

## RESULTS

The Board of directors (the "Board") of Kwong Hing International Holdings (Bermuda) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2003 with comparative figures for the corresponding periods as follows. The results have been reviewed by the Company's audit committee.

### Consolidated Income Statement (Unaudited)

For the six months ended 30th September, 2003

	Notes	For the six months ended 30th September,	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	225,920	200,555
Cost of sales		(186,633)	(172,175)
Gross profit		39,287	28,380
Other operating income		2,840	1,535
Selling expenses		(6,858)	(4,992)
Administrative expenses		(11,821)	(10,925)
Realized and unrealized gain (loss) on trading securities		109	(1,096)
Profit from operations		23,557	12,902
Finance costs		(45)	-
Profit before taxation		23,512	12,902
Taxation	3	1,057	482
Net profit for the period		22,455	12,420
Dividends	4	9,714	4,640
Earnings per share	5		
Basic		5.8 cents	3.2 cents
Diluted		5.7 cents	N/A

**Consolidated Balance Sheet**

At 30th September, 2003

	<i>Notes</i>	<b>30th September, 2003 (Unaudited) HK\$'000</b>	31st March, 2003 (Audited) HK\$'000
<hr/>			
Non-current asset			
Property, plant and equipment	6	<b>129,088</b>	127,625
		<hr/> <b>129,088</b> <hr/>	<hr/> 127,625 <hr/>
Current assets			
Investment in securities		<b>43,579</b>	40,327
Inventories		<b>119,856</b>	108,667
Trade and other receivables	7	<b>106,564</b>	95,348
Bills receivable		<b>2,631</b>	8,837
Bank balance and cash		<b>67,092</b>	75,148
		<hr/> <b>339,722</b> <hr/>	<hr/> 328,327 <hr/>
Current liabilities			
Trade and other payables	8	<b>45,560</b>	43,976
Bills payable			
– secured		<b>2,251</b>	13,342
– unsecured		<b>20,396</b>	10,508
Short-term bank loan		<b>1,131</b>	–
Taxation		<b>3,949</b>	3,428
		<hr/> <b>73,287</b> <hr/>	<hr/> 71,254 <hr/>
Net current assets		<hr/> <b>266,435</b> <hr/>	<hr/> 257,073 <hr/>
Total assets less current liabilities		<b>395,523</b>	384,698
Non-current liability			
Deferred taxation		<b>5,108</b>	4,900
		<hr/> <b>390,415</b> <hr/>	<hr/> 379,798 <hr/>
 <b>CAPITAL AND RESERVES</b>			
Share capital		<b>38,857</b>	38,664
Share premium		<b>130,452</b>	129,660
Contribution Surplus		<b>122,652</b>	122,652
Translation Reserve		<b>(278)</b>	(278)
Retained profit		<b>89,018</b>	76,341
Proposed dividend		<b>9,714</b>	12,759
		<hr/> <b>390,415</b> <hr/>	<hr/> 379,798 <hr/>

**Consolidated Statement Of Changes In Equity (Unaudited)**

For the six months ended 30th September, 2003

	Share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st April, 2003	38,664	129,660	122,652	(278)	89,100	379,798
Issue of share	193	792	-	-	-	985
2003 Final and special dividend paid	-	-	-	-	(12,823)	(12,823)
Net profit for the period	-	-	-	-	22,455	22,455
Balance at 30th September, 2003	<u>38,857</u>	<u>130,452</u>	<u>122,652</u>	<u>(278)</u>	<u>98,732</u>	<u>390,415</u>
Balance at 1st April, 2002	38,664	129,660	122,652	(278)	71,560	362,258
Net profit for the period	-	-	-	-	12,420	12,420
Balance at 30th September, 2002	<u>38,664</u>	<u>129,660</u>	<u>122,652</u>	<u>(278)</u>	<u>83,980</u>	<u>374,678</u>

**Condensed Consolidated Cash Flow Statement (Unaudited)**

For the six months ended 30th September, 2003

	For the six months ended	
	30th September, 2003	30th September, 2002
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<b>17,801</b>	(26,558)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(15,150)</b>	(2,493)
NET CASH OUTFLOW FROM FINANCING	<b>(11,838)</b>	-
DECREASE IN CASH OR CASH EQUIVALENT	<b>(9,187)</b>	(29,051)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	<b>75,148</b>	143,516
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>65,961</b>	114,465

## Notes to the Unaudited Interim Financial Statements

For the six months ended 30th September, 2003

### 1. Accounting policies

The unaudited interim financial statements have been prepared in compliance with Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted by the Group in the preparation of its financial statements for the year ended 31st March, 2003, except for the adoption of the SSAP 12 (revised) "Income tax. The adoption of this standard had no material effect on the amounts reported in the prior period, except that certain presentational change have been made.

### 2. Turnover

Sales of knitted fabrics and dyed yarns account for more than 90% of the Group's turnover for the periods ended 30th September 2003 and 2002, substantially all of which are made to customers based in Hong Kong and all of the manufacturing operations of the Group are located in the People's Republic of China. Accordingly, no analysis for the segment information are provided. The turnover comprises:

	For the six months ended	
	30th September, 2003 HK\$'000	30th September, 2002 HK\$'000
Sale of knitted fabric and dyed yarns	225,116	200,120
Subcontracting fee income	804	435
	<u>225,920</u>	<u>200,555</u>

### 3. Taxation

	For the six months ended	
	30th September, 2003 HK\$'000	30th September, 2002 HK\$'000
The income tax comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) of the estimated assessable profit for the periods	521	424
Deferred taxation	208	(287)
	<u>729</u>	<u>137</u>
Overseas tax calculated at the rates prevailing in the respective jurisdictions.	328	345
	<u>1,057</u>	<u>482</u>

#### 4. Dividends

	For the six months ended	
	30th September, 2003 HK\$'000	30th September, 2002 HK\$'000
Proposed interim dividend : HK2.5 cents (2002: HK1.20 cents after adjustment of the effect of share consolidation) per share	<u>9,714</u>	<u>4,640</u>

#### 5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended	
	30th September, 2003 HK\$'000	30th September, 2002 HK\$'000
Net profit for the period	<u>22,455</u>	<u>12,420</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>387,168,196</b>	386,640,000
Effect of dilutive potential ordinary shares in respect of share options	<u>10,149,756</u>	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>397,317,952</u>	<u>386,640,000</u>

The weighted average number of ordinary shares of last corresponding period for the basic earnings per share has been adjusted for the effect of the consolidation of every 10 shares of HK\$0.01 each into 1 share of HK\$0.10 each effected on 19th March, 2003.

#### 6. Property, Plant and Equipment

During the period, the Group spent approximately HK\$13,431,000 (2002: HK\$2,693,000) on property, plant and equipment to upgrade its production capabilities. Depreciation of approximately HK\$11,888,000 (2002: HK\$11,011,000) was charged in respect of Group's property, plant and equipment.

## 7. Trade and other receivables

Included in trade and other receivables are trade receivables of HK\$96,720,000 (31st March, 2003: HK\$72,115,000). An aging analysis of the trade receivable at the balance dates is as follows:

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
0-60 days	65,271	44,970
61-90 days	11,930	8,507
91-120 days	14,276	6,926
> 120 days	5,243	11,712
	<u>96,720</u>	<u>72,115</u>

The credit terms given to the customers vary from cash on delivery to 120 days and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

## 8. Trade and other payables

Included in trade and other payables are trade payables of HK\$30,333,000 (31st March, 2003: HK\$28,391,000). An aging analysis of the trade payables at the balance dates is as follows:

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
0-60 days	22,488	23,557
61-90 days	3,694	3,886
> 90 days	4,151	948
	<u>30,333</u>	<u>28,391</u>

## 9. Pledge of assets

At the balance sheet date, certain Group's leasehold land and building with an aggregate net book value of approximately HK\$2,464,000 (31st March, 2003: HK\$2,495,000) and value added tax refundable on export of HK\$1,696,000 (31st March, 2003: Nil) have been pledged to banks as security for general banking facilities granted to the Group.

## 10. Capital commitments

At 30th September, 2003, the Group had capital expenditures of approximately HK\$6,180,000 (31st March, 2003: HK\$5,928,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

## 11. Post balance sheet event

On 29th August, 2003, the Company entered into an conditional agreement for the acquisition of 70% interest in the issued share capital of South Season Industrial Company Limited, whose principal activities is garment trading, for a cash consideration of HK\$24,500,000, the detail of which were set out in the circular dated 16th September, 2003. The Acquisition was completed on 3rd October, 2003.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.5 cents per share for the six months ended 30th September, 2003 (2002: HK1.2 cents, after adjustment of the effect of share consolidation) payable to shareholders on 9th January, 2004 to the shareholders whose name appear on the register of the members of the Company on 7th January, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of the Members of the Company will be closed from Monday, 5th January, 2004 to Wednesday, 7th January, 2004 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Secretaries Limited at G/F., BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 2nd January, 2004.

## BUSINESS REVIEW

For the six months ended 30th September, 2003, the Group, developing on the solid foundation laid down in previous years, achieved a better results. The Group recorded a turnover of approximately HK\$225,920,000 and gross profit of approximately HK\$39,287,000 in comparison to approximately HK\$200,555,000 and HK\$28,380,000 respectively of the same period in 2002, representing increase of 12.6% and 38.4% respectively. The profit improvement was mainly attributed to the expansion of Group's diversified production capacity which enables the Group to provide excellent speeding services as well as high quality products to its customers. Moreover, the coal-fired facilities and procurement in China have significantly reduced the Group's production cost, together with Group's effective cost control measures, the Group's gross margin was

improved from 14.2% to 17.4%. As a result, the Group achieved a net profit of approximately HK\$22,455,000, representing an increase of approximately 80.8% as compared to HK\$12,420,000 of the same period in 2002

Stepping into the period, the Group recorded more orders as there were indications of recovery in US market which is the major market of the Group's customers. Moreover, the customers' requirements in terms of product quality and production lead-time are higher and higher, this trend induced a lot of opportunities and benefits to the Group. Consequently, the Group's business was significantly improved.

During the period, management focused on controlling its operating cost and enhancing its competitive advantage, and achieved satisfactory results. Under the extreme competitive environment, the Group managed to control its production cost and overhead expenses at competitive level, proving the success of the Group's effective cost management and further enhancing its competitiveness in the industry. The Group continued its prudent and conservative customer credit policy and also monitored closely its inventory level as well as production requirements. The above measures also enable the Group to maintain a healthy cash level.

During the period, the increase in cotton price has resulted in more than 20% increase in certain raw material of Group's product. The Board had continuously monitored Group's inventory level, and appropriate actions have been taken to reduce its impact to the Group's business.

During the period, the Group invested approximately HK\$13,431,000 in property, plant and equipment to upgrade its factory and production facilities so as to increase its productivity and to enhance its production quality. Together with the investments last year, the Group's production capacity was increased by appropriately 50% at the end of August 2003. The expansion enables the Group to satisfy the increasing demands of its product at better economies of scales.

On 29th August, 2003, the Company entered into a conditional agreement for a acquisition of 70% interest in the issued share capital of South Season Industrial Company Limited, whose principal activities are garment trading, for a consideration of HK\$24,500,000, the acquisition was completed on 3rd October, 2003. The acquisition has been complementing and introducing additional business opportunities to the Group's business, and it is also in-line with the Group's business expansion strategy of "Vertical Integration" which will enlarge Group's earning base as well as becoming one of its major income stream in the future.



## **PROSPECTS**

Looking forward, the demand of the Group's product is expected to increase because of the recovery of US economy and the change of Group's ultimate customers purchasing behaviour and the abolishment of textile quota after 2004. The Group will continuously upgrade its factory and production facilities so as to increase its productivity and to enhance its product quality to cope with these change. The directors believe that long term benefit from expansion of production facilities are crucial to the Group's profitability. Moreover, the Group will also continuously pursue its cautionary credit policy for its customers and continuously improve its product quality, cost and inventory control measures.

In market front, the Group will strive to develop the Asian and the PRC markets, and will also extend its services into landed duties paid operation in the US market.

Despite the business environment in the second half of the year is expected to remain highly competitive and challenging, the Board believes that the Group, building on the success of its recent developments together with the benefit from the expanded production facilities, the above mentioned control measures and Vertical Integration, is ready to take on the challenge and to profit from the immense business opportunate lying ahead of the Group.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th September, 2003, the Group's shareholders' equity amounted to HK\$390,415,000, while total bank indebtedness amounted to approximately HK\$23,778,000, and net cash on hand amount to approximately HK\$43,314,000. Current ratio is 4.6. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

As at 30th September, 2003, the Group has short-term high graded debt securities investments of approximately HK\$43,579,000.

## **STAFF AND REMUNERATION POLICIES**

As at 30th September, 2003, the Group had approximately 1,500 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the option holders to participate and contribute the growth of the Group.

## DIRECTORS' INTERESTS IN SHARES AND IN SHARE OPTIONS

At 30th September, 2003, the interests of the directors and chief executives and their associates (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) in the shares and share options of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Mode Code for the Securities Transactions by Directors of Listed Companies were as follows:

	Number of ordinary shares		Interest in underlying shares pursuant to share option	Aggregated Interest	Approximate percentage of total issued shares
	Personal interests	Other interests (Note)			
Mr. Li Man Ching	–	163,748,000	–	163,748,000	42.14%
Ms. Li Mei Lin	–	163,748,000	1,500,000	165,248,000	42.53%
Mr. Li Man Shun	–	163,748,000	–	163,748,000	42.14%
Mr. Li Man Tak	14,042,000	163,748,000	1,500,000	179,290,000	46.14%

Note: Mr. Li Man Ching, Ms. Li Mei Lin, Mr. Li Man Shun and Mr. Li Man Tak beneficially own 24,300 shares, 22,500 shares, 21,600 shares and 21,600 shares, respectively, in Rayten Limited, representing 27 per cent, 25 per cent, 24 per cent and 24 per cent, respectively, of the issued share capital of Rayten Limited, which in turn owns 163,748,000 shares of HK\$0.10 each in the Company.

## SHARE OPTION SCHEME

The following table discloses details of the Company's share option held by directors and employees and movement in such holdings:

Director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			
				At 1.4.2003	Granted	Exercised	At 30.9.2003
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	-	1,500,000	-	1,500,000
Mr. Li Man Tak	17.9.2003	17.9.2003 to 16.9.2006	1.62	-	1,500,000	-	1,500,000
Employees in aggregate	18.8.2003	1.3.2004 to 30.9.2006	1.67	-	3,865,000	-	3,865,000 (note)
	2.11.2002	2.11.2002 to 1.11.2012	0.51	19,332,000	-	1,933,200	17,398,800

Note: The Maximum percentage of the share options that may be exercised is determined in the stages as follows:

	Percentage of share options granted
Within 1 year after completion of at least one year service	30%
Within 2 years after completion of at least one year service	another 30%
2 years after completion of at least one year service but before expiry	another 40%

The closing price of the Company's share immediately before 18th August, and 17 September, 2003, the dates of grant of the options were HK\$1.57 and HK\$1.58 respectively.

The weighted average closing price of the Company share immediately before the dates on which the options were exercised on 12th August, 2003 was HK\$1.276.

Other than the share option scheme of the Company, at no time during the six months ended 30th September, 2003 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

At 30th September, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified that Company as holding of 5% or more of the issued share capital of the Company.

Name	Ordinary Share held (note)	Percentage of total issued shares
Arisaig Greater China Fund	39,270,000	10.11%
Arisaig Partners (Mauritius) Ltd	39,270,000	10.11%
Arisaig Partners (BVI) Ltd	39,270,000	10.11%
Arisaig Partners (Holdings) Ltd	39,270,000	10.11%
Madeleine Ltd	39,270,000	10.11%
Cooper Lindsay William Ernest	39,270,000	10.11%

Note: The shares are held by Arisaig Greater China Fund, which is owned by Arisaig Partners (Mauritius) Ltd, a subsidiary of Arisaig Partners (BVI) Ltd.

Cooper Lindsay William Ernest is entitled to the indirect interest via Madeleine Ltd in Arisaig Partners (Holdings) Ltd, the interest holding company of Arisaig Partners (BVI) Ltd.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2003, in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on SEHK.

By Order of the Board  
**Li Man Ching**  
*Chairman*

Hong Kong, 27th November, 2003