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 2008

FINANCIAL HIGHLIGHTS

Revenue	HK$2,586.6 million
Gross Profit	HK$482.3 million
Net Profit Attributable to Ordinary Shareholders	HK$81.7 million

KEY HIGHLIGHTS

– Revenue increased by approximately 16.0% to approximately HK$2,586.6 million.

– Gross profit increased by approximately 9.9% to approximately HK$482.3 million.

– The Group's second fabric factory, located in Enping, Guangdong Province, commenced production in March 2009, thereby increasing 30% of the Group's fabric production capacity.

– The Group acquired 25% equity interest in a spinning factory located in Hubei, PRC in April 2008 to maintain a stable supply and the superior quality of cotton yarn.

The board (the "Board") of directors (the "Directors") of Kam Hing International Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008, together with the comparative figures for the year ended 31 December 2007, as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
REVENUE	4	**2,586,617**	2,230,764
Cost of sales		**(2,104,285)**	(1,791,926)
Gross profit		**482,332**	438,838
Other income and gains, net	4	**10,485**	22,308
Selling and distribution costs		**(128,926)**	(98,635)
Administrative expenses		**(226,756)**	(178,075)
Other operating expenses, net		**(13,435)**	(11,800)
Finance costs	5	**(30,815)**	(45,101)
Share of profit less losses of a jointly-controlled entity		**(729)**	–
Share of profit less losses of associates		**(500)**	–
PROFIT BEFORE TAX	6	**91,656**	127,535
Tax	7	**(11,015)**	(17,617)
PROFIT FOR THE YEAR		**80,641**	109,918
Attributable to:			
Ordinary equity holders of the Company		**81,700**	109,960
Minority interests		**(1,059)**	(42)
		80,641	109,918
DIVIDEND – Proposed final	8	**–**	27,698
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		**HK12.7 cents**	HK17.2 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
31 December 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,397,747**	1,043,504
Investment properties		**–**	–
Prepaid land lease payments		**63,458**	58,380
Intangible assets		**2,973**	2,105
Interest in a jointly-controlled entity		**10,941**	–
Interests in associates		**1,100**	–
Deposits paid		**21,436**	–
Deferred tax assets		**–**	–
Total non-current assets		**1,497,655**	1,103,989
CURRENT ASSETS			
Inventories		**448,019**	491,150
Accounts and bills receivable	*10*	**459,337**	296,300
Prepayments, deposits and other receivables		**24,103**	28,374
Equity investment at fair value through profit or loss		**349**	703
Derivative financial instruments		**1,459**	6,913
Due from minority shareholders		**20,258**	101
Due from an associate		**3,287**	–
Pledged deposits		**8,823**	12,887
Cash and cash equivalents		**137,539**	113,182
Total current assets		**1,103,174**	949,610
CURRENT LIABILITIES			
Accounts and bills payable	*11*	**312,017**	232,280
Accrued liabilities and other payables		**97,108**	60,131
Derivative financial instruments		**20,032**	4,842
Tax payable		**20,532**	13,280
Bank advances for discounted bills	*10*	**71,088**	39,025
Interest-bearing bank and other borrowings		**524,450**	328,116
Total current liabilities		**1,045,227**	677,674
NET CURRENT ASSETS		**57,947**	271,936
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,555,602**	1,375,925
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**363,412**	414,946
Deferred tax liabilities		**766**	712
Total non-current liabilities		**364,178**	415,658
Net assets		**1,191,424**	960,267
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital		**64,458**	64,413
Reserves		**1,083,661**	850,881
Proposed final dividend		**–**	27,698
		1,148,119	942,992
Minority interests		**43,305**	17,275
Total equity		**1,191,424**	960,267

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an equity investment and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

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");

(e) United States of America (the "USA"); and

(f) 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.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the fabric products segment is production and sale of knitted fabric, dyed yarn and provision of related subcontracting services;

(b) the garment products segment is production and sale of garment products and provision of related subcontracting services; and

(c) the "others" segment.

(a) Geographical segments

(i) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group – 2008

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	USA *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:							
Sales to external customers	1,075,374	257,337	360,736	266,729	251,089	375,352	2,586,617
Other income	673	103	1,852	235	8	248	3,119
Total	1,076,047	257,440	362,588	266,964	251,097	375,600	2,589,736
Segment results	178,937	44,197	58,703	45,788	39,315	62,394	429,334
Interest and other unallocated income and gains							7,366
Unallocated expenses							(313,000)
Finance costs							(30,815)
Share of profit less losses of:							
A jointly-controlled entity							(729)
Associates							(500)
Profit before tax							91,656
Tax							(11,015)
Profit for the year							80,641
Assets and liabilities							
Segment assets	217,422	27,858	63,694	81,508	23,120	45,735	459,337
Interest in a jointly-controlled entity							10,941
Interests in associates							1,100
Unallocated assets							2,129,451
Total assets							2,600,829
Segment liabilities	57,548	19,002	159,068	105,794	–	41,693	383,105
Unallocated liabilities							1,026,300
Total liabilities							1,409,405
Other segment information:							
Depreciation of items of property, plant and equipment, unallocated							126,156
Amortisation of prepaid land lease payments, unallocated							1,440
Amortisation of intangible assets							384
Capital expenditure, unallocated							382,170
Gain on disposal of items of property, plant and equipment, unallocated							(45)
Write-off of accounts receivable	–	–	–	139	–	–	139
Impairment losses recognised in the income statement	–	–	5,038	–	3,706	–	8,744
Impairment losses reversed in the income statement	(80)	(11)	(93)	–	–	(133)	(317)

Group – 2007

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	USA *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:							
Sales to external customers	1,078,999	186,531	315,970	210,364	147,211	291,689	2,230,764
Other income	2,701	66	3,128	154	15	187	6,251
Total	1,081,700	186,597	319,098	210,518	147,226	291,876	2,237,015
Segment results	188,211	33,221	58,809	37,557	26,190	51,042	395,030
Interest and other unallocated income and gains							16,057
Unallocated expenses							(238,451)
Finance costs							(45,101)
Profit before tax							127,535
Tax							(17,617)
Profit for the year							109,918
Assets and liabilities							
Segment assets	122,803	16,387	58,232	68,997	16,852	13,029	296,300
Unallocated assets							1,757,299
Total assets							2,053,599
Segment liabilities	31,484	10,325	81,004	136,151	–	12,341	271,305
Unallocated liabilities							822,027
Total liabilities							1,093,332
Other segment information:							
Depreciation of items of property, plant and equipment, unallocated							90,690
Amortisation of prepaid land lease payments, unallocated							1,211
Capital expenditure, unallocated							199,513
Loss on disposal of items of property, plant and equipment, unallocated							313
Impairment losses recognised in the income statement	701	11	499	–	–	407	1,618
Impairment losses reversed in the income statement	(112)	–	–	–	–	–	(112)

(ii) Geographical segments based on the location of assets

The following tables present certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Singapore *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Group – 2008					
Segment assets	**919**	**485,042**	**2,031,303**	**83,565**	**2,600,829**
Capital expenditure	**48**	**18,487**	**361,118**	**2,517**	**382,170**
Group – 2007					
Segment assets	152	308,769	1,658,652	86,026	2,053,599
Capital expenditure	46	546	185,844	13,077	199,513

(b) Business segments

The following tables present revenue, certain asset and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group – 2008

	Revenue *HK$'000*	Carrying amount of segment assets *HK$'000*	Capital expenditure *HK$'000*
Production and sale of knitted fabric, dyed yarn and provision of related subcontracting services	**2,295,338**	**2,476,691**	**376,365**
Production and sale of garment products and provision of related subcontracting services	**291,279**	**116,151**	**4,785**
Others	**–**	**7,987**	**1,020**
	2,586,617	**2,600,829**	**382,170**

Group – 2007

	Revenue *HK$'000*	Carrying amount of segment assets *HK$'000*	Capital expenditure *HK$'000*
Production and sale of knitted fabric, dyed yarn and provision of related subcontracting services	2,082,094	1,949,922	181,194
Production and sale of garment products and provision of related subcontracting services	148,670	98,915	16,309
Others	–	4,762	2,010
	2,230,764	2,053,599	199,513

4. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	Note	2008 HK$'000	2007 HK$'000
Revenue			
Production and sale of knitted fabric, dyed yarn and provision of related subcontracting services		**2,295,338**	2,082,094
Production and sale of garment products and provision of related subcontracting services		**291,279**	148,670
		2,586,617	2,230,764
Other income			
Fee income from freight handling services		**3,119**	6,251
Bank interest income		**585**	1,397
Gross rental income		**605**	901
Others		**16,916**	12,347
		21,225	20,896
Gains			
Fair value gains/(losses), net:			
Equity investment at fair value through profit or loss – held for trading	6	**(354)**	(679)
Derivative financial instruments – transactions not qualified as hedges and matured during the year	6	**8,187**	20
Derivative financial instruments – transactions not qualified as hedges and not yet matured	6	**(18,573)**	2,071
		(10,740)	1,412
Other income and gains, net		**10,485**	22,308

5. FINANCE COSTS

	Group 2008 HK$'000	 2007 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**28,444**	38,523
Interest on finance leases	**1,183**	3,287
Amortisation of bank charges on a syndicated loan	**1,188**	3,291
	30,815	45,101

6. PROFIT BEFORE TAX

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

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**2,104,285**	1,791,926
Auditors' remuneration	**1,880**	1,690
Research and development costs	**4,987**	4,712
Depreciation of items of property, plant and equipment	**126,156**	90,690
Amortisation of prepaid land lease payments	**1,440**	1,211
Amortisation of intangible assets	**384**	–
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	**199,358**	153,704
Equity-settled share option expense	**14,508**	2,900
Pension scheme contributions	**9,731**	8,454
	223,597	165,058
Minimum lease payments under operating leases in respect of land and buildings	**4,678**	2,813
Loss/(gain) on disposal of items of property, plant and equipment	**(45)**	313
Impairment of accounts receivable	**8,744**	1,618
Write back of impairment allowance for accounts receivable	**(317)**	(112)
Write-off of accounts receivable	**139**	–
Fair value (gains)/losses, net		
Equity investment at fair value through profit or loss – held for trading	**354**	679
Derivative financial instruments – transactions not qualified as hedges and matured during the year	**(8,187)**	(20)
Derivative financial instruments – transactions not qualified for hedges and not yet matured	**18,573**	(2,071)
Foreign exchange differences, net	**3,379**	6,811

The cost of inventories sold and services provided includes depreciation and staff costs of HK$256,311,000 for the year ended 31 December 2008 (2007: HK$187,644,000), which is also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK$4,341,000 for the year ended 31 December 2008 (2007: HK$3,983,000), which is also included in the respective total amounts disclosed separately above.

At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

7. TAX

	Group 2008 HK$'000	2007 HK$'000
Current tax – Hong Kong		
Charge for the year	**6,578**	11,111
Overprovision in prior years	**(127)**	(1,649)
Current tax – Elsewhere		
Charge for the year	**3,475**	7,404
Underprovision in prior years	**1,035**	–
Deferred tax charge	**54**	751
Total tax charge for the year	**11,015**	17,617

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2007: 17.5%). The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group has estimated tax losses arising in Hong Kong of HK$11,013,000 (2007: HK$4,150,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Corporate Income Tax Law issued by The State Council of the PRC on 26 December 2007, effective from 1 January 2008, the existing preferential income tax rate pertaining to the Group's subsidiaries operated in the PRC will gradually transit to the applicable tax rate of 25%.

During the year ended 31 December 2007, Guangzhou Kam Hing Textile Dyeing Co. Ltd. ("Guangzhou KH Textile"), a wholly-owned PRC subsidiary of the Company, was entitled to a 50% reduction in the corporate income tax in the PRC. The applicable tax rate of Guangzhou KH Textile, after the 50% reduction, was 12%.

8. DIVIDEND

The directors resolved not to declare any dividend for the year ended 31 December 2008 (2007: final dividend of HK4.3 cents per ordinary share, totaling approximately HK$27,698,000).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$81,700,000 (2007: HK$109,960,000) and the weighted average of 644,529,000 (2007: 640,481,000) ordinary shares deemed to have been in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

10. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Accounts and bills receivable	**469,382**	297,918
Impairment	**(10,045)**	(1,618)
	459,337	296,300

The Group's trading terms with its customers are generally on credit with terms of up to 2 months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 4 months). The Group seeks to strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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 provision, is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 1 month	**203,326**	131,612
1 to 2 months	**103,605**	91,302
2 to 3 months	**108,949**	49,244
Over 3 months	**43,457**	24,142
	459,337	296,300

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 2008, amounts totaling HK$71,088,000 (2007: HK$39,025,000) were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" on the face of the consolidated balance sheet.

The movements in impairment allowance for accounts and bills receivable are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**1,618**	112
Impairment losses recognised	**8,744**	1,618
Write back of impairment losses	**(317)**	(112)
	10,045	1,618

Included in the above impairment allowance for accounts and bills receivable is an allowance for individually impaired trade receivables of HK$10,045,000 (2007: HK$1,618,000) with a carrying amount of HK$10,882,000 (2007: HK$2,084,000). The individually impaired accounts and bills receivable relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the accounts and bills receivable that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**237,722**	190,507
Less than 1 month past due	**157,568**	59,222
1 to 6 months past due	**63,210**	46,105
	458,500	295,834

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

11. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	**239,918**	191,024
3 to 6 months	**69,532**	39,152
6 to 12 months	**2,436**	2,016
Over 1 year	**131**	88
	312,017	232,280

Included in the trade and bills payables are trade payables of HK$1,711,000 (2007: Nil) due to a jointly-controlled entity which are repayable within 2 months, which represents similar credit terms to those offered by the jointly-controlled entity to its major customers.

The accounts and bills payable are non-interest-bearing and are normally settled on terms of 2 to 4 months. The carrying amounts of the Group's accounts and bills payable approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Expansion of Production Capacity

To cater for increasing orders from existing and new customers, to improve production flexibility and to minimise outsourcings, the Group established the fabric factory, located in Enping, Guangdong Province during the year and the factory commenced production in March 2009, thereby increasing 30% of the Group's fabric production capacity. The additional production capacity enabled the Group to optimise the production workflow in order to ensure products are delivered to our customers in a timely manner.

During the year under review, turnover of our two garment factories in Madagascar went up 95.9% as compared to the previous corresponding year. Production process remains normal in spite of recent political issues in Madagascar.

Investment in a Spinning Factory in Hubei, PRC

Cotton yarn is the Group's major raw material and the cost of which has accounted for over 50% of the Group's turnover. In order to maintain a stable supply and the superior quality of cotton yarn, the Group decided to acquire 25% equity interest in a spinning factory located in Hubei, PRC in April 2008 at RMB32.5 million. In return, the spinning factory began to supply cotton yarn to the Group during the year under review. The acquisition has not only enabled the Group to further its vertical integration and reduce production lead-time, but also enhances the efficiency of the Group's production chain and added another competitive edge to the Group's business.

During the year, the Group decided to proceed cautiously the mining business development in response to the downturn of worldwide mineral market.

Outlook

Operating environment in the PRC is expected to continue to improve along with a stimulus package and supporting policies from the PRC Government. These include the increase of export value-added tax refund to 15% in February 2009 and further increased to 16% in April 2009 and stabilisation of Renminbi exchange rates.

Direct production cost, including the cotton yarn, chemical dyes and fuel prices continued to drop in early 2009. On the other hand, labour shortage has also eased up amidst the economic downturn to lower the production cost.

The Group is confident in its ability to seek new orders from both domestic and overseas markets via our strong marketing team and unrivalled research and development capability despite of the slowdown in the textile market in the US and Europe. We will also closely monitor the market situation and adjust marketing strategy accordingly.

With ongoing efforts to optimise the production process and the commencement of the second fabric factory in Enping, the Group will continuously seek to increase its production capacity, efficiency and productivity as well as further strengthen its cotton spinning and garment manufacturing operation. The horizontal and vertical diversifications will enhance the Group's long-term development and sustain the Group's profitability in the long run.

Operational and Financial Review

The Group is principally engaged in the manufacturing and selling of knitted fabrics, dyed yarn and garment products, which includes the production processes ranging from cotton spinning, knitting, yarn dyeing, fabric dyeing, final processing and garment manufacturing.

The Group has two production bases in the PRC and Madagascar. It has established self-sufficient production facilities including a water supply plant, a sewage treatment plant and a power and steam generating plant to ensure non-stop production at the manufacturing base in Panyu, PRC. In addition, the Group has established two garment factories in Madagascar and one in Panyu, respectively. These factories mainly produces finished knitted garment for major global retail chains. Most of the Group's fabric and dyed yarn are supplied to the Group's factories in Madagascar, Panyu, and other garment manufacturers in various countries around the world to be made into branded casual wear and sold in major global retail chains.

The Group established a marketing office in Korea in May 2008 to broaden its customer base and enhance its competitiveness in the international market. In addition, the Group acquired 25% equity interest in a spinning factory in Hubei, PRC in April 2008 at a consideration of RMB32.5 million to maintain a stable supply of superior quality cotton yarn.

During the year, the Group established a second fabric production factory in Enping, PRC, which commenced operation in March 2009. The new Enping factory has provided additional production capacity to support the continuous expansion of the Group's business in the fabric market.

During the review period, in response to the downturn of worldwide mineral market, the Group has also decided to proceed cautiously the development of mining business.

Revenue

For the financial year ended 31 December 2008, the Group recorded a revenue of HK$2,586.6 million (2007: HK$2,230.8 million), representing an increase of 16.0% in comparison to the previous financial year. The increase in revenue was mainly attributable to the increase in sales to existing customers and new customers, and increase in sales from garment products.

Gross Profit and Gross Profit Margin

Gross profit for the year ended 31 December 2008 was HK$482.3 million (2007: HK$438.8 million), representing an increase of 9.9% in comparison to the previous year. Gross profit margin was 18.6% in the current year, slightly decreased from 19.7% in last year. The narrowing of gross profit margin is mainly due to a general increase in production cost.

Net Profit and Net Profit Margin

The Group's net profit attributable to shareholders for the financial year ended 31 December 2008 was HK$81.7 million (2007: HK$110.0 million), representing a year-on-year decrease of 25.7%. Net profit margin for the year ended 31 December 2008 was 3.1%, with a decrease from 4.9% in 2007. The fall in net profit margin was mainly due to the increase in operating and distribution costs, the cost of equity-settled share option expense of HK$14.5 million (2007: HK$2.9 million), which is recognised in accordance with the HKFRS for the share options granted in November 2007, and the fair value loss of HK$12.0 million (2007: Nil) from interest rate swap. The Group has entered into three-year interest rate swap with the banks during the year under review to fix the interest rate at around 2.7% for the amount of HK$450.0 million (2007: Nil), in order to minimise any potential financial impact arising from interest rate volatilities for the short term and long term bank borrowings. Excluding the above-mentioned non-operating expenses, i.e. the cost of equity-settled share option expense and the fair value loss of interest rate swap, the net profit margin of the Group would be 4.1% (2007: 5.1%), the narrowing of net profit margin was mainly attributable to the increase in operating costs and distribution expenses.

Other Income and Expense

Other income of approximately HK$10.5 million (2007: HK$22.3 million) mainly comprised HK$3.1 million (2007: HK$6.3 million) in shipping and handling charges generated by Kam Hing International Shipping Limited and its subsidiaries, HK$14.8 million (2007: HK$8.0 million) from the sales of excess steam generated by the power plant to the nearby factories in the district, as well as the fair value loss of HK$12.0 million (2007: Nil) from interest rate swap. The remaining balance was primarily the result of interest income, rental income, the sales of scrap materials and gain on foreign exchange contracts. Selling and distribution costs of HK$128.9 million (2007: HK$98.6 million) consisted of HK$109.5 million (2007: HK$86.2 million) in shipping and delivery costs, which represented an increase of 27.0% relative to the previous year and attributable to increase in turnover and freight charges. Administrative expenses, which included salaries, depreciation and other related expenses, increased by 27.3% year-on-year to HK$226.8 million (2007: HK$178.1 million). The increase was due to the cost of equity-settled share option expense of HK$14.5 million (2007: HK$2.9 million), which is recognised in accordance with the HKFRS for the share options granted in November 2007, as well as salary increment and improvement in staff welfare for the PRC factory resulting from labor shortage and expenses for additional administrative staff for the expansion of the Group's garment operation.

Finance costs, which mainly included interests on long-term loans from banks, short-term trust receipt loans and finance lease interest, decreased by 31.7% to HK$30.8 million (2007: HK$45.1 million) as compared with the previous year as a result of decrease in interest rates.

Liquidity and Financial Resources

As at 31 December 2008, the Group's net current assets were HK$57.9 million (2007: HK$271.9 million). The reduction in net current assets was mainly attributable to the re-classification of the current portion of a syndicated loan from banks due from 2009 to 2011, of which HK$145.2 million will be due in 2009 as current liability and HK$259.6 million will be due from 2010 to 2011 as non-current liability. The Group will constantly review and maintain a healthy financial position by financing its operations from internally-generated resources and long-term bank loans. As at 31 December 2008, the Group had cash and cash equivalents of HK$137.5 million (2007: HK$113.2 million). Current ratio of the Group was 1.1 times (2007: 1.4 times).

Total bank and other borrowings of the Group, as at 31 December 2008, were HK$959.0 million (2007: HK$782.1 million). Cash and cash equivalents of the Group were HK$137.5 million (2007: HK$113.2 million). The Group's net debt gearing ratio was maintained at a healthy level of approximately 51.7% (2007: 50.5%).

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 53.3 days (2007: 54.3 days), 81.5 days (2007: 99.2 days) and 47.2 days (2007: 62.8 days), respectively. The decrease in the debtors' turnover period was due to early settlement of some customers as a result of better credit control. The decrease in the inventory turnover period was attributable to stringent inventory controls implemented during the year. The creditors' turnover period decreased was due to less purchase near year end as a result of stringent inventory control.

Financing

As at 31 December 2008, the total banking and loan facilities of the Group amounted to HK$2,153.1 million (2007: HK$2,375.2 million), of which HK$949.9 million (2007: HK$809.6 million) was utilised.

As at 31 December 2008, the Group's long-term loans were HK$363.4 million (2007: HK$414.9 million) comprising term loans from banks of HK$326.1 million (2007: HK$402.1 million) and long-term finance lease payable of HK$37.3 million (2007: HK$12.8 million). The decrease in long-term loan was mainly attributable to the classification of the current portion of a syndicated loan from banks due from 2009 to 2011.

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

Dividend

The Board does not recommend the payment of a final dividend to shareholders of the Company for the year ended 31 December 2008 (2007: HK4.3 cents per share).

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

75.1% (2007: 76.2%) of the Group's sales were denominated in US dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's cost of sales was denominated in US dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to Renminbi. Renminbi appreciated against other currencies in the first three quarter and became relatively stable in the fourth quarter of the year under review. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary. Exchange rate of the other currencies was relatively stable throughout the year under review.

The Group's borrowings were mainly maintained as floating rate basis. In order to minimise any potential financial impact arising from interest rate volatilities, the Group has entered into three-year interest rate swap with the banks during the year under review to fix the interest rate at around 2.7% for the amount of HK$450.0 million (2007: Nil). Attention will be paid to the interest rate movements. Other hedging instruments will be employed when necessary.

Charge on Group's Assets

As at 31 December 2008, certain items of property, plant and equipment of the Group with an aggregate net book value of HK$120.4 million (2007: HK$94.8 million) were under finance leases.

Capital Expenditure

During the year under review, the Group invested HK$382.2 million (2007: HK$199.5 million) in capital expenditure, of which 84.8% (2007: 80.1%) was used for the purchase of plant and machinery, 9.4% (2007: 12.9%) was used for the acquisition and construction of new factory premises, none (2007: 3.8%) was used for the acquisition of pieces of land in preparation for future production capacity expansion and the remaining was used for the purchase of other property, plant and equipment, as well as investment in a jointly controlled entity and an associate.

As at 31 December 2008, the Group had capital commitments of HK$65.1 million (2007: HK$129.5 million) in property, plant and equipment, which are to be funded by internal resources of the Group.

Staff Policy

The Group had 4,430 (2007: 4,150) employees in the PRC, 5,100 (2007: 4,680) employees in Madagascar and 140 (2007: 140) employees in Hong Kong, Macau, Singapore and Korea as at 31 December 2008. 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 also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide.

The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options are granted to select eligible participants, with a view to provide directors, employees and other persons an appropriate incentive package for the growth of the Group.

Contingent Liabilities

As at 31 December 2008, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to HK$949.9 million (2007: HK$809.6 million). The Group also had bills discounted with recourse of HK$16.5 million (2007: HK$39.2 million). The Group had a contingent liability in respect of possible future long service payments to employees with a maximum possible amount of HK$1.6 million (2007: HK$1.5 million).

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held at Units 1-9, 8/F., Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, N.T., Hong Kong on Monday, 8 June 2009 at 11:00a.m.. Notice of AGM which will be published in due course.

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.

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

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year.

The audit committee of the Company has met with the external auditors of the Company, Messrs. Ernst & Young, to review the accounting principles and practices adopted by the Group and the annual results of the Group for the year ended 31 December 2008.

GENERAL INFORMATION

At the date of this announcement, the executive directors of the Company are Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk, Mr. Chong Chau Lam and Mr. Wong Wai Kong, Elmen; and the independent non-executive directors of the Company are Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Chan Chung Yuen, Lawrence.

By Order of the Board
Tai Chin Chun
Chairman

Hong Kong, 21 April, 2009