



**KWONG HING INTERNATIONAL HOLDINGS (BERMUDA) LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code: 1131)

**07/08**

Interim Report

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## RESULTS

The Board of Directors (the "Board") of Kwong Hing International Holdings (Bermuda) Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2007 with comparative figures for the corresponding period as follows. The interim results have been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statement

For the six months ended 30th September, 2007

	Notes	Six months ended	
		30.9.2007 HK\$'000 (Unaudited)	30.9.2006 HK\$'000 (Unaudited)
<b>Continuing operation</b>			
Revenue	4	187,115	193,138
Cost of sales		(171,860)	(183,940)
Gross profit		15,255	9,198
Other income		7,494	1,488
Selling expenses		(3,674)	(4,149)
Administrative expenses		(11,616)	(13,741)
Impairment loss on trade and other receivable		(3,800)	-
Interest on bank borrowings wholly repayable within five years		(59)	(168)
Profit (loss) before taxation	5	3,600	(7,372)
Taxation	6	(825)	31
Profit (loss) for the period from continuing operation		2,775	(7,341)
<b>Discontinued operation</b>			
Loss for the period from discontinued operation	4	-	(5,500)
Profit (loss) for the period		2,775	(12,841)
Earnings (loss) per share			
From continuing and discontinued operations:			
– Basic and diluted	7	0.7HK cents	(3.3)HK cents
From continuing operation:			
– Basic and diluted	7	0.7HK cents	(1.9)HK cents

**Condensed Consolidated Balance Sheet**

At 30th September, 2007

	Notes	30.9.2007 HK\$'000 (Unaudited)	31.3.2007 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	101,712	107,819
Prepaid lease payments		2,013	2,042
Held-to-maturity investments		15,600	15,600
		<u>119,325</u>	<u>125,461</u>
<b>Current assets</b>			
Inventories		113,067	108,208
Trade and other receivables	9	76,883	48,986
Bills receivable		6,037	2,405
Prepaid lease payments		58	58
Held-for-trading investments		4,714	5,167
Derivative financial instruments		819	1,203
Pledged bank deposit		4,000	4,000
Bank balances and cash		88,508	104,239
		<u>294,086</u>	<u>274,266</u>
<b>Current liabilities</b>			
Trade and other payables	10	35,706	30,360
Bills payable-secured		3,545	1,989
Taxation payable		4,052	3,464
Obligations under finance leases – due within one year		852	2,336
Derivative financial instruments		112	475
		<u>44,267</u>	<u>38,624</u>
Net current assets		<u>249,819</u>	<u>235,642</u>
Total assets less current liabilities		<u>369,144</u>	<u>361,103</u>
<b>Non-current liabilities</b>			
Obligations under finance leases – due after one year		–	134
Deferred tax liabilities		–	–
		<u>–</u>	<u>134</u>
		<u>369,144</u>	<u>360,969</u>
<b>Capital and reserves</b>			
Share capital	11	38,376	38,376
Reserves		330,768	322,593
		<u>369,144</u>	<u>360,969</u>

**Condensed Consolidated Statement of Changes in Equity**

For the six months ended 30th September, 2007

	Attributable to equity holders of the Company							
	Share capital	Share premium	Contributed surplus	Translation reserve	Warrant reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2006	38,857	130,452	122,652	783	-	-	86,830	379,574
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	1,799	-	-	-	1,799
Loss for the period	-	-	-	-	-	-	(12,841)	(12,841)
Total recognised income (expense) for the period	-	-	-	1,799	-	-	(12,841)	(11,042)
Shares repurchased	(481)	(671)	-	-	-	-	-	(1,152)
At 30th September, 2006	38,376	129,781	122,652	2,582	-	-	73,989	367,380
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	2,304	-	-	-	2,304
Loss for the period	-	-	-	-	-	-	(8,715)	(8,715)
Total recognised income (expense) for the period	-	-	-	2,304	-	-	(8,715)	(6,411)
At 31st March, 2007	38,376	129,781	122,652	4,886	-	-	65,274	360,969
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	1,472	-	-	-	1,472
Equity-settled share option arrangements	-	-	-	-	-	245	-	245
Proceeds from issue of warrants	-	-	-	-	3,800	-	-	3,800
Expenses related to issue of warrants	-	-	-	-	(117)	-	-	(117)
Profit for the period	-	-	-	-	-	-	2,775	2,775
Total recognised income for the period	-	-	-	1,472	3,683	245	2,775	8,175
At 30th September, 2007	38,376	129,781	122,652	6,358	3,683	245	68,049	369,144

**Condensed Consolidated Cash Flow Statement**

For the six months ended 30th September, 2007

	Six months ended	
	30.9.2007 HK\$'000 (Unaudited)	30.9.2006 HK\$'000 (Unaudited)
<b>Net cash (used in)/from operating activities</b>	<b>(15,953)</b>	2,974
<b>Net cash used in investing activities:</b>	<b>(2,022)</b>	(9,992)
<b>Net cash from/(used in) financing activities:</b>		
Cash paid for the repurchased shares	–	(1,152)
Other financing cash flows	<b>(1,618)</b>	(1,515)
Net proceeds from issue of warrants	<b>3,683</b>	–
	<b>2,065</b>	(2,667)
<b>Net decrease in cash and cash equivalents</b>	<b>(15,910)</b>	(9,685)
<b>Cash and cash equivalents at beginning of the period</b>	<b>108,239</b>	74,409
<b>Effect on foreign exchange rate changes</b>	<b>179</b>	568
<b>Cash and cash equivalents at end of the period, representing bank balances and cash</b>	<b>92,508</b>	65,292

## Notes To The Condensed Consolidated Financial Statements

For the six months ended 30th September, 2007

### 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st March, 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st April, 2007. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

### 3. Summary of the Effects of the Changes in Accounting Policies

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC) – Int 12	Service Concession Arrangements <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2008

#### 4. Segment Information

##### *Business segments*

For management purpose, the Group is currently engaged in the manufacturing and trading of knitted fabric and dyed yarns. The Group was also involved in the manufacturing and trading of garment products which had been discontinued on 16th September, 2006 (see note 12). These activities are the basis on which the Group reports its primary segment information.

Segment information about these activities is presented below:

##### **For the six months ended 30th September, 2007**

	Continuing operation	Discontinued operation		
	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	187,115	-	-	187,115
Inter-segment sales	-	-	-	-
Total revenue	<u>187,115</u>	<u>-</u>	<u>-</u>	<u>187,115</u>
Results				
Segment results	(3,835)	-		(3,835)
Other income	7,494	-		7,494
Unallocated corporate expense	-	-		-
Interest on bank borrowings wholly repayable within five years	(59)	-		(59)
Profit before taxation	3,600	-		3,600
Taxation	(825)	-		(825)
Profit for the period	<u>2,775</u>	<u>-</u>		<u>2,775</u>



## 4. Segment Information (Continued)

*Business segments (Continued)*

For the six months ended 30th September, 2006

	Continuing operation	Discontinued operation		
	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	193,138	4,672	–	197,810
Inter-segment sales	676	–	(676)	–
Total revenue	<u>193,814</u>	<u>4,672</u>	<u>(676)</u>	<u>197,810</u>
Results				
Segment results	(7,491)	(5,759)		(13,250)
Other income	1,488	259		1,747
Unallocated corporate expense	(1,201)	–		(1,201)
Interest on bank borrowings wholly repayable within five years	(168)	–		(168)
Loss before taxation	(7,372)	(5,500)		(12,872)
Taxation	31	–		31
Loss for the period	<u>(7,341)</u>	<u>(5,500)</u>		<u>(12,841)</u>

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

## 5. Profit (Loss) Before Taxation

	Six months ended	
	30.9.2007 HK\$'000	30.9.2006 HK\$'000 (As restated)
Profit (loss) before taxation has been arrived at after charging:		
Cost of inventories recognised	171,860	181,280
Depreciation of property, plant and equipment	9,868	12,325
Amortisation of prepaid lease payments	29	30
Impairment loss on trade and other receivable	3,800	470
Allowance for damaged inventories (included in cost of sales)	-	2,660
Impairment loss on property, plant and equipment	-	2,939
and after crediting:		
Interest income from banks	1,159	967
(Loss) gain on disposal of property, plant and equipment	(7)	353

## 6. Taxation

	Six months ended	
	30.9.2007 HK\$'000	30.9.2006 HK\$'000
<b>Continuing operation</b>		
Current tax:		
Hong Kong Profits Tax	10	27
Other jurisdictions	874	59
	884	86
Overprovision in prior years:		
Other jurisdictions	(59)	(117)
	825	(31)

Provision for Hong Kong profits tax and overseas taxation has been calculated at rates of tax prevailing in the countries in which the Group operates.

## 7. Earnings (Loss) Per Share

### From continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share attributable to the equity holders of the Company is based on the following data:

	Six months ended	
	30.9.2007 HK\$'000	30.9.2006 HK\$'000
Net profit (loss) for the period (continuing and discontinued operations)	<u>2,775</u>	<u>(12,841)</u>
Profit (loss) for the period attributable to equity holders of the Company	2,775	(12,841)
Less: Loss for the period from discontinued operation	<u>—</u>	<u>5,500</u>
Profit (loss) for the purposes of basic and diluted earnings (loss) per share from continuing operation	<u>2,775</u>	<u>(7,341)</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share from continuing and discontinued operations	<u>383,763,200</u>	385,378,391
Effect to dilutive potential ordinary shares in respect of share options	<u>760,736</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share from continuing and discontinued operations	<u>384,523,936</u>	<u>385,378,391</u>

## 8. Property, Plant and Equipment

The Group invested approximately HK\$2,475,000 in acquiring property, plant and equipment to upgrade its production capabilities.

## 9. Trade and other Receivables

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

Included in trade and other receivables of the Group are trade receivables of approximately HK\$73,304,000 (31st March, 2007: HK\$46,340,000). The following is an aged analysis of trade receivables at the balance sheet date:

	30.9.2007 HK\$'000	31.3.2007 HK\$'000
0 – 60 days	44,599	30,389
61 – 90 days	12,215	7,401
91 – 120 days	12,243	1,566
Over 120 days	4,247	6,984
	<u>73,304</u>	<u>46,340</u>

## 10. Trade and other Payables

Included in trade and other payables of the Group and trade payables of approximately HK\$21,028,000 (31st March, 2007: HK\$16,913,000). The following is an aged analysis of trade payables at the balance sheet date:

	30.9.2007 HK\$'000	31.3.2007 HK\$'000
0 – 60 days	12,274	13,391
61 – 90 days	3,026	1,664
Over 90 days	5,728	1,858
	<u>21,028</u>	<u>16,913</u>

**11. Share Capital**

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st March, 2007 and 30th September, 2007	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 31st March, 2007 and 30th September, 2007	<u>383,763,200</u>	<u>38,376</u>

During the period under review, the Company also issued 38,000,000 unlisted warrants of the Company at the price of HK\$0.10 per warrant. Holders of warrants are entitled to subscribe new shares of the Company at HK\$1.06 per share, details of which had been disclosed on the announcement dated 18th July, 2007.

**12. Discontinued Operation**

The results of the garment manufacturing and trading operations for the interim reporting period were as follows:

	Six months ended	
	30.9.2007 HK\$'000	30.9.2006 HK\$'000
Revenue	-	4,672
Cost of sales	-	(5,573)
Other income	-	259
Distribution costs	-	(38)
Administrative expenses	-	(1,881)
Impairment loss on property, plant and equipment	-	(2,939)
Loss for the period	<u>-</u>	<u>(5,500)</u>

**12. Discontinued Operation (Continued)**

The major class of assets of the discontinued operation classified as held for sale were as follows:

	Six months ended	
	30.9.2007 HK\$'000	30.9.2006 HK\$'000
<b>Asset</b>		
Property, plant and equipment	—	1,938

**13. Pledge of Assets**

At 30th September, 2007, certain buildings owned by the Group with an aggregate carrying value of approximately HK\$2,215,000 (31st March, 2007: HK\$2,247,000), held-to-maturity investments of HK\$7,800,000 (31st March, 2007: HK\$7,800,000) and bank deposits of approximately HK\$4,000,000 (31st March, 2007: HK\$4,000,000) are pledged to banks as security for general banking facilities granted to the Group.

**14. Capital Commitments**

The Group had no material capital commitment as at 30th September, 2007.

## **INTERIM DIVIDEND**

The directors do not recommend payment of any interim dividend for the six months ended 30th September, 2007.

## **BUSINESS REVIEW**

For the six months ended 30th September, 2007, the Group recorded a turnover of approximately HK\$187,115,000 representing a decrease of 3.1% as compared with same period last year (excluding discontinued operation) amid difficult business environment as a result of market competition. Gross profit is approximately HK\$15,255,000 representing an increase of 65.9% as compared with same period last year (excluding discontinued operation). The Group recorded a net profit of HK\$2,775,000 for the period after the impairment loss on trade and other receivable of approximately HK\$3,800,000. The improvement in net results was mainly attributed to the expansion of the Group's diversified production capacity which had enabled the Group to provide better services as well as high quality products to its customers, and the opening up of new markets. Moreover, the Group has continuously controlled its production costs and overhead expenses which also contributed towards the improvement in its gross margin to 8.15% from 4.76% of the same period in 2006. The discontinued operation in the manufacturing and sales of garment also gave a positive impact to the Group's result.

During the period, manufacturing and sales of the knitted fabric and dyed yarns are the principal activities of the Group. Production costs had increased markedly because of rise in price of dyed material, coal and electricity, and salary and wages in China. Moreover, the Group also suffered from the negative impact from the appreciation of the Renminbi. However, as mentioned above, the Group was able to improve the gross margin as the Group managed to control other production costs and overhead expenses reasonably well. The Group has also continued its prudent and conservative credit policy towards customers, and has monitored closely its inventory level as well as production requirements. These measures have enabled the Group to maintain a healthy cash level.

During the period under review, the Group has invested approximately HK\$2,475,000 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 capital investments in previous years, the Group has managed to achieve production at better economies of scale.

On 16th July, 2007, the Company has entered into two agreements with Emperor Securities Limited, pursuant to which, the Company had issued 38,000,000 unlisted warrants at the price of HK\$0.10 each, the subscription price of the warrant was HK\$1.06 per subscription share. Details of this transaction were disclosed on the announcement dated 18th July, 2007.

## **PROSPECTS**

Looking forward, the high production costs resulting from price increase in dyed material, coal and electricity, and salary and wages in China will continue to affect the Group's performance. The board believes that the business environment in the second half of the year is expected to be highly competitive and more challenging. The Group will continue to take appropriate cost control measures, rationalizing its operations, applying prudent credit policy for its customers and improving product quality in order to achieve improved return for its shareholders.

In the market front, the Group will strive to expand into the Asian and the PRC markets so as to broaden the Group's customer base and to reduce reliance on the US market.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th September, 2007, the Group's shareholders' equity amounted to HK\$369,144,000, while total bank indebtedness was approximately HK\$4,397,000, and cash on hand amounted to approximately HK\$92,508,000. The Group's bank indebtedness to equity ratio is only 0.01. Current ratio is 6.6. 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, 2007, the Group has long-term high graded securities and investments of approximately HK\$15,600,000 of which HK\$7,800,000 has been pledged to bank as securities for general banking facilities granted to the Group.

The Groups' assets and liabilities were primarily denominated in Hong Kong dollars, Chinese Renminbi and US dollars. The Board is closely monitoring the fluctuations in these exchange rates, and believes there is no substantial exposure in exchange rate risk.

## **PLEDGE OF ASSETS**

As at 30th September, 2007, certain buildings of the Group with an aggregate net book value of approximately HK\$2,215,000, held-to-maturity investment of approximately HK7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.



## STAFF AND REMUNERATION POLICIES

As at 30th September, 2007, the Group had approximately 960 employees. The Group mainly determines staff remuneration in accordance with market terms, individual qualifications and experience.

The emoluments of the directors of the Company are decided by the Board of Directors, as authorised by the shareholders at the annual general meeting having regard to the Group's operating results, individual performance and comparable market statistics.

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 to the growth of the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30th September, 2007, the interests of the directors and the chief executives in the shares and underlying shares of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO") or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions

Name of director	Number of ordinary shares		Interest in	Aggregated interest	Percentage of the issued share capital of the Company
	Personal interests	Other interests (note)	underlying shares pursuant to share option		
Mr. Li Man Ching	–	–	3,830,000	3,830,000	1.0%
Ms. Li Mei Lin	–	164,628,000	3,100,000	167,728,000	43.7%
Mr. Li Man Shun	–	164,628,000	2,380,000	167,008,000	43.5%
Mr. Fung Chi Ki	–	–	1,933,200	1,933,200	0.5%

Note: Ms. Li Mei Lin and Mr. Li Man Shun beneficially own 30,600 shares and 29,700 shares respectively, in Rayten Limited, representing 34% and 33% respectively, of the issued share capital of Rayten Limited, which in turn owns 164,628,000 shares of HK\$0.10 each in the Company.

## SHARE OPTION SCHEME

The following table discloses movements in the Company's share option scheme during the period:

Directors	Date of Grant	Exercisable period	Exercise price per share HK\$	Number of share options		
				At 1.4.2007	Granted	At 30.9.2007
Mr. Li Man Ching	26.7.2007	26.7.2007 to 25.7.2010	1.04	-	3,830,000	3,830,000
Ms. Li Mei Lin	17.9.2007	17.9.2007 to 16.9.2010	0.77	-	3,100,000	3,100,000
Mr. Li Man Shun	26.7.2007	26.7.2007 to 25.7.2010	1.04	-	2,380,000	2,380,000
Mr. Fung Chi Ki	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	-	1,933,200
				<u>1,933,200</u>	<u>9,310,000</u>	<u>11,243,200</u>

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO discloses no person as having a notifiable interests or short positions in the issued capital of the Company as at 30th September, 2007.

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

During the six months ended 30th September, 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months ended 30th September, 2007 with the Code on Corporate Government Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. Certain Company’s independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation under the Company’s Bye-laws, so that every independent non-executive directors shall retire at least once every three years.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules on the Stock Exchange as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

The Company has formed an audit committee whose terms of reference is formulated in accordance with the requirements of the Stock Exchange its current members comprise of three independent non-executive directors. The primary responsibilities of the Audit Committee include reviewing the reporting of financial and other information of shareholders, systems of internal controls, risk management and the effectiveness and objectivity of the audit process.

By Order of the Board

**Li Man Ching**

*Chairman*

Hong Kong, 15th December, 2007