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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 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by 12.0% to HK\$3,826.8 million (2019: HK\$4,350.7 million)
- Gross profit decreased by 27.6% to HK\$427.8 million (2019: HK\$591.1 million)
- Net loss for the year attributable to ordinary equity holders of the Company amounted to HK\$37.3 million (2019: profit of HK\$60.1 million)
- No final dividend was declared (2019: HK1.5 cents per ordinary share)

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) hereby announces the annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020 (the “Year”), together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
REVENUE	4	3,826,829	4,350,664
Cost of sales		<u>(3,399,007)</u>	<u>(3,759,516)</u>
Gross profit		427,822	591,148
Other income and gains, net	4	95,323	44,314
Selling and distribution expenses		(103,107)	(116,668)
Administrative expenses		(305,889)	(334,766)
Impairment losses on financial assets, net		(18,438)	(2,465)
Other operating expenses, net		(63,375)	(20,689)
Finance costs		(59,888)	(88,685)
Share of loss of an associate		<u>(1,501)</u>	<u>–</u>
PROFIT/(LOSS) BEFORE TAX	5	(29,053)	72,189
Income tax expense	6	<u>(6,539)</u>	<u>(11,941)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>(35,592)</u>	<u>60,248</u>
Attributable to:			
Ordinary equity holders of the Company		(37,298)	60,091
Non-controlling interests		<u>1,706</u>	<u>157</u>
		<u>(35,592)</u>	<u>60,248</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		<u>(HK4.3 cents)</u>	<u>HK6.9 cents</u>
Diluted		<u>(HK4.3 cents)</u>	<u>HK6.9 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	(35,592)	60,248
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	143,620	–
Share of other comprehensive income of an associate	322	–
Realisation of exchange reserve and statutory surplus reserve and derecognition of non-controlling interests upon deregistration of subsidiaries	(263)	3,776
OTHER COMPREHENSIVE INCOME FOR THE YEAR	143,679	3,776
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	108,087	64,024
Attributable to:		
Ordinary equity holders of the Company	106,598	63,867
Non-controlling interests	1,489	157
	108,087	64,024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,575,354	1,688,473
Right-of-use assets		246,037	249,477
Goodwill		–	–
Interests in associates		3,739	–
Prepayments		6,502	5,847
Long term receivables		34,936	33,277
Deposits paid		8,106	15,037
Deferred tax assets		28,471	27,830
Total non-current assets		1,903,145	2,019,941
CURRENT ASSETS			
Properties under development		58,786	56,114
Inventories		949,230	1,024,780
Accounts and bills receivables	9	837,908	845,990
Prepayments, deposits and other receivables		67,455	49,378
Financial asset at fair value through profit or loss		147	135
Tax recoverable		1,068	2,367
Pledged deposits		81,695	55,552
Cash and cash equivalents		803,946	772,957
Total current assets		2,800,235	2,807,273
CURRENT LIABILITIES			
Accounts and bills payables	10	802,139	663,253
Accrued liabilities and other payables		220,499	201,840
Due to an associate		947	951
Tax payable		4,378	10,164
Interest-bearing bank borrowings		575,670	603,312
Lease liabilities		8,031	8,886
Total current liabilities		1,611,664	1,488,406
NET CURRENT ASSETS		1,188,571	1,318,867
TOTAL ASSETS LESS CURRENT LIABILITIES		3,091,716	3,338,808

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	968,575	1,308,003
Lease liabilities	33,979	34,845
Deferred tax liabilities	5,702	6,152
	<hr/>	<hr/>
Total non-current liabilities	1,008,256	1,349,000
	<hr/>	<hr/>
Net assets	2,083,460	1,989,808
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	1,997,320	1,903,771
	<hr/>	<hr/>
	2,084,312	1,990,763
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Non-controlling interests	(852)	(955)
	<hr/>	<hr/>
Total equity	2,083,460	1,989,808
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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 a financial asset at fair value through profit or loss which has 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of Amendment to HKFRS 16, the adoption of the *Conceptual Framework for Financial Reporting 2018* and above revised standards has had no significant financial effect on these financial statements.

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's leasehold land and buildings have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$454,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three 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;
- (b) the garment products segment engages in the production and sale of garment products and provision of related subcontracting services; and
- (c) the "others" segment includes the provision of sewage treatment service, the provision of air and ocean freight handling services, mining and property development.

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 2020

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:				
Revenue from external customers	3,387,422	439,407	–	3,826,829
Intersegment sales	107,910	–	–	107,910
	<u>3,495,332</u>	<u>439,407</u>	<u>–</u>	<u>3,934,739</u>
Elimination of intersegment sales				<u>(107,910)</u>
				<u><u>3,826,829</u></u>
Segment profit/(loss)	15,727	9,906	(216)	25,417
Bank interest income	4,715	17	23	4,755
Finance costs (other than interest on lease liabilities)	(57,838)	(149)	–	(57,987)
Gain on deregistration of a subsidiary	263	–	–	263
Share of profits less losses of an associate	–	(1,501)	–	(1,501)
	<u>(37,133)</u>	<u>8,273</u>	<u>(193)</u>	<u>(29,053)</u>
Income tax credit/(expense)	(4,517)	(2,278)	256	(6,539)
	<u>(41,650)</u>	<u>5,995</u>	<u>63</u>	<u>(35,592)</u>
Assets and liabilities				
Segment assets	4,250,678	274,472	146,020	4,671,170
Interests in associates	–	3,739	–	3,739
Deferred tax assets	2,474	–	25,997	28,471
	<u>4,253,152</u>	<u>278,211</u>	<u>172,017</u>	<u>4,703,380</u>
Total assets	<u>4,253,152</u>	<u>278,211</u>	<u>172,017</u>	<u>4,703,380</u>
Segment liabilities	2,550,832	50,853	12,533	2,614,218
Deferred tax liabilities	76	–	5,626	5,702
	<u>2,550,908</u>	<u>50,853</u>	<u>18,159</u>	<u>2,619,920</u>
Total liabilities	<u>2,550,908</u>	<u>50,853</u>	<u>18,159</u>	<u>2,619,920</u>
Other segment information:				
Depreciation of property, plant and equipment	289,355	4,554	3,507	297,416
Depreciation of right-of-use assets	12,599	3,153	973	16,725
Loss on disposal of items of property, plant and equipment, net	1,417	–	–	1,417
Impairment of allowance for accounts receivable, net	18,553	1	–	18,554
Write-back of impairment of other receivables	(116)	–	–	(116)
Write-off of other receivables	49	–	–	49
Provision for inventories	10,143	–	–	10,143
Write-off of aged liabilities	(1,758)	–	–	(1,758)
Capital expenditure*	114,907	3,863	705	119,475

* Capital expenditure consists of additions of property, plant and equipment.

Year ended 31 December 2019

	Fabric <i>HK\$ '000</i>	Garment <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Segment revenue:				
Revenue from external customers	3,940,554	410,110	–	4,350,664
Intersegment sales	66,815	–	–	66,815
	<u>4,007,369</u>	<u>410,110</u>	<u>–</u>	<u>4,417,479</u>
Elimination of intersegment sales				<u>(66,815)</u>
				<u><u>4,350,664</u></u>
Segment profit/(loss)	158,382	3,677	(2,617)	159,442
Bank interest income	3,148	15	24	3,187
Finance costs (other than interest on lease liabilities)	(85,439)	(1,225)	–	(86,664)
Loss on deregistration of a subsidiary	(3,776)	–	–	(3,776)
	<u>72,315</u>	<u>2,467</u>	<u>(2,593)</u>	<u>72,189</u>
Income tax credit/(expense)	(10,065)	(2,072)	196	(11,941)
	<u>62,250</u>	<u>395</u>	<u>(2,397)</u>	<u>60,248</u>
	<u><u>62,250</u></u>	<u><u>395</u></u>	<u><u>(2,397)</u></u>	<u><u>60,248</u></u>
Assets and liabilities				
Segment assets	4,402,750	250,482	146,152	4,799,384
Deferred tax assets	3,016	–	24,814	27,830
	<u>4,405,766</u>	<u>250,482</u>	<u>170,966</u>	<u>4,827,214</u>
Total assets	<u><u>4,405,766</u></u>	<u><u>250,482</u></u>	<u><u>170,966</u></u>	<u><u>4,827,214</u></u>
Segment liabilities	2,777,285	40,200	13,769	2,831,254
Deferred tax liabilities	402	–	5,750	6,152
	<u>2,777,687</u>	<u>40,200</u>	<u>19,519</u>	<u>2,837,406</u>
Total liabilities	<u><u>2,777,687</u></u>	<u><u>40,200</u></u>	<u><u>19,519</u></u>	<u><u>2,837,406</u></u>
Other segment information:				
Depreciation of property, plant and equipment	313,212	4,125	3,467	320,804
Depreciation of right-of-use assets	11,527	2,557	646	14,730
Gain on disposal of items of property, plant and equipment, net	(1)	–	–	(1)
Impairment/(write-back of impairment) of allowance for accounts receivable, net	2,439	(59)	2	2,382
Impairment of other receivables	–	–	83	83
Write-off of other receivables	439	–	–	439
Write-back of provision for inventories	(307)	–	–	(307)
Capital expenditure*	202,498	3,402	3,055	208,955
	<u>202,498</u>	<u>3,402</u>	<u>3,055</u>	<u>208,955</u>

* Capital expenditure consists of additions of property, plant and equipment and certain right-of-use assets.

Geographical information

(a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Korea	1,343,663	1,253,923
Mainland China	931,247	1,192,981
Taiwan	331,538	441,746
Hong Kong	315,254	614,241
Singapore	296,887	179,864
Others	608,240	667,909
	<u>3,826,829</u>	<u>4,350,664</u>

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

(b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	1,671,962	1,797,867
Hong Kong	66,361	71,975
Cambodia	62,600	51,143
Singapore	1,257	1,769
Others	37,558	36,080
	<u>1,839,738</u>	<u>1,958,834</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

Revenue of approximately HK\$474,899,000 (2019: HK\$244,427,000) was derived from sales by the fabric products segment to a single customer.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	3,387,422	3,940,554
Production and sale of garment products and provision of related subcontracting services	439,407	410,110
	<u>3,826,829</u>	<u>4,350,664</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2020

Segments	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services			
Sale of goods	3,387,422	421,752	3,809,174
Subcontracting services	–	17,655	17,655
	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>
Geographical markets			
Korea	1,343,663	–	1,343,663
Mainland China	914,225	17,022	931,247
Taiwan	331,538	–	331,538
Hong Kong	254,420	60,834	315,254
Singapore	154,847	142,040	296,887
Others	388,729	219,511	608,240
	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>
Timing of revenue recognition			
At a point in time	<u>3,387,422</u>	<u>439,407</u>	<u>3,826,829</u>

For the year ended 31 December 2019

Segments	Fabric <i>HK\$ '000</i>	Garment <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Types of goods or services			
Sale of goods	3,940,554	393,629	4,334,183
Subcontracting services	–	16,481	16,481
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>3,940,554</u>	<u>410,110</u>	<u>4,350,664</u>
Geographical markets			
Korea	1,253,923	–	1,253,923
Mainland China	1,192,061	920	1,192,981
Taiwan	441,746	–	441,746
Hong Kong	428,530	185,711	614,241
Singapore	179,864	–	179,864
Others	444,430	223,479	667,909
	<hr/>	<hr/>	<hr/>
Total revenue from contracts with customers	<u>3,940,554</u>	<u>410,110</u>	<u>4,350,664</u>
Timing of revenue recognition			
At a point in time	<u>3,940,554</u>	<u>410,110</u>	<u>4,350,664</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of knitted fabric, dyed yarns and garment products, and provision of related subcontracting services

The performance obligation is satisfied upon delivery of the knitted fabric, dyed yarns and garment products and payment is generally due within one month to three months from delivery, except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months.

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income			
Fee income from freight handling services		6,984	9,623
Bank interest income		4,755	3,187
Subsidy income	5	52,635	4,380
Covid-19-related rent concessions from lessors		454	–
Others		30,483	27,149
		95,311	44,339
Gain/(loss)			
Fair value gain/(loss):			
Financial asset at fair value through profit or loss			
– held for trading		12	(25)
Other income and gains, net		95,323	44,314

5. PROFIT/(LOSS) BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold and services provided	3,399,007	3,759,516
Depreciation of items of property, plant and equipment	297,416	320,804
Depreciation of right-of-use assets	16,725	14,730
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	498,692	526,908
Pension scheme contributions	40,390	58,074
	<u>539,082</u>	<u>584,982</u>
Lease payments not included in the measurement of lease liabilities	1,147	1,126
Loss/(gain) on disposal of items of property, plant and equipment, net*	1,417	(1)
Impairment/(write-back of impairment) of financial assets, net:		
Impairment of allowance for accounts receivable, net	18,554	2,382
Impairment/(write-back of impairment) of other receivables***	(116)	83
	<u>18,438</u>	<u>2,465</u>
Write-off of other receivables*	49	439
Provision/(write-back of provision) for inventories**	10,143	(307)
Write-off of aged liabilities*	(1,758)	–
Loss/(gain) on deregistration of subsidiaries, net*	(263)	3,776
Foreign exchange differences, net*	43,165	(4,964)
Subsidy income****	<u>(52,635)</u>	<u>(4,380)</u>

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

** These amounts are 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 as at 31 December 2019 was an allowance for other receivables of HK\$83,000 with a carrying amount of HK\$83,000 before impairment allowance. The impaired other receivables were not expected to be recovered.

**** During the year ended 31 December 2020, subsidy income mainly represented the amount received from governments under COVID-19 pandemic relief schemes. There are no unfulfilled conditions or contingencies related to these grants.

The cost of inventories sold and services provided includes depreciation, staff costs and provision/ (write-back of provision) for inventories of HK\$713,435,000 (2019: HK\$764,556,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).

6. INCOME TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	2,695	7,529
Underprovision/(overprovision) in prior years	5	(1,279)
Current tax – Elsewhere		
Charge for the year	131	–
Underprovision in prior years	3,779	4,343
Deferred tax expense/(credit)	(71)	1,348
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Total tax charge for the year	6,539	11,941
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Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2019: 16.5%), except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 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 25% for all enterprises in Mainland China.

7. DIVIDEND

The board of directors of the Company does not recommend the payment of a dividend for the year ended 31 December 2020 (2019: HK\$13,049,000).

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount for the year ended 31 December 2020 is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$37,298,000 and 869,919,000 ordinary shares in issue during the year.

The calculation of the basic earnings per share amount for the year ended 31 December 2019 was based on the profit for the year attributable to ordinary equity holders of the Company of HK\$60,091,000 and 869,919,000 ordinary shares in issue during the year ended 31 December 2019.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2020 and 2019.

9. ACCOUNTS AND BILLS RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Accounts receivable	529,478	622,338
Impairment	(26,391)	(8,718)
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	503,087	613,620
Bills receivable	334,821	232,370
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	837,908	845,990
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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 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 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 receivables balances.

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	400,168	313,764
1 to 2 months	242,608	216,949
2 to 3 months	80,453	118,246
Over 3 months	114,679	197,031
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	837,908	845,990
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10. ACCOUNTS AND BILLS PAYABLES

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	648,392	587,202
3 to 6 months	152,568	75,162
Over 6 months	1,179	889
	<hr/>	<hr/>
	802,139	663,253
	<hr/> <hr/>	<hr/> <hr/>

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

The global outbreak of the COVID-19 pandemic brought about significant, cross-industry impacts to the global economy in 2020. For the textile and garment industry, the market disruptions brought by the pandemic were unprecedented. Amidst the initial outbreak in China during the first quarter of 2020, many factories suspended operations to contain the spread of the pandemic. Quarantine and region-wide lockdowns also slowed down logistics for supply chain network and product delivery, and social distancing measures and pessimistic market outlook led to sluggish consumer demand for apparels.

As the pandemic began to spread in Europe and the U.S. since March 2020, exports were curtailed as economic activities in the west nearly ceased completely. Social distancing measures severely reduced consumer demand in Europe and the U.S. which led many clothing retailers and brands to adopt extra cautious approaches for orders to help alleviate the tremendous financial pressure they faced. According to the China Customs Statistics (CCS) Information Center, for the six months ended 30 June 2020, the total value of exported textile fabrics decreased by approximately 28.2% year-over-year (“yoy”) to approximately US\$20,768.5 million, while total value of exported garments decreased by approximately 9.8% yoy to approximately US\$44,520.6 million.

From the second quarter onwards, China’s economy exhibited stronger resilience comparing with western countries. Effective pandemic controlling measures allowed production to ramp up and recover, and domestic demand for garment and textile products saw continual uptake towards the end of the Year. In Europe and the U.S., lockdown measures also slowed down in the third quarter, which sparked hope for an economic recovery and retailers resumed placing orders to prepare for the festive seasons in the fourth quarter. However, the number of infections spiked significantly towards the fourth quarter, and Europe and the U.S. entered yet another round of lockdowns, again resulting in declined consumer sentiments. Attributable to China’s economic recovery and a brief uptake in demand in Europe and the U.S. in the second half of the Year, the overall decline of textile and garment export values were narrowed. According to the CCS, the total value of exported textile fabrics for 2020 decreased by approximately 6.9% yoy to approximately US\$49,680.4 million, while total value of exported garments decreased by 2.2% yoy to approximately US\$117,883.9 million.

Apart from the pandemic, geopolitical tensions intensified further during the Year, and the U.S. carried out harsh regulation on certain Chinese enterprises, which affected the supply of core raw materials, such as cotton yarns, for the fabric and garment industry. During the Year, many industry players diverted their resources, sourcing materials from other markets such as South Asia and raw material costs rose significantly. It is expected that serious market consolidation would continue amidst such an uncertain backdrop.

BUSINESS OVERVIEW

2020 presented many challenges to the Group and its profitability was affected. Overall revenue for 2020 decreased by approximately 12.0% yoy from approximately HK\$4,350.7 million in 2019 to approximately HK\$3,826.8 million in 2020, with gross profit decreased by 27.6% from approximately HK\$591.1 million in 2019 to approximately HK\$427.8 million in 2020. Gross profit margin decreased from approximately 13.6% in 2019 to approximately 11.2% in 2020. Loss attributable to ordinary equity holders of the Company for the Year amounted to approximately HK\$37.3 million, compared with a profit attributable to ordinary equity holders of the Company of approximately HK\$60.1 million in 2019. The basic loss per share for the Year was approximately HK4.3 cents, compared with earnings per share of approximately HK6.9 cents in 2019.

For the Year, revenue generated from the fabric business and garment business accounted for 88.5% and 11.5% of the overall revenue respectively. The fabric business was mostly supported by the Group's two production sites in Enping and Nansha in China, while the factories in Cambodia mainly manufactured garment products. During the Year, the fabric business was significantly impacted, first due to delayed production schedules caused by the initial temporary suspension of production facilities in China, and then due to decreased order placements from overseas buyers resulted from the cease of economic activities and weakened consumer sentiment caused by the outbreak of the COVID-19. The RMB also appreciated during the Year as the economy of China recovered in the second half of the Year. Although the Group adjusted the manpower workforce and energy consumption to cope with the deduction in fabric orders, the cost of factories overheads did not decrease accordingly due to the appreciation of RMB. Profit margin in the third quarter was further diluted because of the price fluctuation on raw materials. Higher demand of yarn from India and Pakistan, due to harsh regulation imposed by the U.S. to China, lead to significant increase in yarn price. As a result of the above, the slight market recovery during the second half of the Year could not provide dramatic turnaround on operational profit to compensate the loss suffered in the first half of the Year.

For the garment business, the factories in Cambodia continued to manufacture and export garment products to Canada and Europe during the Year. Although general market demand for garment products declined during the Year as affected by the pandemic, the Group's garment business recorded a growth of 7.1% yoy. The garment sector contributed profits of HK\$6.0 million (2019: HK\$0.4 million) this Year. This growth was mainly attributable to the maturation of the production workforce in Cambodia yielding higher operational efficiency after its two-year ramp up time, which kept the Group competitive in the diminished market. However, the growth in turnover of the garment business remained limited during the Year due to the regional lockdown measures.

Under this difficult operating environment, the Group dedicated significant efforts in maintaining financial stability. All capital expenditures were either suspended or postponed in order to accumulate additional resources as critical measurement on crisis management. In the long run, the Group still anticipates building another production base outside China implemented with vertical integrated solutions, but the new production investments for fabric and garment business in Vietnam and Cambodia have been delayed until the uncertainties and risks brought by the pandemic settled.

To reduce financial costs and further secure the Group's financial positions, all uncommitted loans were repaid during the Year. Total bank borrowings were reduced by 19.2%, from HK\$1,911.3 million in 2019 to HK\$1,544.2 million in 2020. Cash on hand and time deposits increased by 6.9% from HK\$828.5 million to HK\$885.6 million, mainly attributable to tightened control on capital expenditures, inventory, and account receivables. The Group's debt ratio and interest recovery ratio both recorded improvements.

Thanks to tightened financial control and diligent measures, the Group's ability to maintain financially strong in an unprecedented global pandemic reflects its resilience and competitive capability for sustainable development.

PROSPECTS

Looking ahead towards 2021, many uncertainties continue to cloud the industry. In China, the pandemic was largely put under control and economic revival is progressing at a fast pace. However, as a significant part of China's textile and garment industry is dependent on exports, the stability of the industry is still under threats. The Group expects significant market consolidations in the coming years. On the other hand, vaccine developments have generated hopeful sentiments for Europe and the U.S., yet the pace of post-pandemic recovery and full return of consumer sentiments will largely be dependent on effective rollout of vaccinations. In general, the management is positive that the Group would yield improved results in 2021 as compared with 2019.

In addition to the ongoing pandemic, political tension between the U.S. and China continues to be high. It is yet unknown whether the new U.S. administration would remove the harsh regulation on Chinese firms. The current shortage of the key raw materials leads to price hikes. Coupled with the unrecovered global market demand, the Group will execute prudent measurements on possible investments.

Under such a volatile business environment, the Group will prioritise on maintaining a strong cash flow, conserving resources and being operationally resilient to prepare for an eventual market recovery. In the long run, the Group will continue its plans of geographic expansion and development of a vertically integrated supply chain in the South East Asia, noting that this would help the Group in alleviating regional risks and diversifying the business. Most notably, the ability to provide customers with vertically integrated manufacturing solutions would give the Group a competitive edge in a consolidating market. As such, the Group has resumed its expansion plan for its garment operations in Cambodia and a new one-stop textile manufacturing base in Vietnam. The Group will closely observe the market and flexibly deploy sensible measures as the market changes.

FINANCIAL REVIEW

Revenue

Overall sales turnover reached approximately HK\$3,826.8 million, representing a decrease of approximately 12.0% (2019: HK\$4,350.7 million). The decrease was mainly attributable to cancelled orders as market demand in Europe and the U.S. was suppressed, as well as intensified competition in the Chinese market.

Gross Profit and Gross Margin

Gross profit was approximately HK\$427.8 million, representing a decrease of approximately 27.6%. (2019: HK\$591.1 million). Gross margin decreased slightly to approximately 11.2% (2019: approximately 13.6%). To utilise the Group's production capacity and reduce loss for the Year, the Group took more orders from supermarket chains in Europe and the U.S., which typically yield lower margins. The overall decrease in gross margin was mainly due to lower profit margin from sales to supermarket chains and higher cost on raw materials.

Finance Costs

Finance costs, which included an amortisation of syndicated loan charges, interest on term loans from banks, trade loan, bank overdraft and interests on discounted bills, decreased by approximately 32.5% to approximately HK\$59.9 million (2019: approximately HK\$88.7 million) as compared with last year. This was primarily due to decrease in bank borrowings and interest rate. The Group changed or postponed its development plan in order to improve liquidity. Those uncommitted term loans and short term loans were early repaid during the Year.

Selling and Distribution Expenses

Selling and distribution expenses decreased to approximately HK\$103.1 million (2019: approximately HK\$116.7 million), mainly due to decrease in sales and significantly decrease in travel expenses.

Administrative Expenses

Administrative expenses, including salaries, depreciation, customs declaration, and other related expenses decreased to approximately HK\$305.9 million (2019: approximately HK\$334.8 million) due to more prudent control of budget and temporary reduction of salaries and travel expenses.

Other Operating Expenses, net

Other operating expenses, net, were approximately HK\$63.4 million (2019: approximately HK\$20.7 million, which mainly comprised foreign exchange loss of approximately HK\$43.2 million (2019: gain of approximately HK\$5.0 million) and operating expenses on sewage treatment of approximately HK\$20.8 million (2019: approximately HK\$21.0 million).

Net Profit/Loss and Net Profit/Loss Margin

Net loss attributable to ordinary equity holders of the Company for the Year was approximately HK\$37.3 million (2019: net profit attributable to ordinary equity holder of the Company of approximately HK\$60.1 million). Net loss was mainly attributable to lower sales volume in fabric due to the pandemic, cancelled orders, lower profit margins from sales to supermarket chains, higher cost on raw materials and RMB appreciation as described above.

Liquidity and Financial Resources

As at 31 December 2020, the Group's net current assets were approximately HK\$1,188.6 million (2019: approximately HK\$1,318.9 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan in August 2021 to current liabilities. The Group increased purchase of raw materials in late of the Year. 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 2020, the Group had cash and cash equivalents of approximately HK\$803.9 million (2019: approximately HK\$773.0 million). Current ratio was approximately 1.7 times (2019: approximately 1.9 times).

As at 31 December 2020, total bank borrowings of the Group were approximately HK\$1,544.2 million (2019: approximately HK\$1,911.3 million). The Group's net debt gearing ratio (net debts divided by the sum of equity and net debts) was approximately 46.4% (2019: approximately 50.7%). Net debts comprise all interest-bearing bank borrowings, accounts and bills payable, an amount due to an associate, lease liabilities and accrued liabilities and other payables less cash and cash equivalents. Equity comprises owners' equity as stated in the consolidated financial statements.

The decrease in bank borrowings and improved gearing ratio reflects the Group's successful efforts in stabilising financial balance in a difficult operating environment.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 79.9 days (2019: 71.0 days), 101.9 days (2019: 99.5 days) and 86.1 days (2019: 64.4 days) respectively. All three turnover periods increased due to the difficult business environment during the Year. As described above, cancelled or postponed orders are commonly happened. This took longer time for the whole purchase and sales cycle.

Financing

As at 31 December 2020, total banking facilities of the Group amounted to approximately HK\$5,401.8 million (2019: approximately HK\$5,704.1 million), of which approximately HK\$2,014.0 million (2019: approximately HK\$2,288.0 million) was utilised.

As at 31 December 2020, the Group's long-term loans were approximately HK\$968.6 million (2019: approximately HK\$1,308.0 million), comprising syndicated loan from banks.

Dividend

The Board has resolved not to recommend the payment of a final dividend (2019: HK1.5 cents per ordinary share).

Capital Structure

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

As at 31 December 2020, 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

Approximately 72.0% (2019: approximately 65.7%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and RMB. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and RMB. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the RMB. During the Year, other than the RMB appreciated as China's economy rapidly recovers from the pandemic, exchange rates of other currencies were relatively stable. The Group continued to monitor foreign exchange movements and determined appropriate and prudent hedging measures as needed.

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

Capital Expenditure

As at 31 December 2020, the Group invested approximately HK\$119.5 million (2019: approximately HK\$209.0 million) in capital expenditure of which approximately 86.8% (2019: approximately 75.2%) was used for the purchase of plant and machinery, approximately 7.4% (2019: approximately 17.8%) was used for the construction of new factory premises, and the remaining was used for the purchase of other items of property, plant and equipment.

As at 31 December 2020, the Group had capital commitments of approximately HK\$31.8 million (2019: approximately HK\$48.1 million) in property, plant and equipment and right-of-use assets and approximately HK\$193.0 million (2019: approximately HK\$184.2 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources.

Staff Policy

The Group had 4,644 (2019: 5,530) employees in the PRC, 2,074 employees in Cambodia (2019: 1,819) and 134 employees in Hong Kong, Macau, Singapore, South Korea and others as at 31 December 2020 (2019: 134). 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

During the Year, sales to the Group's five largest customers accounted for 30.8% (2019: 24.3%) of the total sales and sales to the largest customer included therein accounted for 12.4% (2019: 5.6%).

Purchases from the Group's five largest suppliers accounted for 42.4% (2019: 38.1%) of the total purchases for the Year and purchases from the largest supplier included therein accounted for 13.5% (2019: 13.7%).

None of the Directors, their respective close associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or shareholders of the Company (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, the major end-market remained as U.S. By analysis of location of customers, by regions, sales to the five largest regions (Korea, Mainland China, Taiwan, Hong Kong and Singapore) accounted for approximately 84.1% (2019: (Korea, Mainland China, Taiwan, Hong Kong and Singapore) approximately 84.6%) of total sales of the Group and sales to the largest region Korea (2019: Korea) included therein accounted for approximately 35.1% (2019: approximately 28.8%) of the Group.

As at 31 December 2020, the Group's assets located in the fabric operation accounted for approximately 90.4% (2019: approximately 91.3%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 96.2% (2019: 96.9%) of the total capital expenditure of the Group.

Significant Investment

As at 31 December 2020, the Group did not hold any significant investment with a value of 5% or more of the Group's total assets.

Material Acquisition and Disposal

There was no material acquisition and disposal of subsidiaries and associates by the Group during the Year.

Treasury Policy

The Group adopted conservative treasury policies in cash and financial management, and attached high importance to the risk control and transactions related to the Group's principal business. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's financial risks. The Group's liquidity and financing requirements are reviewed regularly.

Equity Fund Raising Exercise

There was no equity fund raising by the Company for the Year, nor were there any proceeds brought forward from any issue of equity securities made in previous financial years.

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, 7 June 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 2 June 2021 to 7 June 2021, 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 the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on 1 June 2021.

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 as set out in Appendix 14 of the Listing Rules throughout the Year.

AUDIT COMMITTEE

The audit committee of the Company, comprising all the three independent non-executive Directors, namely, Mr. Wu Tak Lung (as Chairman), Mr. Ho Gilbert Chi Hang and Mr. Ting Kay Loong, has met with the external auditor 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

Taking this opportunity, the Board would like to extend our gratitude to the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support for the Group during the Year.

GENERAL INFORMATION

As at the date this announcement, the Board comprises Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk, and Mr. Lei Heong Man as executive Directors; and Mr. Ho Gilbert Chi Hang, Mr. Ting Kay Loong and Mr. Wu Tak Lung as independent non-executive Directors.

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

Hong Kong, 29 March, 2021