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 2005

KEY HIGHLIGHTS

Revenue	HK$1,499.4 million
Gross profit	HK$338.3 million
Profit for the year	HK$79 million
Proposed final dividend per share	HK3.1 cents

- Sales in the PRC increased 7.6 times to HK$149.7 million as compared to 2004
- Completed the construction of the new factory complexes for central knitting and fabric processing respectively
- Continuous improvement in operating efficiency

The board of directors (the "Board") of Kam Hing International Holdings Limited (the "Company") is pleased to announce the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 (the "Year"), together with the comparative figures for the year ended 31 December 2004. The audit committee of the Company has reviewed the following audited annual results for the Year:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	**2005** ***HK$'000***	2004 *HK$'000* (Restated)
REVENUE	*5*	**1,499,403**	1,315,650
Cost of sales		**(1,161,055)**	(1,001,715)
Gross profit		**338,348**	313,935
Other income	*5*	**8,466**	6,629
Selling and distribution costs		**(93,850)**	(83,115)
Administrative expenses		**(123,203)**	(102,862)
Other operating income/(expenses), net		**(13,418)**	6,266
Finance costs	*6*	**(26,081)**	(15,870)
PROFIT BEFORE TAX	*7*	**90,262**	124,983
Tax	*8*	**(11,312)**	(20,221)
PROFIT FOR THE YEAR		**78,950**	104,762

Attributable to:			
Equity holders of the Company		**78,959**	104,762
Minority interests		**(9)**	–
		78,950	104,762
DIVIDEND – Proposed final	*9*	**19,840**	10,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*10*		
Basic		**12.3 cents**	20.0 cents
Diluted		**N/A**	20.0 cents

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	**2005** *HK$'000*	2004 *HK$'000* (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**741,696**	531,643
Investment properties		**7,096**	–
Prepaid land lease payments		**39,395**	19,533
Deferred tax assets		**2,137**	76
Total non-current assets		**790,324**	551,252
CURRENT ASSETS			
Inventories		**381,102**	304,861
Accounts and bills receivable	*11*	**312,630**	193,434
Prepayments, deposits and other receivables		**4,518**	11,211
Equity investments at fair value through profit or loss		**497**	–
Pledged deposits		**2,146**	7,948
Cash and cash equivalents		**172,171**	116,879
Total current assets		**873,064**	634,333
CURRENT LIABILITIES			
Accounts and bills payable	*12*	**221,341**	171,832
Accrued liabilities and other payables		**38,095**	32,304
Bank advances for discounted bills	*11*	**104,894**	–
Due to a minority shareholder		**114**	–
Tax payable		**7,490**	18,478
Interest-bearing bank and other borrowings		**253,456**	263,364
Total current liabilities		**625,390**	485,978
NET CURRENT ASSETS		**247,674**	148,355
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,037,998**	699,607

NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**360,764**	95,474
Deferred tax liabilities	**–**	23
Total non-current liabilities	**360,764**	95,497
Net assets	**677,234**	604,110
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**64,000**	64,000
Reserves	**593,289**	529,870
Proposed final dividend	**19,840**	10,240
	677,129	604,110
Minority interests	**105**	–
Total equity	**677,234**	604,110

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 Companies Ordinance in Hong Kong. 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 2005. 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 in the results and net assets of a Company's subsidiary.

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

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 36, 37, 40, HKFRS 3 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land from property, plant and equipment to prepaid land lease payments.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derecognition of financial assets and liabilities

In prior years, the Group derecognised the discounted bills with recourse as financial assets and liabilities, and disclosed them as contingent liabilities. Upon the adoption of HKAS 39, a financial asset is derecognised when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The Group has applied the revised accounting policy prospectively for transfers of financial assets for annual periods beginning on or after 1 January 2005.

In accordance with HKAS 39, the Group's discounted bills with recourse are now accounted for as collateralised bank advances prospectively as at 31 December 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The comparative amounts as at 31 December 2004, which were previously treated as contingent liabilities of the Group prior to 1 January 2005, have not been restated in accordance with the transitional provisions of HKAS 39.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium account were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" in the 2005 annual report of the Company (the "Annual Report").

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) share options granted to employees on or before 7 November 2002; and (ii) share options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As all existing share options of the Company were granted on 6 October 2004 and had not yet vested as at 1 January 2005, HKFRS 2 had therefore been applied retrospectively. The Group has recognised the cost of share options retrospectively which were granted on 6 October 2004 in the current year's income statement and restated the comparative amounts accordingly, in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised below.

3. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKAS 17#**	**HKAS 39***	**HKFRS 2#**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Discounted bills with recourse**	**Equity-settled share option arrangements**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Property, plant and equipment	(19,982)	–	–	(19,982)
Prepaid land lease payments	19,533	–	–	19,533
Accounts and bills receivable	–	77,843	–	77,843
Prepayments, deposits and other receivables	449	–	–	449
				77,843
Liabilities/equity				
Bank advances for discounted bills	–	77,843	–	77,843
Share option reserve	–	–	1,000	1,000
Retained profits	–	–	(1,000)	(1,000)
				77,843

* *Adjustments taken effect prospectively from 1 January 2005*

Adjustments/presentation taken effect retrospectively

	Effect of adopting			
At 31 December 2005	**HKAS 17**	**HKAS 39**	**HKFRS 2**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Discounted bills with recourse**	**Equity-settled share option arrangements**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Property, plant and equipment	(40,259)	–	–	(40,259)
Prepaid land lease payments	39,395	–	–	39,395
Accounts and bills receivable	–	104,894	–	104,894
Prepayments, deposits and other receivables	864	–	–	864
				104,894
Liabilities/equity				
Bank advances for discounted bills	–	104,894	–	104,894
Share option reserve	–	–	4,300	4,300
Retained profits	–	–	(4,300)	(4,300)
				104,894

(b) Effect on the balances of equity at 1 January 2005

Effect of new policy (Increase/(decrease))	Effect of adopting HKFRS 2 Equity-settled share option arrangements *HK$'000*
1 January 2005	
Share option reserve	1,000
Retained profits	(1,000)
	–

The adoption of new and revised HKFRSs has had no impact on the Group's balances of equity as at 1 January 2004.

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policy	Effect of adopting HKFRS 2 Equity-settled share option arrangements ***HK$'000***
Year ended 31 December 2005	
Increase in administrative expenses	**(4,300)**
Total decrease in profit	**(4,300)**
Decrease in basic earnings per share	**HK (0.7 cent)**
Decrease in diluted earnings per share	**N/A**
Year ended 31 December 2004	
Increase in administrative expenses	(1,000)
Total decrease in profit	(1,000)
Decrease in basic earnings per share	HK (0.2 cent)
Decrease in diluted earnings per share	HK (0.2 cent)

4. 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;

(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

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**
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 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)**

Group – 2004

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000* (Restated)
Segment revenue:						
Sales to external customers	720,614	244,028	124,620	19,634	206,754	1,315,650
Other income	3,066	–	2,592	36	30	5,724
Total	723,680	244,028	127,212	19,670	206,784	1,321,374
Segment results	130,364	45,087	22,798	3,872	37,056	239,177
Interest and other unallocated income						905
Unallocated expenses						(99,229)
Finance costs						(15,870)
Profit before tax						124,983
Tax						(20,221)
Profit for the year						104,762
Segment assets	115,057	5,993	46,684	16,587	9,113	193,434
Unallocated assets						992,151
						1,185,585
Segment liabilities	3,569	516	69,836	44,052	58,904	176,877
Unallocated liabilities						404,598
						581,475

Other segment information:						
Depreciation of property, plant and equipment – unallocated						33,760
Amortisation of prepaid land lease payments – unallocated						1,069
Capital expenditure – unallocated						261,131
Gain on disposal of items of property, plant and equipment – unallocated						(3,165)
Bad debts written off	–	–	418	–	–	418
Provision for doubtful debts	800	–	18	–	926	1,744
Write back of provision for doubtful debts	(1,540)	–	–	–	–	(1,540)
Write back of provision for other receivables-unallocated	–	–	–	–	–	(200)

(ii) Geographical segments based on the location of assets

Group – 2005

	Singapore *HK$'000*	**Hong Kong** *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Segment assets	**1,066**	**402,286**	**1,259,271**	**765**	**1,663,388**
Capital expenditure	**33**	**6,077**	**288,077**	**–**	**294,187**

Group – 2004

	Singapore *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment assets	547	306,661	877,020	1,357	1,185,585
Capital expenditure	54	5,388	255,200	489	261,131

5. 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 fee income from knitting and dyeing services rendered. All significant intra-group transactions have been eliminated on consolidation.

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

	2005 *HK$'000*	2004 *HK$'000*
Revenue		
Sale of goods	**1,499,209**	1,309,780
Fee income from knitting and dyeing services	**194**	5,870
	1,499,403	1,315,650
Other income		
Fee income from freight handling services	**4,274**	5,724
Bank interest income	**671**	253
Gross rental income	**1,347**	–
Others	**2,174**	652
	8,466	6,629
	1,507,869	1,322,279

6. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**22,379**	13,249
Interest on finance leases	**3,702**	2,621
	26,081	15,870

7. PROFIT BEFORE TAX

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

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**1,160,866**	998,248
Cost of services provided	**189**	3,467
Research and development costs	**5,006**	2,617
Depreciation of property, plant and equipment	**55,860**	33,760
Depreciation of investment properties	**376**	–
Amortisation of prepaid land lease payments	**449**	1,069
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	**73,829**	61,197
Equity-settled share option expenses	**3,010**	700
Pension scheme contributions	**3,962**	1,801
	80,801	63,698
Minimum lease payments under operating leases in respect of land and buildings	**2,049**	728
Gain on disposal of items of property, plant and equipment	**(160)**	(3,165)
Bad debts written off	**–**	418
Allowance/provision for doubtful debts	**13,030**	1,744
Write back of allowance/provision for doubtful debts	**(147)**	(1,540)
Write back of provision for other receivables	**–**	(200)
Foreign exchange differences, net	**481**	(4,594)

Cost of inventories sold includes HK$90,112,000 for the year ended 31 December 2005 (2004: HK$60,770,000) in respect of depreciation and staff costs, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK$3,172,000 for the year ended 31 December 2005 (2004: HK$796,000) in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

8. TAX

	2005	2004
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**6,014**	15,072
Underprovision/(overprovision) in respect of prior years	**(1,178)**	272
Current tax – Elsewhere		
Charge for the year	**8,439**	5,914
Underprovision/(overprovision) in respect of prior years	**121**	(967)
Deferred tax credit	**(2,084)**	(70)
Total tax charge for the year	**11,312**	20,221

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2004: 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 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 PRC corporate income tax purpose. For each of the years ended 31 December 2004 and 2005, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

9. DIVIDEND

	2005	2004
	HK$'000	*HK$'000*
Proposed final – HK3.1 cents per ordinary share (2004: 1.6 cents)	**19,840**	10,240

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").

10. 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$78,959,000 (2004 (restated): HK$104,762,000) and the weighted average of 640,000,000 (2004: 523,716,000) ordinary shares deemed to have been in issue during the year.

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

The calculation of diluted earnings per share for the year ended 31 December 2004 was based on the profit for the year attributable to ordinary equity holders of the Company of HK$104,762,000 (restated). The weighted average number of ordinary shares used in the calculation was the 523,716,000 ordinary shares deemed to have been in issue during that year as used in the basic earnings per share calculation, and the weighted average of 543,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during that year.

11. 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 of the Company. 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:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**100,747**	74,741
31 to 60 days	**83,392**	45,969
61 to 90 days	**51,530**	26,617
Over 90 days	**76,961**	46,107
	312,630	193,434

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 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 as a result of the adoption of HKAS 39, as detailed in note 3 above.

12. 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	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**174,573**	152,608
91 to 180 days	**29,861**	16,702
181 to 365 days	**16,565**	2,522
Over 365 days	**342**	–
	221,341	171,832

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 continuous growth of the Group despite a challenging operating environment in 2005. The business of the Group experienced a minimal impact as a result of the textile quota dispute in 2005 as the major production plants of the Group's premier customers are not located in the PRC. Revenue for the year ended 31 December 2005 was HK$1,499.4 million, representing an increase of 14% over the previous year due to an increase of orders from existing customers and the addition of new customers. The gross profit margin dropped slightly from 23.9% in 2004 to 22.6% in 2005 due to a substantial increase in outsourcing expenses as a result of water and electricity shortages in 2005. Growth in revenue coupled with optimization of production flow resulted in an increase in administrative expenses of 19.8%. In addition, the bad debt allowance of HK$13 million provided a negative impact on net profit margin resulting in a decrease for the year to 5.3% from 8.0% in the previous year.

The Group has enjoyed significant success in market development and has broadened its diversification in the PRC. Sales in the PRC was HK$149.7 million in 2005, representing an increase of 7.6 times in comparison to 2004. We are confident that the PRC market will continue to grow in 2006. Meanwhile, the Group will maintain its foundation of long-term relationships with existing customers and pursue growth among potential customers to expand diversification of business risk while compounding growth.

During the year under review, the Group has successfully developed a variety of new fabrics for the market and solicited new customers and labels to promote continuous, sustainable expansion of production capacity and product differentiation. In order to meet increasing customer demands, the Group continued to expand its production capacity with the construction of two new factory complexes in Panyu, the PRC for central knitting and fabric processing respectively. Additional efforts include relocation of a portion of major machinery and optimization of the value chain in an effort to streamline production flow. The Group is confident that the strategic adjustments will not only boost the production capacity, but also enhance the competitiveness of the Group.

The production capacity of fabric dyeing operations has increased by approximately 20% in early 2006 due to the improvement of operating efficiency following a restructuring of supply chain logistics and the addition of innovative machinery.

Although the new yarn dyeing operation was marginally influenced by the shortage of electricity and water in 2005, the management of the Group was able to successfully minimize the impact through a series of improvements in logistics and the introduction of new machinery. The challenge was alleviated and the yarn dyeing operation has recorded significant improvement in early 2006. We believe that the yarn dyeing operation will play an important role in overall performance and provide a significant contribution to the Group in 2006.

To further cultivate production growth plans, the Group initiated an expansion plan for the water and power plant since 2003. The second phase of power plant construction and expansion of the water supply capacity construction have commenced, but have not yet reached completion due to a delay in the delivery of key machinery and subsequent construction work. However, complications have been successfully minimized through a series of production planning adjustments. Further resolution is expected in the second quarter of 2006 after the new water supply facilities are fully operated and the second phase of the power plant is completed.

Outlook

The Group's knitting and dyeing capacity has increased by 20% to 7.5 million pounds and 11 million pounds per month respectively in early 2006 following the completion of two factory complexes and the addition of new machinery. In addition, the second phase of the power plant project and the expansion of the water supply plant will be completed in May and June 2006 respectively, which will ensure stable energy and water supply. Therefore, we believe that the performance of the Group will improve significantly in 2006. Meanwhile, the Group will endeavour to reduce operating and administrative expenses in 2006 through continuous efforts to improve efficiency.

After a series of meetings focused on the import quota on textile products among members of the World Trade Organization, a consensus was reached in late 2005. Market uncertainty has been removed regarding the potential threat of export restrictions. It is expected that this progress will remove the overhang of market concern, reduce market disruption, and be an advantage to the Group in terms of obtaining stable order sources. The Group maintains an optimistic outlook regarding quota elimination and we believe that we will capture long-term benefits derived from continuous development of the PRC market as well as the continuous market diversification to other Asian countries.

Land supply in Panyu, the PRC for production expansion is limited and therefore, the Group has purchased a piece of land in Enping, Guangdong Province in the PRC at the consideration of HK$20.7 million in October 2005. The Group plans to establish another textile factory in Enping for future expansion. This development is in line with the Group's strategy of seeking long-term growth in the field of textile products.

The Group will continue to dedicate resources to nurture competitive strengths. Research and development will be further enhanced through the recruitment of qualified, knowledgeable professionals to explore and develop new, innovative products. The Group will also consider providing additional value-added textile related products to our customers that will provide beneficial returns for our shareholders.

Operational and Financial Review

Revenue

For the financial year ended 31 December 2005, the Group recorded a turnover of HK$1,499.4 million (2004: HK$1,315.7 million), representing an increase of 14% in comparison to the previous financial year. The increase in turnover was mainly attributable to the sale of dyed yarn from the newly established yarn dye production line which commenced operations in September 2004 as well as an increase in sales in the Mainland China market.

Gross Profit

The gross profit of the Group for the financial year ended 31 December 2005 was HK$338.3 million (2004: HK$313.9 million), representing an increase of 7.8% in comparison to the previous year. The gross profit margin slightly decreased from 23.9% in the previous year to 22.6% in the current year. The slight decrease in gross profit margin was mainly attributable to the increase in outsourcing cost due to the Group subcontracted some of the manufacturing processes to other fabric suppliers as result of water and electricity shortages in 2005. In addition, the depreciation charge increased by 59.5% from HK$31.1 million in 2004 to HK$49.6 million in 2005 due to the addition of production facilities including a power and steam generating plant, production machinery and the construction of new factory complexes and other production facilities.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2005 was HK$79 million (2004 (restated): HK$104.8 million), representing a year-on-year decrease of 24.6%. Net profit margin for the year ended 31 December 2005 was 5.3% (2004: 8.0%). The decrease in net profit margin compared with the previous year was principally attributable to the allowance for doubtful debt of HK$13 million (2004: 1.7 million) mainly from a previous customer in Singapore, and coupled with an increase in labour cost of 26.9% due to the newly established yarn dye operation and an increase in marketing staff to further develop new market opportunities in Asia and the PRC.

Other Income and Expense

Other income of approximately HK$8.5 million was mainly comprised of HK$4.3 million in shipping and handling charges earned by Kam Hing International Shipping Limited and its subsidiary. The remaining balance was primarily the result of rental income. Selling and distribution costs of HK$93.9 million consisted of HK$86.4 million in shipping and delivery costs, that represented an increase of 14.3% in comparison to the previous year which is in line with the increase in revenue. Administrative expenses, which includes salaries, depreciation and other related expenses, increased 19.8% year-on-year to HK$123.2 million. The increase was due to additional administrative staff and depreciation charges for expansion of yarn dye operations. Additional professionals were employed to enhance production and marketing functions as well as overall management of the Group.

During the year under review, the Group recorded allowance for doubtful debts of HK$13 million (2004: HK$1.7 million), which was mainly attributable to an allowance of HK$11.6 million from a customer in Singapore. Finance costs, which mainly includes interest on long-term loans from banks, short-term trust receipt loans and finance lease interest, increased by 64.3% to HK$26.1 million (2004: HK$15.9 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 2005, the Group had net current assets of HK$247.7 million (2004 (restated): HK$148.4 million). The Group maintains a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2005, the Group had cash and bank deposits of HK$174.3 million (2004: HK$124.8 million). The current ratio of the Group was 1.4 times (2004: 1.3 times).

As at 15 July 2005, the Group had successfully obtained a 3-year syndicated loan facility amounting to HK$305 million from a syndicate of eight international and local banks at an interest rate of HIBOR plus 0.7% per annum for supplying additional working capital, repaying a current bank loan and financing future expansion of production capacity. The syndicated loan facility could reduce interest expenses and strengthen the Group's financial position by funding long-term investment by long term financing.

The total interest bearing bank and other borrowings of the Group as at 31 December 2005 were HK$719.1 million (2004: HK$358.8 million), netting off the cash on hand of HK$174.3 million (2004: 124.8 million), the Group's net debt gearing ratio was approximately 80.4% (2004: 38.7%). Increase in net debt gearing ratio was mainly due to the recognition of discounted bills with recourse of approximately HK$104.9 million as financial assets and liabilities of the Group in compliance with the new Hong Kong Accounting Standard ("HKAS") HKAS39, whilst the discounted bills with recourse of HK$106.4 million was reflected as contingent liabilities of the Group as at 31 December 2004. For the purpose of comparison on the same basis as last year, the net debt gearing ratio as at 31 December 2005 was approximately 65% by excluding the discounted bills with recourse of HK$104.9 million.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 76.1 days (2004: 53.7 days), 92.8 days (2004: 84.6 days) and 69.5 days (2004: 62.6 days) respectively. For the purpose of comparison on the same basis as last year, the debtors' turnover period for the year was 50.6 days by excluding the discounted bills with recourse of HK$104.9 million, which decreased slightly from 53.7 days in the previous financial year due to early settlement of some customers as a result of better credit control. The increase in the inventory turnover period from 84.6 days to 92.8 days was attributable to the increase in inventory in anticipation of the increase in production demand for the yarn dyeing and fabric dyeing. The creditors' turnover period increased slightly from 62.6 days to 69.5 days due to longer credit days offered by some suppliers.

Financing

As at 31 December 2005, the total banking and loan facilities of the Group amounted to HK$1,433.5 million (2004: HK$755 million), of which HK$627.6 million (2004: HK$429 million) was utilized.

As at 31 December 2005, the Group's long-term loans were HK$360.8 million (2004: HK$95.5 million) comprised of term loans from banks of HK$311.9 million (2004: HK$53.5 million) and long-term finance lease payable of HK$48.9 million (2004: HK$42 million). The increase in long-term loan was mainly due to addition of the syndicated loan of HK$305 million during the year, whilst the increase in long-term finance lease payable was attributable to the acquisition of machinery and other property, plant and equipment, which were principally financed by way of finance leases. The Group's long-term bank loans were comprised of loans drawn down by Kam Hing Piece Works Limited, a subsidiary of the Group, 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 HK3.1 cents per share in respect of the year ended 31 December 2005 to shareholders of record as of 29 May 2006. The decision is subject to approval by shareholders regarding the payment of the final dividend at the AGM.

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

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 financial effect of RMB appreciation by 2% against US$ on 21 July 2005 to the Group is not significant as most of the Group's raw materials are purchased in US$. Since the exchange rate of US dollars, Hong Kong 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 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 2005, certain plant and machinery and motor vehicles of the Group with an aggregate net book value of HK$191.1 million (2004: HK$148.6 million) were under finance leases.

Capital Expenditure

During the year, the Group invested HK$294.2 million (2004: HK$261.1 million) in property, plant and equipment as well as prepaid land lease payments, of which 68.5% (2004: 77.8%) was used for the purchase of plant and machinery, 18.3% (2004: 11.5%) was used for the construction of new factory premises, 7% (2004: Nil) was used for the acquisition of a piece of land in Enping, Guangdong Province, the PRC, and the remaining was used for the purchase of other fixed assets.

As at 31 December 2005, the Group had capital commitments of HK$32.3 million (2004: HK$96.7 million) in property, plant and equipment, which are to be funded by net proceeds from internal resources.

Staff Policy

The Group had 3,100 (2004: 2,064) employees in the PRC, and 107 (2004: 118) employees in Hong Kong, Macau and Singapore as at 31 December 2005. 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 participants, which is further explained under the heading "Share Option Scheme" in note 27 to the financial statements of the Annual Report for the purpose of providing an appropriate incentive package for the growth of the Group.

Contingent Liabilities

As at 31 December 2005, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to HK$678.4 million (2004: HK$429 million). The Group also had bills discounted with recourse of HK$30.6 million (2004: HK$106.4 million).

Major Customers and Suppliers

In the year ended 31 December 2005, sales to the five largest customers accounted for 53.5% (2004: 60.9%) of the total sales and sales to the largest customer included therein accounted for 21.6% (2004: 30.8%).

Purchases from the five largest suppliers accounted for 30.1% (2004: 39.3%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 6.9% (2004: 10.9%).

None of the Directors, their respective associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) 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, New Territories, Hong Kong on Monday, 29 May 2006 at 11:00 a.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 24 May 2006 to 29 May 2006, 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 23 May 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association (the "Articles") 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 to the Listing Rules as the code for securities transactions by the Directors. Having made specific enquiry of the 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 2005.

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

The Company is committed to maintain good corporate governance practices. For the year ended 31 December 2005, in the opinion of the Board, 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 to the Listing Rules, except for the deviation from the code provision A.4.2 in respect of retirement of every director by rotation at least once every three years. In order to ensure full compliance with the code provision A.4.2, a special resolution will be proposed to amend the relevant provisions of the Articles of the Company at the coming AGM.

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

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 to 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 2005 containing the information required under 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

As 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, 25 April 2006

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