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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 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by 14.5% to HK\$4,192.9 million (2016: HK\$3,662.6 million)
- Gross profit increased by 1.9% to HK\$517.0 million (2016: HK\$507.5 million)
- Net profit for the year attributable to ordinary equity holders of the Company decreased by 13.9% to HK\$64.6 million (2016: HK\$75.0 million). Excluding the gain on disposal of the Group's former head office of HK\$19.9 million in 2016, the adjusted net profit for the year increased by 17.2% year-on-year, representing a growth in the Group's core textile business.
- Proposed final dividend of HK1.5 cents per share (2016: HK1.5 cents)

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) is pleased to announce the annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017 (the “Year”), together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
REVENUE	4	4,192,896	3,662,622
Cost of sales		(3,675,927)	(3,155,131)
Gross profit		516,969	507,491
Other income and gains	4	49,884	34,706
Selling and distribution expenses		(112,601)	(115,492)
Administrative expenses		(304,996)	(309,740)
Other operating income/(expenses), net		(3,434)	18,747
Finance costs		(59,661)	(51,590)
PROFIT BEFORE TAX	5	86,161	84,122
Income tax expense	6	(23,247)	(10,520)
PROFIT FOR THE YEAR		62,914	73,602
Attributable to:			
Ordinary equity holders of the Company		64,575	74,995
Non-controlling interests		(1,661)	(1,393)
		62,914	73,602
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK7.4 cents	HK8.6 cents
Diluted		HK7.4 cents	HK8.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
PROFIT FOR THE YEAR	62,914	73,602
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	182,370	(236,057)
Realisation of exchange reserve upon deregistration of subsidiaries	(1,740)	—
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	180,630	(236,057)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	243,544	(162,455)
Attributable to:		
Ordinary equity holders of the Company	243,186	(158,387)
Non-controlling interests	358	(4,068)
	243,544	(162,455)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,050,261	1,970,431
Prepaid land lease payments		131,232	107,507
Goodwill		3,072	12,811
Interest in an associate		—	—
Prepayments		6,896	7,554
Long term receivables		31,633	30,843
Deposits paid		24,795	24,139
Deferred tax assets		4,409	4,100
Total non-current assets		2,252,298	2,157,385
CURRENT ASSETS			
Inventories		1,164,546	1,111,909
Accounts and bills receivables	9	846,745	572,633
Prepayments, deposits and other receivables		40,840	68,307
Equity investment at fair value through profit or loss		314	289
Tax recoverable		—	1,110
Pledged deposits		9,875	—
Cash and cash equivalents		421,723	475,532
Total current assets		2,484,043	2,229,780
CURRENT LIABILITIES			
Accounts and bills payables	10	660,460	637,623
Accrued liabilities and other payables		195,825	156,766
Due to an associate		2,706	2,706
Tax payable		23,181	16,898
Interest-bearing bank borrowings		706,820	844,304
Total current liabilities		1,588,992	1,658,297
NET CURRENT ASSETS		895,051	571,483
TOTAL ASSETS LESS CURRENT LIABILITIES		3,147,349	2,728,868

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,087,994	902,061
Deferred tax liabilities	7,465	7,737
Total non-current liabilities	1,095,459	909,798
Net assets	2,051,890	1,819,070
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	1,963,166	1,733,062
	2,050,158	1,820,054
Non-controlling interests	1,732	(984)
Total equity	2,051,890	1,819,070

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an equity investment at fair value through profit or loss 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 following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities: Clarification of</i>
included in <i>Annual</i>	<i>the Scope of HKFRS 12</i>
<i>Improvements to HKFRSs</i>	
<i>2014-2016 Cycle</i>	

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash charge.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

Year ended 31 December 2017

	Fabric <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from external customers	4,181,729	11,167	4,192,896
Segment profit/(loss)	149,673	(5,890)	143,783
Bank interest income	295	4	299
Finance costs	(59,639)	(22)	(59,661)
Gain/(loss) on deregistration of subsidiaries, net	(77)	1,817	1,740
Profit/(loss) before tax	90,252	(4,091)	86,161
Income tax credit/(expense)	(23,580)	333	(23,247)
Profit/(loss) for the year	66,672	(3,758)	62,914
Assets and liabilities			
Segment assets	4,630,458	101,474	4,731,932
Deferred tax assets	4,409	—	4,409
Total assets	4,634,867	101,474	4,736,341
Segment liabilities	2,651,106	25,880	2,676,986
Deferred tax liabilities	600	6,865	7,465
Total liabilities	2,651,706	32,745	2,684,451
Other segment information:			
Depreciation and amortisation	310,658	4,760	315,418
Gain on disposal of items of property, plant and equipment, net	(524)	—	(524)
Impairment of accounts receivable	10,672	—	10,672
Write-back of impairment allowance for accounts receivable	(19,541)	—	(19,541)
Impairment of other receivables	—	86	86
Write-back of impairment of other receivables	(267)	(59)	(326)
Write-back of impairment of inventories	(1,429)	—	(1,429)
Impairment of goodwill	—	9,064	9,064
Capital expenditure*	300,691	21,128	321,819

* Capital expenditure consists of additions of and deposits for property, plant and equipment, additions of prepaid land lease payments and deposit for land use right.

Year ended 31 December 2016

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

* Capital expenditure consists of additions of and deposits for property, plant and equipment, and additions of prepaid land lease payments including assets from the acquisition of a subsidiary during the year ended 31 December 2016.

Geographical information

(a) Revenue from external customers

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Mainland China	1,164,948	716,791
Korea	1,073,189	844,485
Hong Kong	503,827	627,665
Taiwan	406,489	415,318
Singapore	325,706	428,163
Others	718,737	630,200
	4,192,896	3,662,622

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

(b) Non-current assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Mainland China	2,106,854	2,029,471
Hong Kong	94,174	92,908
Cambodia	15,165	—
Singapore	57	52
Others	6	11
	2,216,256	2,122,442

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

Information about a major customer

During the years ended 31 December 2017 and 2016, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

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

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

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
Revenue			
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services		4,181,729	3,662,622
Production and sale of garment products and provision of related subcontracting services		11,167	–
		4,192,896	3,662,622
Other income			
Fee income from freight handling services		8,759	7,268
Bank interest income		299	433
Gross rental income		465	420
Subsidy income from the People's Republic of China (the "PRC") government	5	9,365	1,172
Others		30,971	25,271
		49,859	34,564
Gains			
Fair value gains:			
Equity investment at fair value through profit or loss – held for trading	5	25	21
Derivative financial instruments – transactions not qualified as hedges but matured during the year	5	–	121
		25	142
Other income and gains		49,884	34,706

5. PROFIT BEFORE TAX

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cost of inventories sold and services provided	3,675,927	3,155,131
Research and development costs	12,518	13,169
Depreciation of items of property, plant and equipment	312,366	322,993
Amortisation of prepaid land lease payments	3,052	2,591
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	453,519	432,671
Pension scheme contributions	56,997	51,635
	<u>510,516</u>	<u>484,306</u>
Minimum lease payments under operating leases	7,157	6,789
Gain on disposal of items of property, plant and equipment, net*	(524)	(19,369)
Impairment of accounts receivable*	10,672	31,663
Write-back of impairment allowance for accounts receivable*	(19,541)	(5,523)
Impairment of other receivables*/***	86	903
Write-off of other receivables*	–	258
Write-back of impairment of other receivables*	(326)	(391)
Impairment of inventories**	–	4,365
Write-back of impairment of inventories**	(1,429)	–
Impairment of goodwill*	9,064	–
Gain on deregistration of subsidiaries, net*	(1,740)	–
Fair value gains:		
Equity investment at fair value through profit or loss – held for trading	(25)	(21)
Derivative financial instruments – transactions not qualified as hedges but matured during the year****	–	(121)
Foreign exchange differences, net*	32	(31,565)
Subsidy income from the PRC government*****	<u>(9,365)</u>	<u>(1,172)</u>

* These amounts are included in “Other operating income/(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 is an allowance for other receivables of HK\$86,000 (2016: HK\$903,000) with a carrying amount of HK\$213,000 (2016: HK\$1,027,000) before impairment allowance. The impaired other receivables were not expected to be recovered.

**** The Group entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts were not designated for hedge purposes and are measured at fair value through profit or loss.

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

The cost of inventories sold and services provided includes depreciation, staff costs and impairment/ (write-back of impairment) of inventories of HK\$686,470,000 (2016: HK\$673,247,000), which are also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK\$11,641,000 for the year ended 31 December 2017 (2016: HK\$12,060,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

6. INCOME TAX

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	6,900	1,744
Overprovision in prior years	(40)	(5)
Current tax – Elsewhere		
Charge for the year	19,676	10,648
Overprovision in prior years	(2,551)	(30)
Deferred tax credit	(738)	(1,837)
Total tax charge for the year	23,247	10,520

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2016: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

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

7. DIVIDEND

The proposed final dividend for the year of HK1.5 cents (2016: HK1.5 cents) per ordinary share, in aggregate of approximately HK\$13,049,000 (2016: HK\$13,049,000), is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$64,575,000 (2016: HK\$74,995,000), and 869,919,000 (2016: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2017 and 2016.

9. ACCOUNTS AND BILLS RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Accounts and bills receivables	861,920	606,992
Impairment	(15,175)	(34,359)
	<u>846,745</u>	<u>572,633</u>

The Group's trading terms with its customers are generally on credit with terms of up to three months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding 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 receivable 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 net of impairment allowance, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 month	328,404	234,548
1 to 2 months	239,766	213,062
2 to 3 months	123,326	70,827
Over 3 months	155,249	54,196
	<u>846,745</u>	<u>572,633</u>

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, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 3 months	610,280	581,426
3 to 6 months	48,627	51,799
Over 6 months	1,553	4,398
	660,460	637,623

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

In 2017, the global economy has experienced favourable growth, especially in the U.S., which remained as the Group's largest export market, contributing 63.7% of the Group's total revenue. Official statistics showed that the labour market in the U.S. was healthy with low level of unemployment at 4.1% in December 2017. The positive labour market development favoured the consumer confidence, bringing the yearly index of consumer sentiment to 96.8 in 2017 from 91.9 in 2016, according to the University of Michigan. In line with the market optimism, the retail sales growth in 2017 was 4.2%, higher than market forecast.

China became the Group's second largest end-market for 2017, with revenue contribution increasing to 20% from 16% in 2016. During the Year, the China market demonstrated strong resilience. According to the National Bureau of Statistics of the People's Republic of China, China's gross domestic product grew by 6.9% in 2017 with both rising domestic consumption and solid exports driven by the world economy recovery.

The operating environment for Chinese textile manufacturers continued to be challenging due to China government's ongoing efforts in enforcing the environmental protection measures, leading to mandatory closure of the unqualified factories and intensifying market consolidation.

Having stood still in the tough times in the last decade, the Group is shielded with enhanced production capability, technology and competitiveness. During the Year, the Group's one-stop textile solutions successfully gained confidence and satisfaction of its existing and new customers, and hence achieving a year of satisfactory financial performance.

BUSINESS OVERVIEW

During the Year, the Group's overall revenue increased by approximately 14.5% to HK\$4,192.9 million (2016: approximately HK\$3,662.6 million). Gross profit increased by 1.9% to HK\$517.0 million (2016: approximately HK\$507.5 million). Gross profit margin was squeezed to 12.3% from 13.9% year-on-year. Profit attributable to ordinary equity holders of the Company for the Year amounted to approximately HK\$64.6 million (2016: approximately HK\$75.0 million). Excluding the gain on disposal of the Group's former head office of HK\$19.9 million in 2016, the adjusted net profit for the Year increased by 17.2% year-on-year, representing a growth in the Group's core textile business. The basic earnings per share was HK7.4 cents (2016: HK8.6 cents).

In 2017, textile demand from the Group's major markets, the U.S. and China, was generally strong with positive consumer sentiment. Meanwhile, Chinese textile industry consolidation continued throughout 2017 as expected, amid the government's crackdown on environmentally unqualified industry players. Strong market demand coupled with the diminished supply favoured the Group's business growth, contributing to a significant increase in sales orders.

On the cost side, several external factors exerted pressure on the Group's profitability in 2017, such as (i) growing trend of fast fashion with higher requirement on efficiency control, (ii) rising costs of raw materials such as coal and yarn, (iii) higher labour costs, and (iv) setup and development costs arising from the new garment factory in Cambodia. While not all the costs could be passed on to the customers, gross profit for the Year was nibbled. Nevertheless, by effective cost-saving measures, the administrative expenses and selling expenses reduced by 1.5% and 2.5% respective, thereby sustaining the profitability of the Group.

In 2017, the Group further upgraded itself as an integrated textile and garment solution provider by adding a new garment factory in Cambodia, to extend its value chain and meet the increasing demand for a total solution from customers. With the knitted and functional fabrics manufactured in the two production plants in Enping and Panyu in China, garment products can be processed within the Group's system with better and smoother production schedules and logistics to shorten production cycles and reduce costs, while ensuring product quality. This provides extra values to customers and reinforce the Group's competitiveness in pricing and gaining bulk orders from global brand customers for their fast reaction demand.

During the Year, benefiting from the extended production capabilities, the Group successfully gained new orders from Chinese brands, making China the second largest revenue-contributing end-market of the Group. The Group actively responded to the customer's requests, especially the increasing quality standard demanded by the children's wear and womenswear, and offered high quality multi-fabrics options, which resulted in wider product portfolio and more diversified customer mix.

PROSPECTS

Going into 2018, optimistic signs continue to be seen in the U.S. and China markets. International Monetary Fund projected steady economic growth of the U.S. and China at 2.7% and 6.6% respectively. However, various external factors such as highly volatile global monetary policies, political issues, tensions on potential trade war between China and the U.S. have posed ongoing challenges and uncertainties. The Group, therefore, will continue to adopt a prudent but optimistic approach towards the formulation and implementation of corporate strategies, whereas closely monitor tensions on potential trade war and market movements to identify new opportunities.

It is expected that the garment factory in Cambodia will commence full production in 2018, and will be able to bring contribution to the Group in 2018. To support the growing demand for the integrated solutions, the Group will consider to expand its production scale in Cambodia and explore the feasibility to build new facilities for upper stream operations in Southeast Asia to complement its productions in China for greater economy of scale and better cost management.

As fast fashion prevails in the apparel industry, small batches of orders with tight schedules continues to place cost pressure on the textile and garment production. The Board believes that only value-added services and products would empower the Group for stronger pricing power, therefore, the Group has set the priority to achieve the following core values for its customers: 1) quality to differentiate from the peers; 2) technology for production innovations; 3) on-time delivery by production process optimisation; and 4) sustainable and reliable partnership. By strictly implementing the above strategies, the Group is positive to excel forward as a superior textile and garment solution provider, offering true values to its customers, and most importantly enhancing the profitability and creating greater returns for its shareholders.

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved approximately HK\$4,192.9 million, representing an increase of approximately 14.5% as compared with last year (2016: approximately HK\$3,662.6 million). The increase was mainly attributable to the increase in sales orders.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK\$517.0 million, representing an increase of approximately 1.9% from last year (2016: approximately HK\$507.5 million). Gross profit margin decreased slightly to approximately 12.3% (2016: approximately 13.9%), which was mainly attributable to the increase in cost of sales due to increase in coal and yarns price.

Other Income and Expenses

Other income of approximately HK\$49.9 million (2016: approximately HK\$34.7 million) mainly comprised approximately HK\$3.1 million (2016: approximately HK\$16.6 million) from sales of excess steam generated by the power plant to nearby facilities in the district, approximately HK\$8.8 million (2016: approximately HK\$7.3 million) from fee on air and ocean freight, and HK\$7.9 million (2016: approximately HK\$3.9 million) from income received from sewage treatment provided and HK\$9.4 million (2016: approximately HK\$1.2 million) from subsidy income from PRC government. The remaining balance was primarily the result of insurance claim, sales of scrap, rental income and interest income.

Selling and distribution expenses decreased to approximately HK\$112.6 million (2016: approximately HK\$115.5 million), which is due to the cost control on distribution expenses. We continuously review and implement cost control measures. Administrative expenses, which included salaries and welfare, depreciation and other related expenses, reduced to approximately HK\$305.0 million (2016: approximately HK\$309.7 million).

Finance Costs

Finance costs, which included an acceleration of the amortisation of syndicated loan charges incurred in 2015, interest on long-term loans from banks, bank overdraft and finance lease interests, increased by approximately 15.7% to approximately HK\$59.7 million (2016: approximately HK\$51.6 million) as compared with last year. The increase was primarily due to the non-cash amortisation effect of loan charges on the previous syndicated loan upon the repayment of the previous syndicated loan financed by the new syndicated loan in August 2017.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK\$64.6 million, representing a decrease of approximately 13.9% from last year (2016: approximately HK\$75.0 million). The decrease in net profit was mainly due to an one-off gain on disposal of the Group's properties in last year. Net profit margin decreased to approximately 1.5% (2016: approximately 2.0%).

Liquidity and Financial Resources

As at 31 December 2017, the Group's net current assets were approximately HK\$895.0 million (2016: approximately HK\$571.5 million). The increase in net current assets were mainly due to significant increase in accounts receivable and the availability of the new syndicated loan in August 2017, which was used to replace the previous syndicated loan in 2015, the interest-bearing bank and other borrowings which were classified as current liabilities as at 31 December 2016 are refinanced by the long term loan. 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 2017, the Group had cash and cash equivalents of approximately HK\$421.7 million (2016: approximately HK\$475.5 million). Current ratio was approximately 1.6 times (2016: approximately 1.3 times).

As at 31 December 2017, total bank and other borrowings of the Group were approximately HK\$1,794.8 million (2016: approximately HK\$1,746.4 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was at approximately 52.1% (2016: approximately 53.2%). Net debts comprise all interest-bearing bank and other borrowings, accounts and bills payable, an amount due to an associate and accrued liabilities and other payables less cash and cash equivalents. Sum of equity comprises owners' equity as stated in the consolidated financial statements.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 73.7 days (2016: 57.1 days), 115.6 days (2016: 128.6 days) and 65.6 days (2016: 73.8 days) respectively. The increase in debtors' turnover period was mainly due to significant increase in accounts receivable. This is mainly due to increase in sales to PRC customers which the credit terms are longer based on its trade norm. The decrease in creditors' turnover period and inventory turnover period were mainly due to improvement in procurement control.

Financing

As at 31 December 2017, the total banking and loan facilities of the Group amounted to approximately HK\$4,959.9 million (2016: approximately HK\$5,565.1 million), of which approximately HK\$2,069.8 million (2016: approximately HK\$1,998.1 million) was utilised.

As at 31 December 2017, the Group's long-term loans were approximately HK\$1,088.0 million (2016: approximately HK\$902.1 million), comprising syndicated loan and term loans from banks of approximately HK\$1,088.0 million (2016: approximately HK\$897.7 million) and long-term finance lease payable of Nil (2016: approximately HK\$4.4 million).

Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.5 cents (2016: HK1.5 cents) per share for the Year and will be payable to the shareholders whose names appear on the register of members of the Company on 15 June 2018. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about 4 July 2018.

Capital Structure

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

As at 31 December 2017, 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 62.3% (2016: approximately 66.5%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Year and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

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

Charge of Group's Assets

As at 31 December 2017, certain items of property, plant and equipment of the Group with an aggregate net book value of approximately HK\$17.5 million (2016: approximately HK\$29.5 million) were under finance leases.

As at 31 December 2017, certain of the Group's land and buildings with a net carrying amount of approximately HK\$60.4 million (2016: HK\$64.0 million) were pledged to secure a bank loan of HK\$15.6 million (2016: HK\$21.3 million) granted to the Group. Certain of the Group's buildings with a net carrying amount of approximately HK\$6.6 million at 31 December 2016 were pledged to the People's Court, Nansha to sequester a parcel of land of the Group in respect of a litigation in 2016. The pledge on the buildings was released in 2017.

Capital Expenditure

As at 31 December 2017, the Group invested approximately HK\$321.9 million (2016: approximately HK\$410.2 million) in capital expenditure of which approximately 77.5% (2016: approximately 71.6%) was used for the purchase of plant and machinery, approximately 13.2% (2016: approximately 24.7%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment, prepaid land lease payments and deposit for land use right.

As at 31 December 2017, the Group had capital commitments of approximately HK\$56.3 million (2016: approximately HK\$61.6 million) in property, plant and equipment and approximately HK\$194.1 million (2016: approximately HK\$114.5 million) in construction of new manufacturing facilities. All are funded or will be funded by internal resources and bank loans.

Staff Policy

The Group had 5,988 (2016: 6,130) employees in the PRC, 778 employees in Cambodia (2016: Nil) and 116 (2016: 129) employees in Hong Kong, Macau, Singapore and others as at 31 December 2017. Remuneration packages are generally structured by reference to market terms and individual qualification. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are offered to the Group's staff depending on their performance and the results of the Group. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide.

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options may be granted to selected eligible participants, with a view to providing an appropriate incentive package for the growth of the Group.

Major Customers and Suppliers

For the year ended 31 December 2017, sales to the Group's five largest customers accounted for approximately 22.1% (2016: approximately 20.0%) of total sales and sales to the largest customer included therein accounted for approximately 6.0% (2016: approximately 4.7%).

Purchases from the Group's five largest suppliers accounted for approximately 36.0% (2016: approximately 41.9%) of total purchases and purchases from the largest supplier therein accounted for approximately 12.5% (2016: approximately 11.7%).

None of the Directors, their respective close associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or shareholders of the Company (which to the knowledge of the Directors) who own more than five percent of the issued capital of the Company, had any interest in the Group's five largest customers and/or suppliers during the Year.

Segment Information

For the year ended 31 December 2017, the major end-market remained as U.S. By analysis of location of customers, which are garment factories, by regions, sales to the five largest regions (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) accounted for approximately 82.9% (2016: (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) approximately 82.8%) of total sales of the Group and sales to the largest region PRC (other than Hong Kong and Macau) (2016: Korea) included therein accounted for approximately 27.8% (2016: approximately 23.1%) of the Group.

As at 31 December 2017, the Group's assets located in the fabric operation accounted for approximately 97.9% (2016: approximately 98.1%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 93.4% (2016: 87.4%) of the total capital expenditure of the Group.

Material Acquisition and Disposal

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

ANNUAL GENERAL MEETING ("AGM")

The AGM of the Company will be held at 23A, TML Tower, No. 3, Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Monday, 11 June 2018.

CLOSURE OF REGISTER OF MEMBERS

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

- (a) For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Monday, 11 June 2018, 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 annual general meeting, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 5 June 2018.
- (b) For determining the entitlement to the proposed final dividend for the Year (subject to approval by the shareholders at the annual general meeting), the register of members of the Company will be closed on Friday, 15 June 2018, during which period no transfer of shares of the Company will be registered. In order to be eligible for the proposed final dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 14 June 2018.

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

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

GENERAL INFORMATION

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. Chong Chau Lam 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 March, 2018