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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: 02307)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased by 11.8% to HK\$3,662.6 million (2015: HK\$4,152.7 million)
- Gross profit decreased by 20.4% to HK\$507.5 million (2015: HK\$637.8 million)
- Net profit for the year attributable to ordinary equity holders of the Company increased by 28.6% to HK\$75.0 million (2015: HK\$58.3 million)
- Proposed final dividend of HK1.5 cents per share (2015: HK\$1.5 cents)

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 (collectively the “Group”) for the year ended 31 December 2016 (the “Year”), together with the comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
REVENUE	4	3,662,622	4,152,733
Cost of sales		<u>(3,155,131)</u>	<u>(3,514,895)</u>
Gross profit		507,491	637,838
Other income and gains, net	4	34,706	28,831
Selling and distribution expenses		(115,492)	(129,054)
Administrative expenses		(309,740)	(344,986)
Other operating income/(expenses), net		18,747	(3,267)
Finance costs		(51,590)	(61,585)
Share of profits less losses of an associate		<u>–</u>	<u>(42,152)</u>
PROFIT BEFORE TAX	5	84,122	85,625
Income tax expense	6	<u>(10,520)</u>	<u>(24,510)</u>
PROFIT FOR THE YEAR		<u>73,602</u>	<u>61,115</u>
Attributable to:			
Ordinary equity holders of the Company		74,995	58,256
Non-controlling interests		<u>(1,393)</u>	<u>2,859</u>
		<u>73,602</u>	<u>61,115</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		<u>HK8.6 cents</u>	<u>HK6.7 cents</u>
Diluted		<u>HK8.6 cents</u>	<u>HK6.7 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>73,602</u>	<u>61,115</u>
OTHER COMPREHENSIVE EXPENSES		
Other comprehensive expenses may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(236,057)	(79,312)
Reclassification adjustments for foreign operations disposed of during the year	<u>–</u>	<u>(557)</u>
	(236,057)	(79,869)
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR	<u>(236,057)</u>	<u>(79,869)</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR	<u><u>(162,455)</u></u>	<u><u>(18,754)</u></u>
Attributable to:		
Ordinary equity holders of the Company	(158,387)	(20,331)
Non-controlling interests	<u>(4,068)</u>	<u>1,577</u>
	<u><u>(162,455)</u></u>	<u><u>(18,754)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,970,431	2,116,300
Prepaid land lease payments		107,507	63,406
Goodwill		12,811	–
Interest in an associate		–	–
Prepayments		7,554	8,142
Long term receivables		30,843	30,074
Deposits paid		24,139	45,080
Deferred tax assets		4,100	2,637
Total non-current assets		2,157,385	2,265,639
CURRENT ASSETS			
Inventories		1,111,909	1,028,065
Accounts and bills receivables	9	572,633	816,609
Prepayments, deposits and other receivables		68,307	62,524
Equity investment at fair value through profit or loss		289	268
Tax recoverable		1,110	118
Pledged deposits		–	13,586
Cash and cash equivalents		475,532	517,573
Total current assets		2,229,780	2,438,743
CURRENT LIABILITIES			
Accounts and bills payables	10	637,623	595,309
Accrued liabilities and other payables		156,766	203,573
Derivative financial instruments		–	1,218
Due to an associate		2,706	3,092
Tax payable		16,898	22,184
Interest-bearing bank and other borrowings		844,304	705,100
Total current liabilities		1,658,297	1,530,476
NET CURRENT ASSETS		571,483	908,267
TOTAL ASSETS LESS CURRENT LIABILITIES		2,728,868	3,173,906

	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	902,061	1,148,710
Deferred tax liabilities	7,737	492
	<hr/>	<hr/>
Total non-current liabilities	909,798	1,149,202
	<hr/>	<hr/>
Net assets	1,819,070	2,024,704
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	1,733,062	1,904,498
	<hr/>	<hr/>
	1,820,054	1,991,490
	<hr/>	<hr/>
Non-controlling interests	(984)	33,214
	<hr/>	<hr/>
Total equity	1,819,070	2,024,704
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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 (“HKICPA”), 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 at fair value through profit or loss 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.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on the financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the fabric products segment engages in the production and sale of knitted fabric and dyed yarn and the provision of related subcontracting services; and
- (b) the “others” segment includes the provision of sewage treatment service, and the provision of air and ocean freight handling services and mining.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Intersegment revenue and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2016

	Fabric <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from external customers	<u>3,662,622</u>	<u>–</u>	<u>3,662,622</u>
Segment profit/(loss)	137,853	(2,574)	135,279
Bank interest income	426	7	433
Finance costs	<u>(51,590)</u>	<u>–</u>	<u>(51,590)</u>
Profit/(loss) before tax	86,689	(2,567)	84,122
Income tax credit/(expense)	<u>(10,538)</u>	<u>18</u>	<u>(10,520)</u>
Profit/(loss) for the year	<u>76,151</u>	<u>(2,549)</u>	<u>73,602</u>
Assets and liabilities			
Segment assets	4,300,579	82,486	4,383,065
Deferred tax assets	<u>4,100</u>	<u>–</u>	<u>4,100</u>
Total assets	<u>4,304,679</u>	<u>82,486</u>	<u>4,387,165</u>
Segment liabilities	2,553,638	6,720	2,560,358
Deferred tax liabilities	<u>854</u>	<u>6,883</u>	<u>7,737</u>
Total liabilities	<u>2,554,492</u>	<u>13,603</u>	<u>2,568,095</u>
Other segment information:			
Depreciation and amortisation	323,495	2,089	325,584
Loss/(gain) on disposal of items of property, plant and equipment, net	(19,378)	9	(19,369)
Impairment of accounts receivable	31,663	–	31,663
Write-back of impairment allowance for accounts receivable	(5,523)	–	(5,523)
Impairment of other receivables	618	285	903
Write-off of other receivables	258	–	258
Write-back of impairment of other receivables	–	(391)	(391)
Impairment of inventories	4,365	–	4,365
Capital expenditure	<u>358,355</u>	<u>51,821</u>	<u>410,176</u>

Year ended 31 December 2015

	Fabric <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from external customers	<u>4,152,733</u>	<u>–</u>	<u>4,152,733</u>
Segment profit/(loss)	188,801	(1,486)	187,315
Bank interest income	1,504	1	1,505
Finance costs	(61,585)	–	(61,585)
Gain on disposal of subsidiaries	–	542	542
Share of profits less losses of an associate	<u>–</u>	<u>(42,152)</u>	<u>(42,152)</u>
Profit/(loss) before tax	128,720	(43,095)	85,625
Income tax expense	<u>(24,501)</u>	<u>(9)</u>	<u>(24,510)</u>
Profit/(loss) for the year	<u>104,219</u>	<u>(43,104)</u>	<u>61,115</u>
Assets and liabilities			
Segment assets	4,693,850	7,895	4,701,745
Deferred tax assets	<u>2,637</u>	<u>–</u>	<u>2,637</u>
Total assets	<u>4,696,487</u>	<u>7,895</u>	<u>4,704,382</u>
Segment liabilities	2,674,546	4,640	2,679,186
Deferred tax liabilities	<u>492</u>	<u>–</u>	<u>492</u>
Total liabilities	<u>2,675,038</u>	<u>4,640</u>	<u>2,679,678</u>
Other segment information:			
Depreciation and amortisation	318,098	38	318,136
Loss/(gain) on disposal of items of property, plant and equipment, net	(1,027)	46	(981)
Impairment of accounts receivable	9,936	–	9,936
Write-back of impairment allowance for accounts receivable	(3,082)	–	(3,082)
Impairment of other receivables	300	586	886
Write-off of other receivables	868	–	868
Write-back of impairment of deposit and other receivables	(4,524)	(97)	(4,621)
Capital expenditure	<u>401,928</u>	<u>–</u>	<u>401,928</u>

Geographical information

(a) Revenue from external customers

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Korea	844,485	813,764
Mainland China	716,791	770,068
Hong Kong	627,665	741,762
Singapore	428,163	461,035
Taiwan	415,318	510,383
Others	630,200	855,721
	<u>3,662,622</u>	<u>4,152,733</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Mainland China	2,029,471	2,133,675
Hong Kong	92,908	98,584
Singapore	52	62
Others	11	607
	<u>2,122,442</u>	<u>2,232,928</u>

The non-current assets information above is based on the locations of the assets and excludes long term receivables and deferred tax assets.

Information about a major customer

During the years ended 31 December 2016 and 2015, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered by the Group.

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

	<i>Note</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Revenue			
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services		<u>3,662,622</u>	<u>4,152,733</u>
Other income			
Fee income from freight handling services		7,268	7,835
Bank interest income		433	1,505
Gross rental income		420	430
Subsidy income from the People's Republic of China (the "PRC") government	<i>5</i>	1,172	2,525
Others		<u>25,271</u>	<u>16,915</u>
		<u>34,564</u>	<u>29,210</u>
Gains, net			
Fair value gains/(losses), net:			
Equity investment at fair value through profit or loss – held for trading	<i>5</i>	21	(33)
Derivative financial instruments – transactions not qualified as hedges but matured during the year	<i>5</i>	121	872
Derivative financial instruments – transactions not qualified as hedges and not yet matured	<i>5</i>	<u>–</u>	<u>(1,218)</u>
		<u>142</u>	<u>(379)</u>
Other income and gains, net		<u>34,706</u>	<u>28,831</u>

5. PROFIT BEFORE TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of inventories sold and services provided	3,155,131	3,514,895
Research and development costs	13,169	13,805
Depreciation of items of property, plant and equipment	322,993	316,306
Amortisation of prepaid land lease payments	2,591	1,830
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	432,671	445,175
Pension scheme contributions	51,635	59,649
	<u>484,306</u>	<u>504,824</u>
Minimum lease payments under operating leases	6,789	10,724
Gain on disposal of items of property, plant and equipment, net*	(19,369)	(981)
Impairment of accounts receivable*	31,663	9,936
Write-back of impairment allowance for accounts receivable*	(5,523)	(3,082)
Impairment of other receivables*/***	903	886
Write-off of other receivables*	258	868
Write-back of impairment of deposit and other receivables*	(391)	(4,621)
Impairment of inventories**	(4,365)	–
Gain on disposal of subsidiaries*	–	(542)
Fair value losses/(gains), net:		
Equity investment at fair value through profit or loss		
– held for trading	(21)	33
Derivative financial instruments – transactions not qualified as hedges but matured during the year	(121)	(872)
Derivative financial instruments – transactions not qualified as hedges and not yet matured	–	1,218
Foreign exchange differences, net*	(31,565)	3,038
Subsidy income from the PRC government****	<u>(1,172)</u>	<u>(2,525)</u>

* *These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.*

** *This amount is included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

*** *Included in the above impairment allowance for other receivables is an allowance for other receivables of HK\$903,000 (2015: HK\$886,000) with a carrying amount of HK\$1,027,000 (2015: HK\$886,000) before impairment allowance. The impaired other receivables were not expected to be recovered.*

**** *There are no unfulfilled conditions or contingencies relating to these grants.*

The cost of inventories sold and services provided includes depreciation, staff costs and impairment of inventories of HK\$673,247,000 (2015: HK\$673,041,000), which are also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK\$12,060,000 for the year ended 31 December 2016 (2015: HK\$12,717,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

6. INCOME TAX

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	1,744	6,257
Overprovision in prior years	(5)	(237)
Current tax – Elsewhere		
Charge for the year	10,648	13,061
Overprovision in prior years	(30)	(965)
Deferred tax expense/(credit)	<u>(1,837)</u>	<u>6,394</u>
Total tax charge for the year	<u>10,520</u>	<u>24,510</u>

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2015: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is unified to 25% for all enterprises in Mainland China.

7. DIVIDEND

The proposed final dividend for the year of HK1.5 cents (2015: HK1.5 cents) per ordinary share, in aggregate of approximately HK\$13,049,000 (2015: HK\$13,049,000), is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$74,995,000 (2015: HK\$58,256,000), and 869,919,000 (2015: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2016 and 2015.

9. ACCOUNTS AND BILLS RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Accounts and bills receivables	606,992	841,315
Impairment	<u>(34,359)</u>	<u>(24,706)</u>
	<u>572,633</u>	<u>816,609</u>

The Group's trading terms with its customers are generally on credit with terms of up to three months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding receivable 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 receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

An aged analysis of the Group's accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	234,548	294,105
1 to 2 months	213,062	217,927
2 to 3 months	70,827	127,086
Over 3 months	54,196	177,491
	<u>572,633</u>	<u>816,609</u>

10. ACCOUNTS AND BILLS PAYABLES

An aged analysis of the Group's accounts and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	581,426	492,826
3 to 6 months	51,799	100,368
Over 6 months	4,398	2,115
	<u>637,623</u>	<u>595,309</u>

The accounts and bills payables are non-interest-bearing and are normally settled on credit terms of one to four months.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Reviewing the global market in 2016, political uncertainties in advanced economies dominated the world's sentiment, in particular the United Kingdom's decision to leave the European Union and Mr. Donald Trump's victory in the United States (the "U.S.") presidential election. The turbulence somehow hindered the global consumers' behaviour in 2016.

During the Year, the U.S. remained as the Group's major ultimate market and had been going through a fragile economic recovery. While the average unemployment rate of the U.S. decreased from 5.3% in 2015 to 4.9% in 2016, the labour participation rate in December remained stagnate at 62.7% as compared with the previous year, indicating that the labour market was still not recovered yet. Meanwhile, consumers' sentiment made a downturn in the second half of 2016 due to the anticipation of interest rate increase in year end and the bruising U.S. presidential election. According to the studies conducted by the University of Michigan, the index of consumer sentiment dropped from 91.2 in September to 87.2 in October, the lowest level since October 2014; yet, it jumped to 98.2 in December, reaching a 13-year peak with the post-election surge in optimism. This represented another classic in the unpredictable 2016.

Business always thrives on stability and sentiment; enterprises continued to be threatened by the global uncertainties in 2016. Against the backdrop of weak consumer sentiment, the Group observed that the retailers in the U.S. prolonged their seasonal sale period throughout the year, in order to avoid piling stocks, keep inventory lean and hence mitigate risks. This led to another difficult year for the textile export industry in China. As one of the leading textile manufacturers, the Group was inevitably affected. Nonetheless, with accumulated years of experience, the Group was able to persist with tenacity and sustain the core position in the industry.

BUSINESS OVERVIEW

During the Year, the Group's overall revenue decreased by 11.8% to HK\$3,662.6 million (2015: HK\$4,152.7 million). Gross profit reduced by 20.4% to HK\$507.5 million (2015: HK\$637.8 million) and gross profit margin decreased by 1.5 percentage points to 13.9%. Profit attributable to ordinary equity holders of the Company for the Year increased by 28.6% to HK\$75.0 million (2015: HK\$58.3 million), which was mainly due to a gain on disposal of the Group's former head office of HK\$19.9 million during the Year. The basic earnings per share was HK8.6 cents (2015: HK6.7 cents).

In 2016, the Group's sales volume decreased amid the weak global demand for consumer goods. To ensure a relatively stable order flow, the Group strategically maintained the average selling price of its textile products at a steady level. Yet, the risen raw material costs of cotton yarn nibbled the Group's profitability. Small batches orders with short delivery schedule placed by the increasingly prudent buyers also dampened the Group's operation efficiency and net profit margin.

In China, the market consolidation of the textile supply accelerated during the Year. The China government stringently inspected local textile manufacturers for their compliance with the environmental policy and closed down quite a number of unqualified factories in Yangtze River Delta. Towards the end of the Year, orders received by the Group increased as compared with the same period last year as a result of the reduced market supply. It is expected that the market consolidation will continue in 2017 and offer quality and scale textile manufacturers, like the Group, more new business opportunities.

Meanwhile, in view of the increasingly rigid environmental requirement, the Group acquired 廣州市番禺東涌工業污水處理有限公司 in May 2016 for RMB40.8 million (equivalent to HK\$49.8 million). With the ownership, the Group has a full control over the sewage treatment facilities and its sewage license, which would be a valuable and beneficial investment for its long-term development.

Carrying on its strategy to be the leading integrated fabric solutions provider, the Group continued to upgrade its production facilities in Enping and Panyu, China (the “Enping Plant” and “Panyu Plant” respectively). The Panyu Plant was mainly responsible for yarn dyeing, fabric knitting, cotton fabric dyeing and processing, while the Enping Plant was mainly responsible for fabric knitting, cotton and functional fabric dyeing and printing solutions. In 2016, the Group expanded the production capacity of its printing facility in the Enping Plant. It commenced trial run in the fourth quarter and increased the production capacity of self-supply knitted fabric. Such enhancements would help the Group to differentiate itself from its competitors in the market consolidation, and support its timely delivery of all-rounded textile solutions to customers worldwide.

PROSPECTS

Looking ahead in 2017, political instability will continue to prevail and influence the global economy. With the uncertainties of President Donald Trump’s international trade policies, the U.S. buyers’ purchase is expected to be prudent in 2017. However, the new monetary policy to be introduced by the U.S. may exert more depreciation pressure on Renminbi, and benefit the Group in its production cost control. While the U.S. will remain as the largest market in the medium term, the Group will continue with its risk management strategy through diversifying the customer base. Over the years, the Group has been actively developing diverse textile products to satisfy the varying customers’ needs among the U.S., Europe and Southeast Asia markets. In 2017, the Group will continue to broaden its client mix and product portfolio.

Foreseeing the soft consumption demand in such a volatile business environment, the Group will closely monitor the changing policies and market demand, whilst increasing its resilience against the instable economy through stringent cost control measures and continuous optimization of its operations. The Group will also cautiously assess all possibilities to expand its operation upstream and downstream in the textile sector amid the fast-going market consolidation, with the aim to equip itself to provide comprehensive textile-related solutions for customers, as well as to cement its role as a fabric solutions provider in the industry.

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved HK\$3,662.6 million, representing a decrease of 11.8% as compared with last year (2015: HK\$4,152.7 million). The decrease was mainly attributable to the decrease in sales orders.

Gross Profit and Gross Profit Margin

Gross profit was HK\$507.5 million, representing a decrease of 20.4% from last year (2015: HK\$637.8 million). Gross profit margin decreased to 13.9% (2015: 15.4%), which was mainly attributable to the fact that customers would not increase the price in line with the growth of raw material price due to weak consumer sentiment.

Other Income and Expenses

Other income of HK\$34.7 million (2015: HK\$28.8 million) mainly comprised HK\$16.6 million (2015: HK\$14.1 million) from sales of excess steam generated by the power plant to nearby facilities in the district, HK\$7.3 million (2015: HK\$7.8 million) from fee on air and ocean freight, HK\$3.9 million (2015: Nil) from income received from sewage treatment provided, and HK\$1.2 million (2015: HK\$2.5 million) from subsidy income from PRC government. The remaining balance was primarily the result of rental income and bank interest income.

Selling and distribution expenses decreased to HK\$115.5 million (2015: HK\$129.1 million), which is consistent with the decrease in sales. Administrative expenses, which included salaries and welfare, depreciation and other related expenses, reduced to HK\$309.7 million (2015: HK\$345.0 million) due to the cost control measures.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was HK\$75.0 million, representing an increase of 28.6% from last year (2015: HK\$58.3 million). The increase in net profit was mainly due to a gain on disposal of the Group's properties during the Year. Net profit margin increased to 2.0% (2015: 1.5%).

Liquidity and Financial Resources

As at 31 December 2016, the Group's net current assets were HK\$571.5 million (2015: HK\$908.3 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan in September 2017 to current liabilities. The Group will constantly review its financial position and maintain a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2016, the Group had cash and cash equivalents of HK\$475.5 million (2015: HK\$517.6 million). Current ratio was 1.3 times (2015: 1.6 times).

As at 31 December 2016, total bank and other borrowings of the Group were HK\$1,746.4 million (2015: HK\$1,853.8 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was at 53.2% (2015: 51.8%). Net debts comprise all interest-bearing bank and other borrowings, accounts and bills payable, an amount due to an associate and accrued liabilities and other payables less cash and cash equivalents. Sum of equity comprises equity attributable to ordinary equity holders of the Company as stated in the consolidated financial statements.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 57.1 days (2015: 71.8 days), 128.6 days (2015: 106.8 days) and 73.8 days (2015: 61.8 days) respectively. The decrease in debtors' turnover period was mainly due to better control on accounts receivable. The increase in creditors' turnover period and inventory turnover period were mainly due to increase in procurement in the fourth quarter of 2016 for preparing shipment in the first quarter of 2017.

Financing

As at 31 December 2016, the total banking and loan facilities of the Group amounted to HK\$5,565.1 million (2015: HK\$5,551.5 million), of which HK\$1,998.1 million (2015: HK\$2,108.5 million) has been utilised.

As at 31 December 2016, the Group's long-term loans were HK\$902.1 million (2015: HK\$1,148.7 million), comprising syndicated loan and term loans from banks of HK\$897.7 million (2015: HK\$1,137.6 million) and long-term finance lease payable of HK\$4.4 million (2015: HK\$11.1 million).

Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.5 cents (2015: HK1.5 cents) per share for the Year and will be payable to the shareholders whose names appear on the register of members of the Company on 14 June 2017. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about 27 June 2017.

Capital Structure

The capital structure of the Company is composed of equity and debt.

As at 31 December 2016, 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

66.5% (2015: 66.5%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Year and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 31 December 2016, certain items of property, plant and equipment of the Group with an aggregate net book value of HK\$29.5 million (2015: HK\$36.6 million) were under finance leases.

At 31 December 2016, certain of the Group's land and buildings with a net carrying amount of approximately HK\$64.0 million (2015: HK\$67.5 million) were pledged to secure a bank loan of HK\$15.6 million (2015: HK\$21.3 million) granted to the Group. Certain of the Group's buildings with a net carrying amount of approximately HK\$6.6 million (2015: HK\$7.9 million) were pledged to the People's Court, Nansha to sequester a parcel of land of the Group in respect of a litigation.

Capital Expenditure

As at 31 December 2016, the Group invested HK\$410.2 million (2015: HK\$401.9 million) in capital expenditure of which 71.6% (2015: 84.1%) was used for the purchase of plant and machinery, 24.7% (2015: 11.6%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment and prepaid land lease payments.

As at 31 December 2016, the Group had capital commitments of HK\$61.6 million (2015: HK\$57.8 million) in property, plant and equipment. All are funded or will be funded by internal resources and bank loans.

Staff Policy

The Group had 6,130 (2015: 6,385) employees in the PRC and 129 (2015: 165) employees in Hong Kong, Macau, Singapore, Korea and others as at 31 December 2016. Remuneration packages are generally structured by reference to market terms and individual qualification. 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 benefit 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 may be granted to selected eligible participants, with a view to providing an appropriate incentive package for the growth of the Group.

Major Customers and Suppliers

For the year ended 31 December 2016, sales to the Group's five largest customers accounted for 20.0% (2015: 21.4%) of total sales and sales to the largest customer included therein accounted for 4.7% (2015: 6.4%).

Purchases from the Group's five largest suppliers accounted for 41.9% (2015: 37.6%) of total purchases and purchases from the largest supplier therein accounted for 11.7% (2015: 12.9%).

None of the Directors, their respective close 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 (which to the knowledge of the Directors) who own more than five percent, of the issued capital of the Company, had any interest in the Group's five largest customers and/or suppliers during the Year.

Segment Information

For the year ended 31 December 2016, the major end-market is remained as U.S.. By analysis of locations of customers, which are garment factories, by regions, sales to the five largest regions (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) accounted for 82.8% (2015: (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) 79.4%) of total sales of the Group and sales to the largest region (Korea) (2015: Korea) included therein accounted for 23.1% (2015: 19.6%) of the Group.

As at 31 December 2016, the Group's assets located in the fabric operation accounted for 98.1% (2015: 99.8%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 87.4% (2015: 100%) of the total capital expenditure of the Group.

Material Acquisition and Disposal

During the year, the Group acquired a 100% equity interest in 廣州市番禺東涌工業污水處理有限公司 at a cash consideration of RMB40.8 million (equivalent to approximately HK\$49.8 million). 廣州市番禺東涌工業污水處理有限公司 has become subsidiary of the Group in May 2016. Further details of such acquisition were set out in the Company's announcement dated 1 March 2016.

In November 2016, the Group completed the disposal of its former head office to independent third parties with a total cash consideration of HK\$19.9 million. A gain on disposal of HK\$19.9 million was recognised by the Group for the Year. The head office of the Group was relocated to support its expanding business scale. Such disposal did not constitute a notifiable transaction of the Company under the Listing Rules.

Except for the above, there was no other material acquisition and disposal by the Group during the Year.

ANNUAL GENERAL MEETING (“AGM”)

The AGM of the Company will be held at 23A, TML Tower, No. 3, Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Monday, 12 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (a) For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 7 June 2017 to Monday, 12 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 6 June 2017.

- (b) For determining the entitlement to the proposed final dividend for the Year (subject to approval by the shareholders at the AGM), the register of members of the Company will be closed from Monday, 19 June 2017 to Tuesday, 20 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible for the proposed final dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 16 June 2017.

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.

CORPORATE GOVERNANCE PRACTICES

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 Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Year, except for the deviation from code provision A.6.7. Code provision A.6.7 provides that independent non-executive directors and non-executive directors should attend general meetings. Mr. Ho Gilbert Chi Hang, being an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 6 June 2016 due to his other business engagement.

AUDIT COMMITTEE

The audit committee of the Company, comprising all the three independent non-executive Directors, namely, Mr. Wu Tak Lung, Bernard (as Chairman), Ms. Chu Hak Ha, Mimi and Mr. Ho Gilbert Chi Hang, 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.

APPRECIATION

The Board would like to express our sincere gratitude to the shareholders, investors, customers, suppliers and business partners for their continued support and to our staff for their dedicated works during the Year.

GENERAL INFORMATION

At the date of this announcement, the Board comprises 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 as executive Directors; and Ms. Chu Hak Ha, Mimi, Mr. Ho Gilbert Chi Hang and Mr. Wu Tak Lung, Bernard as independent non-executive Directors.

By order of the Board
Kam Hing International Holdings Limited
Tai Chin Chun
Chairman

Hong Kong, 31 March, 2017