



## 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 2004

#### KEY HIGHLIGHTS

- Turnover +19.4% to HK\$1,315.7 million
- Gross profit +12.6% to HK\$313.9 million
- Net profit from ordinary activities attributable to shareholders +9.8% to HK\$105.8 million
- Proposed final dividend of HK1.6 cents per share

#### HIGHLIGHTS

- New yarn dye production line commenced operations in September 2004
- Central knitting complex was completed in January 2005
- Continuous improvement in operation efficiency
- Financial position significantly enhanced after the listing on the Stock Exchange

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) is pleased to announced the audited annual results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2004 (the “Year”), together with the comparative figures for the year ended 31 December 2003. The audit committee of the Company has reviewed the following audited annual results for the Year:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT***For the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>TURNOVER</b>	4	<b>1,315,650</b>	1,101,581
Cost of sales		<u><b>(1,001,715)</b></u>	<u>(822,925)</u>
Gross profit		<b>313,935</b>	278,656
Other revenue	4	<b>6,629</b>	3,193
Selling and distribution costs		<b>(83,115)</b>	(62,856)
Administrative expenses		<b>(101,862)</b>	(92,370)
Other operating income/(expenses), net		<u><b>6,266</b></u>	<u>(1,132)</u>
<b>PROFIT FROM OPERATING ACTIVITIES</b>	5	<b>141,853</b>	125,491
Finance costs	6	<u><b>(15,870)</b></u>	<u>(10,357)</u>
<b>PROFIT BEFORE TAX</b>		<b>125,983</b>	115,134
Tax	7	<u><b>(20,221)</b></u>	<u>(18,778)</u>
<b>NET PROFIT FROM ORDINARY ACTIVITIES</b> <b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<u><b>105,762</b></u>	<u>96,356</u>
<b>DIVIDEND</b> – Proposed final	8	<u><b>10,240</b></u>	<u>–</u>
<b>EARNINGS PER SHARE</b>	9		
Basic		<u><b>20.2 cents</b></u>	<u>20.1 cents</u>
Diluted		<u><b>20.2 cents</b></u>	<u>N/A</u>

**CONSOLIDATED BALANCE SHEET***As at 31 December 2004*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Fixed assets	551,625	325,488
Deferred tax assets	76	–
	<u>551,701</u>	<u>325,488</u>
<b>CURRENT ASSETS</b>		
Inventories	304,861	236,298
Accounts and bills receivable	193,434	166,789
Prepayments, deposits and other receivables	10,762	24,462
Tax recoverable	–	127
Pledged deposits	7,948	30,651
Cash and cash equivalents	116,879	27,061
	<u>633,884</u>	<u>485,388</u>
<b>CURRENT LIABILITIES</b>		
Accounts and bills payable	171,832	166,117
Accrued liabilities and other payables	32,304	45,360
Tax payable	18,478	16,644
Interest-bearing bank borrowings	226,812	114,410
Finance lease payables	36,552	19,431
	<u>485,978</u>	<u>361,962</u>
<b>NET CURRENT ASSETS</b>	<u>147,906</u>	<u>123,426</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>699,607</u>	<u>448,914</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	53,467	104,777
Finance lease payables	42,007	32,001
Deferred tax liabilities	23	17
	<u>95,497</u>	<u>136,795</u>
	<u>604,110</u>	<u>312,119</u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	64,000	200
Reserves	529,870	311,919
Proposed final dividend	10,240	–
	<u>604,110</u>	<u>312,119</u>

## **1. GROUP REORGANISATION**

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 August 2004 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Joint Result Holdings Limited ("Joint Result"), a company incorporated in the British Virgin Islands, which is, as at the date of this announcement, the intermediate holding company of the subsidiaries, in consideration of and in exchange for (i) the allotment and issue of 1,000,000 ordinary shares of HK\$0.1 each in the Company, credited as fully paid; and (ii) the 1,000,000 shares of HK\$0.1 each previously allotted and issued nil paid being credited as fully paid.

Further details of the Group Reorganisation are set out in the Company's prospectus dated 14 September 2004.

The shares of the Company have been listed on the Stock Exchange since 23 September 2004.

## **2. BASIS OF PRESENTATION AND CONSOLIDATION**

The audited consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 27, "Accounting for group reconstructions", as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2003 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the Directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated 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 manufacture and sale of finished knitted fabrics.

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; and
- (d) 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 People's Republic of China ("PRC") (other than Hong Kong and Macau) and Others.

(i) **Geographical segments based on the location of customers**

**Group – 2004**

	Singapore <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	720,614	244,028	124,620	226,388	1,315,650
Other revenue	3,066	–	2,592	66	5,724
	<u>723,680</u>	<u>244,028</u>	<u>127,212</u>	<u>226,454</u>	<u>1,321,374</u>
Total					
	<u>723,680</u>	<u>244,028</u>	<u>127,212</u>	<u>226,454</u>	<u>1,321,374</u>
Segment results	<u>130,364</u>	<u>45,087</u>	<u>22,798</u>	<u>40,928</u>	239,177
Interest and other unallocated income					905
Unallocated expenses					<u>(98,229)</u>
Profit from operating activities					141,853
Finance costs					<u>(15,870)</u>
Profit before tax					125,983
Tax					<u>(20,221)</u>
Net profit from ordinary activities attributable to shareholders					<u>105,762</u>

**Group – 2003**

	Singapore <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	641,637	177,027	125,366	157,551	1,101,581
Other revenue	1,142	315	290	280	2,027
	<u>642,779</u>	<u>177,342</u>	<u>125,656</u>	<u>157,831</u>	<u>1,103,608</u>
Total					
	<u>642,779</u>	<u>177,342</u>	<u>125,656</u>	<u>157,831</u>	<u>1,103,608</u>
Segment results	<u>122,337</u>	<u>40,490</u>	<u>25,169</u>	<u>31,635</u>	219,631
Interest and other unallocated income					1,166
Unallocated expenses					<u>(95,306)</u>
Profit from operating activities					125,491
Finance costs					<u>(10,357)</u>
Profit before tax					115,134
Tax					<u>(18,778)</u>
Net profit from ordinary activities attributable to shareholders					<u>96,356</u>

(ii) **Geographical segments based on the location of assets**

**Group – 2004**

	Singapore <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	PRC (other than Hong Kong and Macau) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	547	306,661	877,020	1,357	1,185,585
Capital expenditure	<u>54</u>	<u>5,388</u>	<u>255,200</u>	<u>489</u>	<u>261,131</u>

## Group – 2003

	Singapore <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	PRC (other than Hong Kong and Macau) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	851	247,541	562,484	–	810,876
Capital expenditure	<u>325</u>	<u>1,754</u>	<u>125,788</u>	<u>–</u>	<u>127,867</u>

### 4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and knitting and dyeing services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>		
Sale of goods	1,309,780	1,090,190
Fee income from knitting and dyeing services	<u>5,870</u>	<u>11,391</u>
	<u>1,315,650</u>	<u>1,101,581</u>
<b>Other revenue</b>		
Fee income from freight handling services	5,724	2,027
Interest income	253	377
Others	<u>652</u>	<u>789</u>
	<u>6,629</u>	<u>3,193</u>
	<u>1,322,279</u>	<u>1,104,774</u>

### 5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold	998,248	817,230
Cost of services provided	3,467	5,695
Auditors' remuneration	1,030	650
Research and development costs	2,617	1,738
Depreciation	<u>34,829</u>	<u>27,375</u>
Staff costs (excluding directors' remuneration):		
Wages and salaries	61,197	47,798
Pension scheme contributions	<u>1,801</u>	<u>1,507</u>
Total staff costs	<u>62,998</u>	<u>49,305</u>
Minimum lease payments under operating leases in respect of land and buildings	728	1,158
Gain on disposal of fixed assets	(3,165)	(68)
Provision for inventories	–	2,739
Bad debts written off	418	386
Provision for doubtful debts	1,744	2,719
Write back of provision for doubtful debts	(1,540)	(344)
Write back of provision for other receivables	(200)	–
Exchange gains, net	<u>(4,594)</u>	<u>(1,664)</u>

Cost of inventories sold includes HK\$60,770,000 for the year ended 31 December 2004 (2003: HK\$51,101,000) in respect of depreciation, staff costs and provision for inventories, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK\$796,000 for the year ended 31 December 2004 (2003: HK\$614,000) in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

As at 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

## 6. FINANCE COSTS

	<b>2004</b> <i>HK\$'000</i>	<b>Group</b> 2003 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	13,249	8,403
Interest on finance leases	2,621	1,954
	<u>15,870</u>	<u>10,357</u>

## 7. TAX

	<b>2004</b> <i>HK\$'000</i>	<b>Group</b> 2003 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	15,072	12,243
Underprovision in respect of prior years	272	–
Current tax – Elsewhere		
Charge for the year	5,914	6,513
Underprovision/(overprovision) in respect of prior years	(967)	5
Deferred tax charge/(credit)	(70)	17
	<u>20,221</u>	<u>18,778</u>
Total tax charge for the year	<u>20,221</u>	<u>18,778</u>

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2003: 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 company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company, is entitled to be exempted from enterprise income tax in the PRC for the first two profit-making years followed by a 50% reduction in the enterprise income tax for the succeeding three years.

According to a confirmation obtained by Panyu KH Textile from the PRC tax bureau, 2001 was the first profit-making year of Panyu KH Textile for enterprise income tax purpose. For the years ended 31 December 2003 and 2004, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

## 8. DIVIDEND

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Proposed final – HK1.6 cents per ordinary share (2003: Nil)	<u>10,240</u>	<u>–</u>

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

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Year of HK\$105,762,000 (2003: HK\$96,356,000) and the weighted average of 523,716,000 (2003: 480,000,000) shares deemed to have been in issue during the Year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2003 includes the pro forma issued share capital of the Company of 480,000,000 shares, comprising (i) the 1,000,000 shares of the Company allotted and issued nil paid on 17 February 2004; (ii) the 1,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Joint Result on 24 August 2004; and (iii) the capitalisation issue of 478,000,000 shares. The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2004 includes the weighted average of 43,716,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 23 September 2004 in addition to the aforementioned 480,000,000 ordinary shares.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit attributable to shareholders for the year of HK\$105,762,000. The weighted average number of shares used in the calculation is the 523,716,000 shares deemed to have been in issue during the year as used in the basic earnings per share calculation, and the weighted average of 543,000 shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

There was no potential dilutive shares in existence for the year ended 31 December 2003 and, accordingly, no diluted earnings per share amount has been presented.

## BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of knitted fabrics and is one of the major suppliers of knitted fabrics in the market. The Group's merchandise was sold to various garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell garment products to the consumers in the United States of America and other countries. The Group has vertically integrated its operation which include marketing and sales, research and development, production processes, including knitting, fabrics dyeing and yarn dyeing, and final processes, such as setting and pre-shrinking.

During the Year, the Group's turnover for the year ended 31 December 2004 was about HK\$1,315.7 million, representing an increase of about 19.4% over the previous year. The gross profit margin dropped slightly from 25.3% in 2003 to 23.9% in 2004 mainly due to the substantial increase in raw material costs in early 2004. With the decrease in raw material costs since mid-2004, the gross and net margins recovered in the second half of the Year. As a whole, the net margin for the Year decreased slightly from 8.7% to 8.0%.

Regarding the market development, the Group has successfully solicited a number of potential customers including some major garment manufacturers and famous international brand operators to provide extra order sources. In addition, the Group has successfully developed the PRC market after its listing on the Stock Exchange, recording remarkable sales of about HK\$18.1 million in the last quarter of 2004. The Directors are confident that the PRC market will grow significantly in 2005.

The new yarn dye production line, with an investment cost of approximately HK\$126.2 million, has a monthly capacity of around 2.5 million pounds, and commenced operations in September 2004. The new operation has already broken even financially in November 2004. The improvement in production capability has been particularly noticeable in recent months. The Directors therefore believe that the new production line will contribute greatly to an increase in turnover and an improvement in profit margin in 2005.

Guangzhou Zhongshan University, the PRC was appointed as a consultant in 2004 to advise on the human resource management and to increase the production capabilities at the Group's factory in Panyu, the PRC. The achievements after the completion of the first phase were apparent.



## **OUTLOOK**

The Group has sped up its business development after its successful listing on the Stock Exchange, including the construction of a central knitting complex (which was completed in January 2005) and the relocation of knitting machines to a knitting complex (which is currently underway). In mid-2005, the Group's dyeing and knitting capacity will be expected to increase by approximately 10% to 20% from the capacity of approximately 74.4 million pounds and 101.5 million pounds as at 31 December 2004, respectively. In addition, the second phase of the power plant is expected to be in place in the second quarter of 2005, which will further reduce energy costs. All of the above will enhance the Group's ability of handling rush orders and its capabilities in expanding the order source.

The import quota on textile products between members of the World Trade Organization was abolished on 1 January 2005. As a result, buyers have been continuously consolidating their supplier lists and increasing their proportion of garment sourcing from the Asian region. In addition, the garment manufacturers are now tending to rely greatly on more sizable and reputable suppliers. As one of the key knitted fabrics suppliers in the market, the Directors are confident that these trends will be advantageous to the future development of the Group.

In accordance with the terms of the World Trade Organization, exports from the PRC may still be restricted under the "anti-surge" or "anti-dumping" policies. At the same time, the PRC government has imposed an additional tax on the export of textile products to further affect the competitiveness of production in the PRC. Despite the uncertainties encountered in the first few months after the abolition of the quota system on textile products, the Group has been making continuous efforts to seek opportunities for further development with a view to capturing long-term benefits from the change.

During the course of the Group's development history, it has always been our goal to improve margins in light of the growing volume. The implementation of the yarn dye operation is an important step towards vertical integration. On the condition that the Group maintains its healthy financial status, we will continue to seek opportunities for upstream operation expansion in the future.

The Group's past successes have relied on strong research and development efforts in developing products that meet customer expectations. The new yarn dye production line has further strengthened the Group's research and development capabilities. In the first quarter of 2005, a number of different new fabrics have been developed, which have added value by expanding order sources in the market.

The Group will enhance its operating efficiency and standard of corporate governance in order to increase competitiveness and strengthen the Group's position in the market.

### **Operational and Financial Review**

#### **Turnover**

For the financial year ended 31 December 2004, the Group recorded a turnover of approximately HK\$1,315.7 million (2003: HK\$1,101.6 million), representing an increase of approximately 19.4% in comparison to the previous financial year. The increase in turnover was mainly attributable to the general increase in demand for the Group's fabrics in the basic, functional and novelty series and the increase in sales to customers in Singapore and Taiwan which accounted for about 54.8% and about 18.5% of total turnover, respectively. In addition, a new yarn dye production line commenced operation in September 2004, which recorded a turnover of about HK\$12.1 million as at 31 December 2004. The Group has also entered into the PRC local market since the third quarter of 2004 and recorded a turnover of about HK\$18.1 million as at 31 December 2004.

## **Gross Profit**

The gross profit of the Group was approximately HK\$313.9 million, representing an increase for the year ended 31 December 2004 of approximately 12.6% in comparison to the gross profit of approximately HK\$278.7 million in the previous financial year. The gross profit margin slightly decreased from approximately 25.3% in the previous year to approximately 23.9% in the Year. The slight decrease in gross profit margin was due to the combined effect of the increase in purchase cost of cotton yarn in the first half-year of 2004 and the increase in depreciation charges of the newly established production facilities, including the yarn dyeing production line, power and steam generating plant, and water and sewage treatment plant, which offset the corresponding increase in the selling price of fabrics and the improvement of operating efficiency by a reduction in subcontracting production process.

## **Net Profit**

The Group's net profit attributable to shareholders for the financial year ended 31 December 2004 was approximately HK\$105.8 million (2003: HK\$96.4 million), representing a year-on-year increase of approximately 9.8%. Net profit margin for the year ended 31 December 2004 was approximately 8.0% (2003: 8.7%). The decrease in net profit margin was principally attributable to the decrease in gross profit margin.

## **Other Revenue and Expenses**

Other revenue of approximately HK\$6.6 million mainly comprised approximately HK\$5.7 million in shipping and handling charges earned by Kam Hing International Shipping Limited, a wholly-owned subsidiary of the Company. Selling and distribution costs of approximately HK\$83.1 million mainly comprised HK\$75.6 million in shipping and delivery costs, representing an increase of approximately 33.6% in comparison to the previous year. The increase in selling and distribution costs was principally due to delivery orders from further afield and rising freight costs. Administrative expenses increased 10.3% year-on-year to approximately HK\$101.9 million and mainly comprised salaries, entertainment expenses, traveling and accommodation, staff welfare, bank charges, depreciation, and postage and courier expenses. The increase was basically in line with the increase in turnover and partly due to the fact that more staff was employed to enhance production and more marketing and communication efforts were spent on customer liaison and sales solicitation.

During the year under review, the Group recorded an aggregate provision for doubtful debts and bad debts written off of approximately HK\$2.2 million, which represented only approximately 0.16% of the Group's turnover for the same year. Finance costs of approximately HK\$15.9 million for the year ended 31 December 2004 comprised mainly interest on short-term trust receipt loans, term loans from bank and finance lease interests. Finance costs increased by 53.2% as compared with the previous year mainly due to the increase in working capital requirement as a result of the increase in the Group's operations and the increase in bank financing for the acquisition of production equipment, particularly the yarn dyeing machinery.

## **Liquidity and Financial Resources**

As at 31 December 2004, the Group had net current assets of approximately HK\$147.9 million (2003: HK\$123.4 million). The Group maintained a strong financial position by financing its operations with the proceeds from the Company's initial public offering and internally generated resources. As at 31 December 2004, the Group had cash and bank deposits of approximately HK\$124.8 million (2003: HK\$57.7 million). The current ratio of the Group was 1.3 (2003: 1.3).

The total bank borrowings of the Group as at 31 December 2004 were approximately HK\$358.8 million (2003: HK\$270.6 million), netting off the cash on hand, the Group's net debt gearing ratio was approximately 38.7% (2003: 68.2%).

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 53.7 days, 84.6 days and 47.7 days respectively. The debtors' turnover period decreased slightly from 55.3 days in the previous financial year to 53.7 days in the current financial year. This was due to the discounting of bills receivable to financial institutions. The increase in the inventory turnover period from 78.3 days to 84.6 days was attributable to the increase in inventory in anticipation of the increase in production demand of fabrics in the coming period and the establishment of a new yarn dye production line during the year. The creditors' turnover period further decreased slightly from 55.0 days to 47.7 days due to arrangements with some suppliers for purchase discounts on early settlement.

## **Financing**

As at 31 December 2004, the total banking and loan facilities of the Group amounted to approximately HK\$755 million (2003: HK\$705 million), of which approximately HK\$429 million (2003: HK\$206 million) was utilized.

As at 31 December 2004, the Group's long-term loans were maintained at approximately HK\$53.5 million. Long-term finance lease payable was increased from approximately HK\$32.0 million as at 31 December 2003 to approximately HK\$42.0 million as at 31 December 2004 because the Group has made further additions to plant and machinery. The acquisition of these fixed assets were principally financed by way of finance leases. As at 31 December 2004, the Group's long-term bank loans comprised loans drawn down by Panyu Kam Hing Textile Dyeing Co., Limited and Kam Hing Piece Works Limited a wholly-owned subsidiary of the Company, which were not secured by any assets of the Group but by corporate guarantees provided by other members within the Group.

## **Dividend**

The Directors have resolved to recommend the payment of a final dividend of HK1.6 cents per share in respect of the year ended 31 December 2004 to shareholders whose names appear on the register of members of the Company on 23 May 2005 subject to the approval of the shareholders regarding the payment of the final dividend at the AGM. The final dividend is based on 25% of the net profit of the second half year of 2004.

## **Capital Structure**

Since the listing of the Company's shares on the Stock Exchange on 23 September 2004, 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**

For the year ended 31 December 2004, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in US dollars, Hong Kong dollars or Renminbi. Hence, no financial instrument for hedging was employed.

Approximately 89% 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 and capital expenditures were denominated in US dollars, Renminbi and Hong Kong dollars. Since the exchange rate of US dollars and Renminbi has been relatively stable in recent years, the Directors do not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems for the Group. Hence, the Group did not enter into any arrangements to hedge its foreign exchange exposure.

All bank borrowings of the Group were denominated in US dollars, Hong Kong dollars or Renminbi on either a fixed interest rate basis, an inter-bank borrowing interest rate basis or a prime rate basis. 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 2004, certain plant and machinery and motor vehicle of the Group with an aggregate net book value of approximately HK\$148.6 million (2003: HK\$77.3 million) were under finance leases. In addition, certain of the bank's short term bank loans were secured by pledged bank deposits of the Group of HK\$7.9 million. Subsequent to the balance sheet date, the pledge over the bank deposits were released.

## **Capital Expenditure**

During the year, the Group invested approximately HK\$261.1 million in fixed assets, of which approximately 37.6% (2003:71.0%) was used for the purchase of plant and machinery, approximately 57.9% (2003:27.6%) was used for the construction of new factory premises and the remaining was used for the purchase of other fixed assets.

As at 31 December 2004, the Group had capital commitments of approximately HK\$96.7 million (2003: HK\$35.7 million) in respect of fixed assets, which are to be funded by the IPO proceeds and net proceeds from internal resources.

## **Staff Policy**

The Group had 2,064 employees in the PRC, and 118 employees in Hong Kong, Macau and Singapore as at 31 December 2004. 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 MPF 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 providing senior management an appropriate incentive package for the growth of the Group.

In addition to weekly and monthly internal training, the Group has also contracted Zhongshan University, the PRC to provide management training to senior staff. External training subsidies are also provided to certain employees.

## **Contingent Liabilities**

As at 31 December 2004, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to approximately HK\$429 million. The Group also had bills discounted with recourse of approximately HK\$106.4 million (2003: HK\$62.4 million).

## **Major Customers and Suppliers**

In the Year, sales to the five largest customers accounted for approximately 61% of the total sales of the Group and sales to the largest customer included therein accounted for approximately 31% of the Group.

Purchases from the five largest suppliers accounted for approximately 39% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 11% of the Group.

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.

## **Annual General Meeting**

The AGM will be held at Room 5-9, 8/F., Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong on Monday, 23 May 2005 at 10:00a.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 18 May 2005 to 23 May 2005, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 17 May 2004.

## **Purchase, Redemption or Sale of Listed Securities of the Company**

The listing of the Company's shares commenced on 23 September 2004. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 23 September 2004 to 31 December 2004.

## **Pre-emptive Rights**

There are no provision 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 its existing shareholders.

## **Code of Best Practice**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, since the date of the listing of the Company's shares on the Stock Exchange.

## **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's Directors, the Directors have complied with the required standard set out in the Model Code since the date of the listing of the Company's shares on the Stock Exchange.

## **Audit Committee**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

## **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(1) to 45(3) 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 for the year ended 31 December 2004 containing the information required under Appendix 16 to the Listing Rules will be despatched to shareholders 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 and Ms. Wong Siu Yuk, and the independent non-executive Directors of the Company are Mr. Chong Chau Lam, Ms. Chu Hak Ha Mimi and Mr. Chan Yuk Tong.

By Order of the Board  
**Tai Chin Chun**  
*Chairman*

Hong Kong, 21 April, 2005

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