



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

Interim Report | **2006**





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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Tai Chin Chun (*Chairman*)
Mr. Tai Chin Wen (*Chief Executive Officer*)
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Independent Non-Executive Directors

Mr. Chan Yuk Tong, Jimmy
Ms. Chu Hak Ha, Mimi
Mr. Ku Shiu Kuen, Anthony

Audit Committee

Mr. Chan Yuk Tong, Jimmy (*Chairman*)
Ms. Chu Hak Ha, Mimi
Mr. Ku Shiu Kuen, Anthony

Company Secretary

Mr. Wong Wai Kong, Elmen

Auditors

Ernst & Young
Certified Public Accountants

Company Website

www.kamhingintl.com

Registered Office

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

Units 1-9, 8th Floor
Lucida Industrial Building
43-47 Wang Lung Street
Tsuen Wan
New Territories
Hong Kong

Principal Share Registrar and Transfer Office in Cayman Islands

Bank of Bermuda (Cayman) Limited
PO Box 513 GT, Strathvale House
North Church Street
George Town, Grand Cayman
Cayman Islands
British West Indies

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 2307
CUSIP Reference Number: G5213T101



CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Kam Hing International Holdings Limited (the "Company"), I am pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2006 (the "Period"). The interim results are unaudited, but have been reviewed by the audit committee of the Company.

For the six months ended 30 June 2006, the Group's revenue increased by approximately 17.8% to HK\$895.6 million when compared with that for the corresponding period in 2005. Net profit attributable to shareholders reduced by approximately 18.2% to HK\$57.2 million.

The increase in turnover was attributable to the strong orders growth in the first half of 2006 under the effort of our research and development and marketing team, yet the average selling prices of textile products was lowered in order to maintain the market share. This was coupled with the increase in overhead and costs incurred for restructuring and relocation of machinery. All these have adversely affected the gross profit margin and net profit margin, which are approximately 20.3% and 6.4% for the Period, respectively.

In order to sustain the competitive edges for the Group's future development and maximize the return on capital investment, production optimization project was implemented, which includes construction of two production complexes, relocation of production facilities, expansion of the power and steam generating plant, installation of new production facilities including knitting, yarn dyeing, fabric dyeing and setting machines. The project was completed in June 2006, and the production capacity has increased by approximately 20%. The management expects production efficiency will be enhanced progressively to fulfill the upcoming orders in the second half of 2006.

During the Period, the Group is able to fulfill increasing orders from increasing number of customers under the relocation of the production facilities. Besides, production efficiency and production cost were inevitably affected. All staff are devoted to achieve the production target by implementing flexible alternative measures under the challenging circumstances.



We are of the view that the market competition will be alleviated and the Group's management strives to improve the performance in the near future in the light of the improvement of textile market after removal of the quota uncertainty against the PRC textile export, with the completion of the development project in the Group's manufacturing base in the first half of 2006, together with the orders on hand and the established market position.

To satisfy the customer's demand towards production integration, the Group decided to extend its business into garment industry. In light of this, in the Period the Group has established a garment factory in an African country, a place enjoying quota and import duty privilege for the United States market. This is an important step for the Group to diversify its business into another textile business using existing competitive strength including a well-established sales network and extensive textile market experience. The factory commenced production in August 2006 and the Group was optimistic that the new factory will contribute to the development of the Group.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, investors and business partners for their continuous support and dedication and to the staff for their devotion. I believe that the Group will be able to extend the past success in the fabrics market to garment industry in the field of textile business.

Tai Chin Chun

Chairman

Hong Kong, 21 September, 2006



MANAGEMENT DISCUSSION AND ANALYSIS

Overall Result

The Group recorded unaudited revenue of approximately HK\$895.6 million for the six months ended 30 June 2006 comprising fabrics and dyed yarn, representing an overall growth of approximately 17.8% over the same period last year. The growth in revenue was attributable to the expansion of sales network by obtaining new customers and growth of order from the existing customers as well as expansion of the yarn dye operation.

The gross profit for the six months ended 30 June 2006 was approximately HK\$181.8 million, representing a decrease of approximately 4.1% compared with the same period last year. The gross profit margin was approximately 20.3% for the six months ended 30 June 2006 showing a decrease of approximately 4.6% points over the gross profit margin of approximately 24.9% for the same period last year. The decline in gross profit margin was mainly due to the decrease in selling price of fabric in view of the competitive market as well as increase in overhead and costs incurred for restructuring and relocation of machinery.

Unaudited net profit attributable to shareholders for the six months ended 30 June 2006 was approximately HK\$57.2 million, representing a decrease of approximately 18.2% compared with the same period last year. The net profit margin for the six months ended 30 June 2006 was approximately 6.4%, representing a decrease by approximately 2.8% points from the corresponding period of approximately 9.2% last year. Administrative and selling expenses increased by about 4.7%, which is in line with the growth of revenue.

Business Review

1. *Manufacture and sale of finished knitted fabrics and dyed yarn*

The principal operation of the Group is the manufacture and sale of finished knitted fabrics and dyed yarn. During the Period, revenue amounted to approximately HK\$895.6 million, representing a growth of approximately 17.8% over the same period last year.

The Group's monthly capacity of knitting, fabric dyeing and yarn dyeing was increased by approximately 20% to approximately 8 million, 11 million, and 3 million pound, respectively in the first half of 2006 upon completion of the expansion of the production capacity.

2. *Geographical analysis of the Group's revenue*

During the Period, customers from Singapore, Hong Kong, Taiwan, PRC and other areas accounted for about 53.3%, 17%, 11.9%, 7.6% and 10.2% of the Group's total revenue respectively. Sales to Singapore, Hong Kong and Taiwan increased by about 30.8%, 59% and 4% respectively as a results of enhancement of customer services in the regions.

Business Outlook

The Group continued to diversify into different markets by supplying fabrics to new labels and develop new European and PRC markets to sustain the growth. As a further strategic step, the Group decided to diversify into garment manufacturing which shall be one of the growth drivers of the Group in the future.

Financial Review

Liquidity, financial resources and capital structure

The Group maintained a healthy financial and liquidity position. As at 30 June 2006, the total current assets and current ratio of the Group were approximately HK\$1,074.6 million (2005: HK\$873.1 million) and approximately 1.1 (2005: 1.4) respectively. The total cash and bank deposits balance of the Group as at 30 June 2006 was approximately HK\$90.1 million (2005: HK\$174.3 million). The reduction in current ratio and cash and bank deposits balance were mainly attributable to the seasonal factors during peak production period from March to August.

As at 30 June 2006, total bank borrowings for the Group, including bank advances for discounted bills of HK\$107.2 million (2005: HK\$104.9 million), amounted to approximately HK\$717.3 million (2005: HK\$719.1 million), of which 61% (2005: 49.8%) was repayable within one year and 39% (2005: 50.2%) was repayable within two to five years. For the total bank borrowings as at 30 June 2006, 12.7% of the balance (2005: 12.7%) was secured under finance lease. Besides, 64% (2005: 72.6%) and 36% (2005: 27.4%) of the balance was denominated in HK\$ and US\$ respectively.

The net debt gearing ratio of the Group as at 30 June 2006 (bank borrowings net of cash on hand and bank deposits to equity) was approximately 87.8% (2005: 80.4%). Increase in net debt gearing ratio was mainly due to the increase in working capital for growth of revenue during the Period and the seasonal effect in the peak production period.



As at 30 June 2006, the Group had net tangible assets of approximately HK\$714.6 million (2005: HK\$677.2 million), comprising non-current assets of approximately HK\$865.3 million (2005: HK\$790.3 million), net current assets of approximately HK\$128.8 million (2005: HK\$247.7 million) and non-current liabilities of approximately HK\$279.5 million (2005: HK\$360.8 million).

Exposure to fluctuation in foreign exchange

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in HK\$, US\$ and RMB. Exchange rates between these currencies with HK\$ were relatively stable during the Period under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

Charge on the Group's Assets

As at 30 June 2006, certain plant and machinery and motor vehicles of the Group with an aggregate net book value of approximately HK\$194.9 million (2005: HK\$191.1 million) were under finance lease.

Capital expenditure

During the Period, the Group invested approximately HK\$111.6 million (2005 June: HK\$154.7 million) in property, plant and equipments as well as prepaid land lease payments, of which approximately 38.5% (2005 June: 64.6%) for the purchase of plant and machinery, approximately 26.5% (2005 June: 26.8%) for the construction of new factory premises, approximately 6.6% (2005 June: Nil) for the acquisition of a piece of land in Enping the PRC, approximately 23.9% (2005 June: Nil) for the establishment of a garment factory in Africa and the remaining for the purchase of other fixed assets.

As at 30 June 2006, the Group had capital commitments of approximately HK\$17.8 million (2005: HK\$27.7 million) and HK\$7.2 million (2005: HK\$4.6 million) in respect of plant and equipment and construction in progress respectively. As mentioned before, the Group will be able to fulfill its capital commitments when they fall due.

Contingent liabilities

The Group's discounted bills with recourse of approximately HK\$95 million (2005: HK\$30.6 million).

Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group for the Period.

Human Resources

As at 30 June 2006, the Group had 3,950 (2005: 3,100) employees in the PRC, and 103 (2005: 107) employees in Hong Kong, Macau and Singapore. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund for all its employees in Hong Kong and social welfare schemes for its employees in the PRC and other locations in accordance with the respective countries' statutory requirements.

Interim Dividend

The Board has resolved not to declare any interim dividend for the Period (2005 June: Nil).

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong in September 2004, after deduction of related issue expenses, amounted to approximately HK\$186.2 million, of which HK\$66.3 million was utilized as at 31 December 2004. During the year ended 31 December 2005, proceeds of approximately HK\$98.1 million were utilized as disclosed in the annual report for that year. Proceeds of approximately HK\$6.7 million were utilized during the six months ended 30 June 2006 in accordance with the proposed applications set out in the prospectus of the Company dated 14 September 2004 (the "Prospectus"), as follows:

- approximately HK\$4.6 million was used for the acquisition of additional knitting facilities; and
- approximately HK\$2.1 million was used for the product development.

The remaining net proceeds as at 30 June 2006 of approximately HK\$15.1 million were placed as bank balances in Hong Kong. The Directors intend to use the net proceeds in the manner as disclosed in the Prospectus.



Disclosures Pursuant to Rules 13.21 of the Listing Rules

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreement of a subsidiary of the Company, which contains covenants requiring performance obligations of the controlling shareholders of the Company. Pursuant to a loan agreement dated 15 July 2005 entered into between the Company as Guarantor, a wholly-owned subsidiary of the Company and a syndicate of banks for a 3-year loan facility of HK\$305 million, an event of default would arise if (a) Mr. Tai Chin Chun and Mr. Tai Chin Wen, the ultimate controlling shareholder and substantial shareholder, respectively, of the Company, ceases to collectively and beneficially (either directly or indirectly) own 51% of the voting share capital in the Company; or (b) any member of the Group or its management, business or operations is not or ceases to be controlled by both of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Upon the occurrence of an event of default, the lenders may declare that all or part of the loan outstanding together with accrued interest and all other amounts accrued be immediately due and payable; and/or the facility under the Loan Agreement shall immediately be cancelled.

OTHER INFORMATION

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the interests and short positions of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share Capital
Mr. Tai Chin Chun	1	Through controlled corporation	384,000,000	60%
Mr. Tai Chin Wen	2	Through controlled corporation	96,000,000	15%
Ms. Cheung So Wan	3	Through spouse	384,000,000	60%
Ms. Wong Siu Yuk	4	Through spouse	96,000,000	15%
Mr. Chong Chau Lam		Directly beneficially owned	300,000	0.05%

Long positions in ordinary shares of an associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Tai Chin Chun	Exceed Standard Limited	Ultimate holding company	1 share of US\$1	Directly beneficially owned	100%

Notes:

- The shares are held by Exceed Standard Limited ("Exceed Standard"), a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman of the Company and an executive Director. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Ms. Cheung So Wan is the spouse of Mr. Tai Chin Chun.
- The shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen.



3. Ms. Cheung So Wan is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Chun under the SFO.
4. Ms. Wong Siu Yuk is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Wen under the SFO.

The interests of the Directors in the share options of the Company are separately disclosed in the paragraph headed "share option scheme" below.

Save as disclosed above, as at 30 June 2006, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the share option scheme below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share Option Scheme

Pursuant to the Company's share option scheme, the following share options were outstanding as at 30 June 2006:

Name or category of participant	Number of share options			Date of grant (Note 1)	Exercise period	Exercise price (Note 2)	Price of Company's shares at grant date (Note 3)
	At 1 January 2006	Lapsed during the period	At 30 June 2006				
<i>Directors</i>							
Tai Chin Chun	3,000,000	–	3,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
Tai Chin Wen	2,000,000	–	2,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
Cheung So Wan	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
Wong Siu Yuk	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
Subtotal	<u>7,000,000</u>	<u>–</u>	<u>7,000,000</u>				
<i>Non-director employees</i>							
In aggregate	<u>15,746,000</u>	<u>(1,383,000)</u>	<u>14,363,000</u>	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
<i>Others</i>							
In aggregate	<u>1,260,000</u>	<u>–</u>	<u>1,260,000</u>	6 October 2004	6 October 2005 to 5 October 2014	HK\$1.28	HK\$1.24
Total	<u>24,006,000</u>	<u>(1,383,000)</u>	<u>22,623,000</u>				

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
3. The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the share options.



Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest (Note)	Number of shares	Percentage of the Company's issued share capital
Exceed Standard	Directly beneficially owned	384,000,000	60%
Power Strategy	Directly beneficially owned	96,000,000	15%

Note: The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed under the paragraph headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above.

Saved as disclosed above, as at 30 June 2006, to the best knowledge of the Directors, there was no person, other than the Directors whose interests are set out under the heading "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

Code on Corporate Governance Practices

In order to ensure full compliance of the Company's Articles of Association with the code provisions A.4.2 as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, a special resolution was passed at the 2006 annual general meeting of the Company held on 29 May 2006 to amend the Company's Articles of Association so that all Directors will be subject to retirement by rotation once every three years. For the six months ended 30 June 2006, in the opinion of the Board, the Company has applied the principles and complied with the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

Remuneration Committee and Nomination Committee

The remuneration committee comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The remuneration committee is primarily responsible for reviewing and making recommendations to the Board on the remuneration packages of all executive directors and senior management to ensure that such remuneration is reasonable and not excessive.

The nomination committee also comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The nomination committee is primarily responsible for reviewing and making recommendations to the Board on the selection of board members to ensure that suitable individuals are nominated for filling vacancies on the directorships.

Audit Committee

The audit committee comprises three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Ku Shiu Kuen, Anthony. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

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 Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Director securities transaction for the six months ended 30 June 2006.

Approval of the Unaudited Interim Financial Statements

The audit committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2006 before recommending them to the Board for approval. The unaudited interim financial statements were approved and authorized for issue by the Board on 21 September 2006.



CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2006

	Notes	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
REVENUE	3	895,632	760,005
Cost of sales		(713,840)	(570,406)
Gross profit		181,792	189,599
Other income	3	3,771	3,838
Selling and distribution costs		(45,467)	(44,300)
Administrative expenses		(64,736)	(60,913)
Other operating income (net)		8,604	1,186
Finance costs	4	(19,010)	(9,107)
PROFIT BEFORE TAX	5	64,954	80,303
Tax	6	(7,718)	(10,370)
PROFIT FOR THE PERIOD		57,236	69,933
Attributable to:			
Equity holders of the Company		57,236	69,933
Minority interests		–	–
		57,236	69,933
Interim dividend	7	Nil	Nil
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	8.94 cents	10.93 cents
Diluted		Nil	10.90 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	809,132	741,696
Investment properties		6,908	7,096
Prepaid land lease payments		47,329	39,395
Deferred tax assets		1,941	2,137
Total non-current assets		865,310	790,324
CURRENT ASSETS			
Inventories		513,931	381,102
Accounts and bills receivable	10	462,288	312,630
Prepayments, deposits and other receivables		7,158	4,518
Equity investments at fair value through profit or loss		1,135	497
Pledged deposits		–	2,146
Cash and cash equivalents		90,124	172,171
Total current assets		1,074,636	873,064
CURRENT LIABILITIES			
Accounts and bills payable	11	436,309	221,341
Accrued liabilities and other payables		59,740	38,095
Due to a minority shareholder	15(b)	114	114
Tax payable		11,893	7,490
Bank advances for discounted bills	10	107,153	104,894
Interest-bearing bank and other borrowings		330,563	253,456
Total current liabilities		945,772	625,390
NET CURRENT ASSETS		128,864	247,674
TOTAL ASSETS LESS CURRENT LIABILITIES		994,174	1,037,998
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		279,544	360,764
Total non-current liabilities		279,544	360,764
Net assets		714,630	677,234
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		64,000	64,000
Reserves		650,525	593,289
Proposed final dividend		–	19,840
		714,525	677,129
Minority interests		105	105
Total equity		714,630	677,234



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2006

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Share Option reserve	Capital reserve	Statutory surplus reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005 (Audited)	64,000	122,429	1,000	104,804	16,400	285,237	10,240	604,110	-	604,110
2004 final dividend	-	-	-	-	-	-	(10,240)	(10,240)	-	(10,240)
Profit for the period	-	-	-	-	-	69,933	-	69,933	-	69,933
Equity-settled share option arrangements	-	-	2,000	-	-	-	-	2,000	-	2,000
Transfer to reserve	-	-	-	-	2,300	(2,300)	-	-	-	-
At 30 June 2005 (Unaudited)	<u>64,000</u>	<u>122,429</u>	<u>3,000</u>	<u>104,804</u>	<u>18,700</u>	<u>352,870</u>	<u>-</u>	<u>665,804</u>	<u>-</u>	<u>665,804</u>
At 1 January 2006 (Audited)	64,000	122,429	5,300	104,804	19,729	341,027	19,840	677,129	105	677,234
2005 final dividend	-	-	-	-	-	-	(19,840)	(19,840)	-	(19,840)
Profit for the period	-	-	-	-	-	57,236	-	57,236	-	57,236
Transfer to reserve	-	-	-	-	1,581	(1,581)	-	-	-	-
At 30 June 2006 (Unaudited)	<u>64,000</u>	<u>122,429</u>	<u>5,300</u>	<u>104,804</u>	<u>21,310</u>	<u>396,682</u>	<u>-</u>	<u>714,525</u>	<u>105</u>	<u>714,630</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the period ended 30 June 2006*

	<i>Notes</i>	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW)			
FROM OPERATING ACTIVITIES	1	30,754	(40,782)
NET CASH OUTFLOW FROM			
INVESTING ACTIVITIES	1,2	(71,836)	(101,747)
NET CASH INFLOW/(OUTFLOW)			
FROM FINANCING ACTIVITIES	2	(40,485)	83,111
NET DECREASE IN CASH			
AND CASH EQUIVALENTS		(81,567)	(59,418)
Cash and cash equivalents			
at beginning of period		171,691	116,643
CASH AND CASH EQUIVALENTS			
AT END OF PERIOD		90,124	57,225
ANALYSIS OF BALANCES OF			
CASH AND CASH EQUIVALENTS			
Cash and bank balances		90,124	57,225

Major non-cash transactions*Notes:*

- During the period ended 30 June 2006, the Group acquired property, plant and equipment and prepaid land lease payments with an aggregate cost of HK\$111.6 million (2005 June: HK\$154.7 million) of which HK\$21.6 million (2005 June: Nil) was acquired by settlement of debts from a customer located in Singapore.
- During the period ended 30 June 2006, the Group acquired property, plant and equipment with an aggregate cost of HK\$103.1 million (2005 June: HK\$154.7 million) of which HK\$17 million (2005 June: HK\$45 million) was acquired by mean of finance leases.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2005 except for the adoption of the following amendment mandatory for periods beginning on or after 1 January 2006:

HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
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In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the above revised HKFRS has no material impact of the Group’s interim financial statements.

The Group has not early applied the following new and revised HKFRSs relevant to the Group’s financial statements, that have been issued but not yet effective in the period covered by these interim financial statements which are effective for periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group’s financial statements in the period of initial application.

2. 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.

A geographical segment analysis of the Group's financial results for the period ended 30 June 2006, with comparative figures for the period ended 30 June 2005, is summarized below:

(i) Geographical segments based on the location of customers

	Singapore HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended						
30 June 2006						
(Unaudited)						
Segment revenue:						
Sales to external customers	476,972	152,385	106,911	68,214	91,150	895,632
Other income	240	1,107	1	167	43	1,558
Total	<u>477,212</u>	<u>153,492</u>	<u>106,912</u>	<u>68,381</u>	<u>91,193</u>	<u>897,190</u>
Segment results	<u>92,366</u>	<u>28,151</u>	<u>18,583</u>	<u>12,022</u>	<u>16,043</u>	167,165
Interest and other unallocated income						2,213
Unallocated expenses						(85,414)
Finance costs						(19,010)
Profit before tax						64,954
Tax						(7,718)
Profit for the period						<u>57,236</u>



2. SEGMENT INFORMATION (continued)

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

	Singapore HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2005 (Unaudited)						
Segment revenue:						
Sales to external customers	364,776	95,854	102,770	91,042	105,563	760,005
Other income	1,347	354	379	336	390	2,806
Total	366,123	96,208	103,149	91,378	105,953	762,811
Segment results	77,565	21,299	22,817	20,213	23,188	165,082
Interest and other unallocated income						1,032
Unallocated expenses						(76,704)
Finance costs						(9,107)
Profit before tax						80,303
Tax						(10,370)
Profit for the period						69,933

(ii) Geographical segments based on the location of assets

	Singapore HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets					
As at 30 June 2006 (Unaudited)	363	463,419	1,448,869	27,295	1,939,946
As at 31 December 2005 (Audited)	1,066	402,286	1,259,271	765	1,663,388
Capital expenditure					
Six months ended 30 June 2006 (Unaudited)	-	981	83,944	26,695	111,620
Six months ended 30 June 2005 (Unaudited)	33	3,729	150,947	-	154,709

3. REVENUE AND OTHER INCOME

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 provided by the Group. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Revenue		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	895,632	760,005
Other income		
Fee income from freight handling services	1,558	2,806
Bank interest income	549	166
Gross rental income	742	665
Others	922	201
	3,771	3,838
	899,403	763,843

4. FINANCE COSTS

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	16,337	7,675
Interest on finance leases	2,673	1,432
	19,010	9,107

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Cost of inventories sold	713,756	571,012
Cost of services provided	1,502	2,688
Auditors' remuneration	721	470
Research and development costs	1,900	1,528
Depreciation of property, plant and equipment	34,640	25,626
Depreciation of investment properties	188	188
Amortisation of prepaid land lease payments	444	224
Employee benefits expense (including directors' remuneration):		
Wages and salaries	51,462	42,565
Equity-settled share option expenses	–	2,000
Pension scheme contributions	1,811	1,421
	53,273	45,986
Minimum lease payments under operating leases in respect of land and buildings	653	445
Loss on disposal of items of property, plant and equipment	474	–
Loss on equity investment at fair value	31	–
Allowance/provision for doubtful debts	129	–
Write back of allowance/provision for doubtful debts	(12,771)	(147)
Foreign exchange difference, net	2,912	(1,078)

6. TAX

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Current tax – Hong Kong		
Charge for the period	3,108	4,760
Overprovision in respect of prior periods	(31)	(660)
Current tax – Elsewhere		
Charge for the period	4,445	6,149
Underprovision in respect of prior periods	–	121
Deferred tax charged	196	–
Total tax charge for the period	7,718	10,370

Profits tax in Hong Kong is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Tax in elsewhere is calculated at tax rates prevailing in the respective jurisdictions.

7. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (2005 June: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$57,236,000 (2005 June: HK\$69,933,000) and the weighted average of 640,000,000 (2005 June: 640,000,000) ordinary shares in issue during the Period.

Diluted earnings per share for the period ended 30 June 2006 has not been disclosed, as the share options outstanding during the Period had an anti-dilutive effect on the basic earnings per share during the Period.

The calculation of diluted earnings per share for the period ended 30 June 2005 was based on the profit for the period attributable to ordinary equity holders of the Company of HK\$69,933,000. The weighted average of 641,324,000 ordinary shares in issue during that period, comprising 640,000,000 ordinary shares used in the basic earnings per share calculation, and the weighted average of 1,324,000 ordinary shares assumed to have been issued on the deemed exercise of all share options outstanding during that period.



9. PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the six months ended 30 June 2006 are analysed as follows:

	(Unaudited) <i>HK\$'000</i>
At 1 January 2006	741,696
Additions/Transfers	103,095
Disposals	(1,019)
Depreciation	<u>(34,640)</u>
At 30 June 2006	<u>809,132</u>

As at 30 June 2006, the Group did not obtain title certificates in respect of four factory buildings with net book value of approximately HK\$3.5 million (2005: HK\$3.7 million). The aforesaid buildings and structures accounted for less than 1% of the Group's total property, plant and equipment. Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures (note 15(c)).

10. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading term with its customers generally have credit 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 provisions, is as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 30 days	243,491	100,747
31 to 60 days	121,965	83,392
61 to 90 days	59,604	51,530
Over 90 days	37,228	76,961
	462,288	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 30 June 2006, HK\$107,153,000 (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 date, based on the invoice date, is as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 90 days	391,073	174,573
91 to 180 days	41,729	29,861
181 to 365 days	3,507	16,565
Over 365 days	–	342
	436,309	221,341

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



12. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Discounted bills with recourse supported by letters of credit	94,981	30,597

- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,470,000 (2005: HK\$1,416,000) as at 30 June 2006. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

13. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to four years.

At 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within one year	1,258	1,200
In the second to fifth years, inclusive	2,809	3,409
	4,067	4,609

13. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee**

The Group leases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to nineteen years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within one year	1,436	809
In the second to fifth years, inclusive	3,208	1,967
After five years	6,814	5,688
	11,458	8,464

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Contracted but not provided for:		
Purchases of machinery	17,799	27,702
Construction in progress	7,230	4,605
	25,029	32,307

At 30 June 2006, the Group had commitment in respect of capital contributions to wholly-owned subsidiaries established in the PRC, Panyu Kam Hing Textile Dyeing Co., Limited and 恩平錦興紡織漂染有限公司 of US\$19,447,000 (approximately HK\$152,126,000) due on 29 November 2007 and US\$23,000,000 (approximately HK\$179,920,000) due on 27 April 2008, respectively.

15. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties during the period:

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Rental expenses on office premises paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	90	120

The Group entered into tenancy agreement with Mr. Tai Chin Chun and Mr. Tai Chin Wen, Directors of the Company, for the rental of office premises, at monthly rental charge of HK\$15,000 for a term of two years based on the prevailing market rentals.

- (b) The Group had outstanding advances from its minority shareholder of HK\$114,000 (2005: HK\$114,000) as at 30 June 2006. The advances are unsecured, interest-free and have no fixed terms of repayment.
- (c) Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, Director of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of certain buildings/structures of the Group as detailed in note 9 of the financial statements.
- (d) Compensation of key management personnel of the Group:

	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Short-term employee benefits	3,447	2,748
Share-based payments	–	531
Post-employment benefits	42	38
	3,489	3,317



16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current Period.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 21 September 2006.