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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 (the “Period”), together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June 2020	Six months ended 30 June 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	2, 3	1,609,965	2,028,330
Cost of sales		(1,467,812)	(1,717,119)
Gross profit		142,153	311,211
Other income and gains, net	3	48,606	19,653
Selling and distribution expenses		(45,043)	(55,816)
Administrative expenses		(146,826)	(162,992)
Other operating expenses, net		1,353	(20,931)
Finance costs		(38,448)	(39,089)

		Six months ended 30 June 2020	Six months ended 30 June 2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(LOSS)/PROFIT BEFORE TAX	4	(38,205)	52,036
Income tax expense	5	(678)	(7,512)
(LOSS)/PROFIT FOR THE PERIOD		(38,883)	44,524
Attributable to:			
Ordinary equity holders of the Company		(37,862)	44,539
Non-controlling interests		(1,021)	(15)
		(38,883)	44,524
Interim dividend	6	Nil	Nil
(LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	7	(HK4.4 cents)	HK5.1 cents
Diluted	7	(HK4.4 cents)	HK5.1 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June 2020 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2019 <i>HK\$'000</i> (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(38,883)	44,524
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	<u>(122,242)</u>	<u>–</u>
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	<u>(161,125)</u>	<u>44,524</u>
Attributable to:		
Ordinary equity holders of the Company	(160,104)	44,539
Non-controlling interests	(1,021)	(15)
	<u>(161,125)</u>	<u>44,524</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June	31 December
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,541,509	1,688,473
Right-of-use assets		235,688	249,477
Goodwill		–	–
Interest in an associate		–	–
Prepayments		5,664	5,847
Long term receivables		33,561	33,277
Deposits paid		3,754	15,037
Deferred tax assets		26,956	27,830
		<hr/>	<hr/>
Total non-current assets		1,847,132	2,019,941
		<hr/>	<hr/>
CURRENT ASSETS			
Properties under development		53,968	56,114
Inventories		866,140	1,024,780
Accounts and bills receivables	8	684,996	845,990
Prepayments, deposits and other receivables		49,355	49,378
Financial assets at fair value through profit or loss		110	135
Tax recoverable		2,791	2,367
Pledged deposits		40,777	55,552
Cash and cash equivalents		619,117	772,957
		<hr/>	<hr/>
Total current assets		2,317,254	2,807,273
		<hr/> <hr/>	<hr/> <hr/>

		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Accounts and bills payable	9	494,549	663,253
Accrued liabilities and other payables		145,638	201,840
Due to an associate		947	951
Tax payable		974	10,164
Interest-bearing bank borrowings		362,416	603,312
Lease liabilities		8,524	8,886
		<hr/>	<hr/>
Total current liabilities		1,013,048	1,488,406
		<hr/>	<hr/>
NET CURRENT ASSETS		1,304,206	1,318,867
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,151,338	3,338,808
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,300,789	1,308,003
Lease liabilities		29,166	34,845
Deferred tax liabilities		5,749	6,152
		<hr/>	<hr/>
Total non-current liabilities		1,335,704	1,349,000
		<hr/>	<hr/>
Net assets		1,815,634	1,989,808
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital		86,992	86,992
Reserves		1,730,618	1,903,771
		<hr/>	<hr/>
		1,817,610	1,990,763
Non-controlling interests		(1,976)	(955)
		<hr/>	<hr/>
Total equity		1,815,634	1,989,808
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). These condensed consolidated financial statements are unaudited but have been reviewed by the Company’s audit committee.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

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>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

2. 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 services, 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.

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2020				
(Unaudited)				
Segment revenue:				
Revenue from external customers	1,466,914	143,051	–	1,609,965
Intersegment sales	70,205	–	–	70,205
	<u>1,537,119</u>	<u>143,051</u>	<u>–</u>	<u>1,680,170</u>
Elimination of intersegment sales				<u>(70,205)</u>
				<u>1,609,965</u>
Segment profits/(losses)	(380)	(4,678)	346	(4,712)
Bank interest income	3,760	7	12	3,779
Finance costs (other than interest on lease liabilities)	(37,244)	(28)	–	(37,272)
Profit/(loss) before tax	(33,864)	(4,699)	358	(38,205)
Income tax credit/(expense)	(867)	–	189	(678)
Profit/(loss) for the period	(34,731)	(4,699)	547	(38,883)
As at 30 June 2020 (Unaudited)				
Assets and liabilities				
Segment assets	3,761,260	243,681	132,489	4,137,430
Deferred tax assets	3,090	–	23,866	26,956
Total assets	<u>3,764,350</u>	<u>243,681</u>	<u>156,355</u>	<u>4,164,386</u>
Segment liabilities	(2,297,239)	(36,143)	(9,621)	(2,343,003)
Deferred tax liabilities	(402)	–	(5,347)	(5,749)
Total liabilities	<u>(2,297,641)</u>	<u>(36,143)</u>	<u>(14,968)</u>	<u>(2,348,752)</u>
Other segment information:				
Six months ended 30 June 2020				
(Unaudited)				
Depreciation of property, plant and equipment	148,629	2,249	1,762	152,640
Depreciation of right-of-use assets	3,139	2,558	–	5,697
Capital expenditure	61,549	2,901	321	64,771

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2019				
(Unaudited)				
Segment revenue:				
Revenue from external customers	1,861,716	166,614	–	2,028,330
Intersegment sales	36,085	–	–	36,085
	<u>1,897,801</u>	<u>166,614</u>	<u>–</u>	<u>2,064,415</u>
Elimination of intersegment sales				(36,085)
				<u>2,028,330</u>
Segment profits/(losses)	90,749	500	(1,533)	89,716
Bank interest income	427	7	12	446
Finance costs (other than interest on lease liabilities)	(37,323)	(803)	–	(38,126)
Profit/(loss) before tax	<u>53,853</u>	<u>(296)</u>	<u>(1,521)</u>	<u>52,036</u>
Income tax credit/(expense)	(7,702)	–	190	(7,512)
Profit for the period	<u><u>46,151</u></u>	<u><u>(296)</u></u>	<u><u>(1,331)</u></u>	<u><u>44,524</u></u>
As at 31 December 2019				
(Audited)				
Assets and liabilities				
Segment assets	4,402,750	250,482	146,152	4,799,384
Deferred tax assets	3,016	–	24,814	27,830
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
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:				
Six months ended 30 June 2019				
(Unaudited)				
Depreciation of items of property, plant and equipment	163,405	720	2,017	166,142
Depreciation of right-of-use assets	4,170	1,272	–	5,442
Capital expenditure	92,921	2,066	2,980	97,967

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2020 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2019 <i>HK\$'000</i> (Unaudited)
Korea	568,511	576,207
Mainland China	389,958	556,237
Hong Kong	182,668	304,634
Taiwan	131,736	217,266
Bangladesh	77,698	55,508
Singapore	69,368	95,900
Others	190,026	222,578
	<u>1,609,965</u>	<u>2,028,330</u>

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

(b) Non-current assets

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Mainland China	1,499,458	1,797,867
Cambodia	42,710	51,143
Hong Kong	22,954	71,975
Singapore	754	1,769
Others	220,739	36,080
	<u>1,786,615</u>	<u>1,958,834</u>

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

Information about a major customer

During the Period, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

3. 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.

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

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Revenue		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	1,466,914	1,861,716
Production and sale of garment products and provision of related subcontracting services	143,051	166,614
	1,609,965	2,028,330
Other income		
Subsidy income from the Chinese and overseas governments	30,066	2,258
Sewage treatment provided	9,780	10,371
Bank interest income	3,779	446
Fee income from freight handling services	3,184	4,805
Others	1,822	1,785
	48,631	19,665
Gains, net		
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
– held for trading	(25)	(12)
Other income and gains, net	48,606	19,653

4. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Cost of inventories sold and services provided	1,467,812	1,717,119
Research and development costs	62,050	22,597
Depreciation of items of property, plant and equipment	152,640	166,142
Depreciation of right-of-use assets	5,697	5,442
Employee benefits expense (including directors' remuneration):		
Wages and salaries	234,008	258,916
Pension scheme contributions	17,428	28,658
	<hr/> 251,436 <hr/>	<hr/> 287,574 <hr/>
Loss on disposal of items of property, plant and equipment	–	135
Impairment of accounts receivable, net	13,134	5,182
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss – held for trading	25	12
Foreign exchange differences, net	(23,674)	4,914
	<hr/> <u>(23,674)</u> <hr/>	<hr/> <u>4,914</u> <hr/>

5. INCOME TAX

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Current tax – Hong Kong Charge for the period	–	5,629
Current tax – Elsewhere		
Charge for the period	867	2,073
Underprovision in prior years	–	–
Deferred tax credit	(189)	(190)
	<hr/>	<hr/>
Total tax charge for the period	678	7,512
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (six months ended 30 June 2019: 16.5%), except for one subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019/2020. The first HK\$2,000,000 (six months ended 30 June 2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 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.

6. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2019: Nil).

7. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic losses/earnings per share amount is based on the loss for the Period attributable to ordinary equity holders of the Company of HK\$37,862,000 (six months ended 30 June 2019: profit for HK\$44,539,000), and the number of 869,919,000 (six months ended 30 June 2019: 869,919,000) ordinary shares in issue during the Period.

The Group had no potentially dilutive ordinary shares in issue for the periods ended 30 June 2020 and 30 June 2019.

8. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading with its customers are generally on credit 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 receivable 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 receivable as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 1 month	209,349	313,764
1 to 2 months	174,594	216,949
2 to 3 months	130,306	118,246
Over 3 months	170,747	197,031
	<hr/> 684,996 <hr/>	<hr/> 845,990 <hr/>

9. ACCOUNTS AND BILLS PAYABLE

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

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 3 months	373,402	587,202
3 to 6 months	96,053	75,162
Over 6 months	25,094	889
	<hr/> 494,549 <hr/>	<hr/> 663,253 <hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The unexpected outbreak of the coronavirus disease (“COVID-19” or the “Pandemic”) has cast gloom over the global economy during the first half of 2020. The initial outbreak slowed most of the manufacturing sectors in China significantly as lockdown and traffic controls led to temporary closure of factories and migrant workers were unable to return to work after the Lunar New Year holiday. According to the National Bureau of Statistics, the textile industry production capacity utilisation rate for the first quarter in 2020 was 67.2%, representing a decrease of 10.5 percentage points compared to the corresponding period last year. Production picked-up during the second quarter but this recovery was largely due to increased production of surgical masks and other medical garments. Lockdown in China also affected consumption, driving retailers and brand owners to maintain low levels of inventory. Downstream sluggish demand had led to significant cost pressure for textile plants. According to the China Cotton Textile Association’s research on over 100 key textile enterprises, more than 60% of textile enterprises suffered from lack of orders or even order getting cancelled during the first quarter of 2020 with excess inventory and pressure on cashflow.

As the Pandemic spread to Europe and the U.S., lockdown policies were implemented starting from March 2020, which caused economic activities to almost cease completely in the next few months. Many clothing brands and retailers encountered financial difficulties, thus adopting extra prudent approaches for order placement in the second quarter. Supermarket chains, due to their necessity, remained open for business, which made them a vital source of revenue for exporters. Despite this, consumption in Europe and U.S. have dropped drastically for the first half of 2020. According to The Conference Board, the consumer confidence index of the U.S. for May 2020 is only 85.9, compared to 131.3 for the same period last year.

Furthermore, geopolitical tensions have become more intense as an indirect consequence of the Pandemic, causing another uncertainty in the market. Restructuring and diversification of supply chain are expected to continue to mitigate regional risks.

Business Overview

During the Period, the Group's business was affected by the Pandemic. Overall revenue for the Period recorded a year-on-year decrease of 20.6%, from HK\$2,028.3 million for the six months ended 30 June 2019 to HK\$1,610.0 million; gross profit decreased by 54.3% from HK\$311.2 million for the six months ended 30 June 2019 to HK\$142.2 million. Gross profit margin recorded a decrease of 6.5 percentage points from 15.3 for the six months ended 30 June 2019. Loss attributable to ordinary equity holders of the Company for the Period amounted to HK\$37.9 million, compared to profit of HK\$44.5 million for the six months ended 30 June 2019. The basic loss per share for the Period was HK4.4 cents, compared to earning per share of HK5.1 cents for the six months ended 30 June 2019.

Initially, after the outbreak of the Pandemic, as part of quarantine policies, the Group's two fabric production bases in the mainland were temporarily suspended since the Lunar New Year holiday. In addition, traffic restrictions across China delayed migrant workers' return to duty, particularly for the Group's Nansha production base. This unexpected pause to production had delayed the production schedule for the Group's fabric business, hence the actual textile production output and revenue for the first quarter had decreased seriously year-on-year. Upon work resumption, the Group's production bases operated overtime, incurring extra costs that had further affected the business segment's profitability.

As the Pandemic spread across Europe and the U.S., which had been the largest end-market of the Group for years, country-wide lockdowns were implemented, offices and shops were forced to close. The Group's overseas customers began to delay prescheduled product shipments and stop placing new orders to avoid stockpiling, striking the order book of the Group for the second quarter. Despite the gradual business resumption in the Chinese market, the fabric business of the Group was hard hit and recorded a 30.4% decrease in revenue for the first half of 2020.

To alleviate the impacts, the Group had taken more orders from renowned supermarket chains in Europe and the U.S., which helped in sustaining the Group's revenue to cover factory overheads. However, the products sold to these customers had lower selling prices, affecting the Group's profit margins.

During the Period, geopolitical risks continued to be concerning. Due to the Pandemic and the travel restrictions implemented subsequently, the Group's expansion plans in Cambodia and Vietnam has been delayed until the outbreak is under reasonable control. Reduction of capital expenditure also helped the Group in maintaining a healthy financial position. In view of the unforeseeable development of the Pandemic, the Group repaid certain amount of bank borrowings to reduce its long-term finance costs and remain resilient.

Prospects

Entering the second half of 2020, the Group remains cautious about the outlook of the global textile industry. While there are signs of the Pandemic being controlled in China, the outbreak remains very serious in the U.S. and is reviving in Europe. The second half of the year was typically a high season for the textile and garment industry due to the western festive holidays. Yet a lingering Pandemic would suppress the consumer sentiment and global economic recovery for the remainder of 2020. In addition, the Pandemic has caused further geopolitical tensions. Key players in the industry supply chain may become targets of government sanctions, which would leave long-term impacts to the textile industry. The Group has started reforming its supply chain for greater diversification to ensure a stable supply of quality raw materials.

Under such a volatile business environment, the Group will closely observe the situation and flexibly deploy mitigating measures to maintain a healthy cash flow and remain resilient to react to market changes.

For the sustainability of the business, the Group believes geographic expansion and vertically integrated solutions to be of vital importance, particularly considering the uncertainties brought about by the rising political tensions. Expanding geographically would help the Group in alleviating regional risks as well as aiding in new client outreach and diversification of business. While the Pandemic has delayed the schedule for the Group's expansion plans in Vietnam and Cambodia, the Group is determined to continue its efforts in establishing a sturdy foothold in South East Asia as a leading one stop textile and garment solution provider in the mid to long term.

Financial Review

Revenue

Overall sales turnover reached approximately HK\$1,610.0 million, representing a decrease of approximately 20.6% (six months ended 30 June 2019: HK\$2,028.3 million). The decrease was mainly attributable to delayed or cancelled orders as a result of suppressed demand in both the Chinese market and that of Europe and the U.S.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK\$142.2 million, representing an decrease of approximately 54.3%. (six months ended 30 June 2019: HK\$311.2 million). Gross profit margin decreased to approximately 8.8% (six months ended 30 June 2019: approximately 15.3%). This was mainly attributable to percentage decrease in sales overweighted percentage decrease in cost of sales. There are lots of fixed cost that cannot be reduced in a short period of time. Factory cost needed to be maintained in order to stabilise the production capacity. Meanwhile, the Group has been taking up more orders from supermarket chains in Europe and the U.S., which typically yield lower margins. Those orders utilised part of the Group's excess capacity and reduced the loss for the Period.

Other Income and Gains, Net

Other income of approximately HK\$48.6 million (six months ended 30 June 2019: approximately HK\$19.7 million) mainly comprised subsidy income from the Chinese and overseas governments of approximately HK\$30.1 million (six months ended 30 June 2019: approximately HK\$2.3 million), income received from sewage treatment provided of approximately HK\$9.8 million (six months ended 30 June 2019: approximately HK\$10.4 million), bank interest income of approximately HK\$3.8 million (six months ended 30 June 2019: approximately HK\$0.4 million), fee on air and ocean freight of approximately HK\$3.2 million (six months ended 30 June 2019: approximately HK\$4.8 million). The remaining balance was mainly derived from sales of scrap.

Selling and Distribution Expenses

Selling and distribution expenses decreased to approximately HK\$45.0 million (six months ended 30 June 2019: approximately HK\$55.8 million). This was in line with the decrease in sales.

Administrative Expenses

Administrative expenses, including salaries, depreciation, customs declaration and other related expenses decreased to approximately HK\$146.8 million (six month ended 30 June 2019: approximately HK\$163.0 million) due to tighter control in expenses budget and temporary reduction of labour's working days in factories.

Other Operating Expenses, Net

As at 30 June 2020, other operating expenses, net were a gain of approximately HK\$1.4 million (six months ended 30 June 2019: approximately HK\$20.9 million), mainly comprising foreign exchange differences, net of approximately HK\$23.7 million gain (six months ended 30 June 2019: approximately HK 4.9 million loss), impairment of accounts receivable, net of approximately HK\$13.1 million (six months ended 30 June 2019: approximately HK\$5.2 million) and operating expenses on sewage treatment of approximately HK\$9.2 million (six months ended 30 June 2019: approximately HK\$9.3 million).

Finance costs

As at 30 June 2020, finance costs were approximately HK\$38.3 million (six months ended 30 June 2019: approximately HK\$39.1 million), comprising interest on bank loans and overdrafts of approximately HK\$31.8 million (six months ended 30 June 2019: approximately HK\$30.6 million), amortization of bank charges on syndicated loans of approximately HK\$2.8 million (six months ended 30 June 2019: approximately HK\$2.1 million), interest on discounted bills of approximately HK\$2.7 million (six months ended 30 June 2019: approximately HK\$5.4 million) and interest on lease liabilities of approximately HK\$1.0 million (six months ended 30 June 2019: approximately HK\$1.0 million).

Net (Loss)/Profit and Net (Loss)/Profit Margin

Net loss attributable to ordinary equity holders of the Company for the Period was approximately HK\$37.9 million (six months ended 30 June 2019: net profit of approximately HK\$44.5 million). The loss was mainly attributable to decrease in sales in fabric and garment business due to the Pandemic. Orders were delayed or cancelled during the Period. Also, orders were in low gross profit margin under a temporary keen competition environment and source of orders.

Liquidity and Financial Resources

As at 30 June 2020, the Group's net current assets were approximately HK\$1,304.2 million (31 December 2019: approximately HK\$1,318.9 million). The net current assets was maintained at a stable level. The Group will regularly 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 30 June 2020, the Group had cash and cash equivalents of approximately HK\$619.1 million (31 December 2019: approximately HK\$773.0 million). Current ratio was approximately 2.3 times (31 December 2019: approximately 1.9 times).

As at 30 June 2020, total bank borrowings of the Group were approximately HK\$1,663.2 million (31 December 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 at approximately 49.7% (31 December 2019: approximately 50.7%). Net debts comprise all interest-bearing bank borrowings, accounts and bills payables, accrued liabilities and other payables, an amount due to an associate and lease liabilities less cash and cash equivalents. Sum of equity comprises owners' equity as stated in the consolidated financial statements.

Financing

As at 30 June 2020, the Group's long-term loans were approximately HK\$1,300.8 million (31 December 2019: approximately HK\$1,308.0 million), primarily made up of the syndicated loan. The long-term loans remained at a stable level.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the Period (six months ended 30 June 2019: Nil).

Foreign Exchange Risk and Interest Rate Risk

Approximately 70.2% (six months ended 30 June 2019: approximately 63.8%) 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 Period 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 30 June 2020, none of the Group's land and buildings were pledged (31 December 2019: Nil).

Capital Expenditure

For the Period, the Group invested approximately HK\$64.8 million (six months ended 30 June 2019: approximately HK\$92.4 million) in capital expenditure of which approximately 93.7% (six months ended 30 June 2019: approximately 92.6%) was used for the purchase of plant and machinery, approximately 0.2% (six months ended 30 June 2019: approximately 0.3%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment.

As at 30 June 2020, the Group had capital commitments of approximately HK\$60.2 million (31 December 2019: approximately HK\$48.1 million) in property, plant and equipment and approximately HK\$184.4 million (31 December 2019: approximately HK\$184.2 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources.

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

SIGNIFICANT INVESTMENT

As at 30 June 2020, the Group did not hold any significant investment with a value of 5% or more of the Group's total assets.

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 during the Period, nor were there any proceeds brought forward from any issue of equity securities made in previous financial years.

Material Acquisition and Disposal

During the Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Staff Policy

The Group had 4,894 (31 December 2019: 5,530) employees in the PRC, 2,004 employees in Cambodia (31 December 2019: 1,819) and 134 employees in Hong Kong, Macau, Singapore, Korea and others as at 30 June 2020 (31 December 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 relevant laws and regulations of applicable jurisdictions.

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 relevant laws and regulations of applicable jurisdictions. 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.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Corporate Governance

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 Period.

Audit Committee

The Audit Committee, 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, is primarily responsible for reviewing and supervising the financial reporting, risk management and internal control of the Group. The Audit Committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited interim financial statements of the Group for the Period before recommending them to the Board for approval.

Model Code For Securities Transactions By Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. Having made specific enquiry of all directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code for the Period.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, investors and business partners for their continual support and to its staff for their dedicated work.

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, and Mr. Lei Heong Man as executive Directors; Dr. Wong Wai Kong as non-executive Director; 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, 28 August 2020