors of the Company, Messrs. Ernst & Young, to review the accounting principles and practices adopted by the Group and the annual results of the Group for the year ended 31 December 2006.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this announcement which contains all the relevant information as required by paragraph 45 of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk). An annual report of the Company for the year ended 31 December 2006 containing the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the website of the Stock Exchange in due course.

GENERAL INFORMATION

At the date of this announcement, the executive directors of the Company are Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk, and Mr. Chong Chau Lam and the independent non-executive directors of the Company are Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony.

By Order of the Board
Tai Chin Chun
Chairman

Hong Kong, 19 April, 2007

"Please also refer to the published version of this announcement in The Standard"