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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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by 10.9% to HK\$4,651.0 million (2017: HK\$4,192.9 million)
- Gross profit increased by 12.3% to HK\$580.7 million (2017: HK\$517.0 million)
- Net profit for the year attributable to ordinary equity holders of the Company increased by 12.7% to HK\$72.8 million (2017: HK\$64.6 million).
- Proposed final dividend of HK1.5 cents per share (2017: 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 2018 (the “Year”), together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
REVENUE	<i>4</i>	4,650,958	4,192,896
Cost of sales		<u>(4,070,280)</u>	<u>(3,675,927)</u>
Gross profit		580,678	516,969
Other income and gains, net	<i>4</i>	37,925	49,884
Selling and distribution expenses		(122,831)	(112,601)
Administrative expenses		(314,010)	(304,996)
Write-back of impairment losses on financial assets, net		7,171	9,109
Other operating expenses, net		(30,162)	(12,543)
Finance costs		<u>(71,673)</u>	<u>(59,661)</u>
PROFIT BEFORE TAX	<i>5</i>	87,098	86,161
Income tax expense	<i>6</i>	<u>(16,804)</u>	<u>(23,247)</u>
PROFIT FOR THE YEAR		<u>70,294</u>	<u>62,914</u>
Attributable to:			
Ordinary equity holders of the Company		72,826	64,575
Non-controlling interests		<u>(2,532)</u>	<u>(1,661)</u>
		<u>70,294</u>	<u>62,914</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<i>8</i>		
Basic		<u>HK8.4 cents</u>	<u>HK7.4 cents</u>
Diluted		<u>HK8.4 cents</u>	<u>HK7.4 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2018*

	2018 HK\$'000	2017 HK\$'000
PROFIT FOR THE YEAR	70,294	62,914
OTHER COMPREHENSIVE INCOME/ (EXPENSES)		
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(170,635)	182,370
Realisation of exchange reserve upon deregistration of subsidiaries	356	(1,740)
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	(170,279)	180,630
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	(99,985)	243,544
Attributable to:		
Ordinary equity holders of the Company	(95,626)	243,186
Non-controlling interests	(4,359)	358
	(99,985)	243,544

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,896,746	2,050,261
Prepaid land lease payments		118,135	131,232
Goodwill		–	3,072
Interest in an associate		–	–
Prepayments		6,163	6,896
Long term receivables		32,444	31,633
Deposits paid		32,454	24,795
Deferred tax assets		29,236	4,409
Total non-current assets		2,115,178	2,252,298
CURRENT ASSETS			
Properties under development		42,846	–
Inventories		1,127,358	1,164,546
Accounts and bills receivables	9	990,548	846,745
Prepayments, deposits and other receivables		67,549	40,840
Financial assets at fair value through profit or loss		160	314
Tax recoverable		7,742	–
Pledged deposits		58,967	9,875
Cash and cash equivalents		558,249	421,723
Total current assets		2,853,419	2,484,043
CURRENT LIABILITIES			
Accounts and bills payables	10	781,794	660,460
Accrued liabilities and other payables		228,155	195,825
Due to an associate		1,926	2,706
Tax payable		8,062	23,181
Interest-bearing bank borrowings		1,176,001	706,820
Total current liabilities		2,195,938	1,588,992
NET CURRENT ASSETS		657,481	895,051
TOTAL ASSETS LESS CURRENT LIABILITIES		2,772,659	3,147,349

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	827,593	1,087,994
Deferred tax liabilities	6,210	7,465
Total non-current liabilities	833,803	1,095,459
Net assets	1,938,856	2,051,890
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	86,992	86,992
Reserves	1,854,491	1,963,166
	1,941,483	2,050,158
Non-controlling interests	(2,627)	1,732
Total equity	1,938,856	2,051,890

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss, which has been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarification to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has elected to recognise the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The adoption of HKFRS 9 has had no significant financial impact on these financial statements.

- (b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The cumulative effect of the initial application of HKFRS 15, if any, should be recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group has elected to apply the practical expedients to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less. The Group has also elected not to disclose the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts with customers that has an original expected duration of one year or less.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as accrued liabilities and other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in accrued liabilities and other payables. Therefore, upon adoption of HKFRS 15, the Group reclassified HK\$8,339,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK\$4,468,000 included in accrued liabilities and other payables was contract liabilities in relation to the consideration received from customers in advance.

The adoption of HKFRS 15 has had no other significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

During the year, the Group redefined its business divisions to align with the Group’s operation development. Accordingly, the segment information of certain subsidiaries previously included in fabric products segment has been reclassified to “others” segment. Moreover, the segment information of certain subsidiaries previously included in “others” segment has been reclassified to garment products segment due to expansion of the Group’s garment manufacturing and trading operation during the year. Accordingly, certain comparative operating segment information has been reclassified to conform with current year’s presentation.

Year ended 31 December 2018

	Fabric HK\$'000	Garment HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:				
Revenue from external customers	4,445,414	205,544	–	4,650,958
Intersegment sales	33,416	–	–	33,416
	<u>4,478,830</u>	<u>205,544</u>	<u>–</u>	<u>4,684,374</u>
Elimination of intersegment sales				<u>(33,416)</u>
				<u>4,650,958</u>
Segment profit/(loss)	170,066	(12,556)	1,080	158,590
Bank interest income	509	7	21	537
Finance costs	(70,655)	(1,018)	–	(71,673)
Loss on deregistration of a subsidiary	–	(356)	–	(356)
	<u>99,920</u>	<u>(13,923)</u>	<u>1,101</u>	<u>87,098</u>
Profit/(loss) before tax				
Income tax credit/(expense)	(43,915)	903	26,208	(16,804)
	<u>56,005</u>	<u>(13,020)</u>	<u>27,309</u>	<u>70,294</u>
Assets and liabilities				
Segment assets	4,622,960	167,944	148,457	4,939,361
Deferred tax assets	3,519	903	24,814	29,236
	<u>4,626,479</u>	<u>168,847</u>	<u>173,271</u>	<u>4,968,597</u>
Total assets				
Segment liabilities	2,925,659	81,744	16,128	3,023,531
Deferred tax liabilities	79	–	6,131	6,210
	<u>2,925,738</u>	<u>81,744</u>	<u>22,259</u>	<u>3,029,741</u>
Total liabilities				
Other segment information:				
Depreciation and amortisation	328,954	2,364	4,085	335,403
Loss on disposal of items of property, plant and equipment, net	71	–	5	76
Impairment/(write-back of impairment) of allowance for accounts receivable, net	(6,679)	276	–	(6,403)
Write-off of other receivables	700	–	–	700
Write-back of impairment of financial assets included in prepayments deposits and other receivables, net	(558)	–	(210)	(768)
Write-back of impairment of inventories	(642)	–	–	(642)
Impairment of goodwill	–	–	2,914	2,914
Capital expenditure*	<u>283,665</u>	<u>29,562</u>	<u>3,358</u>	<u>316,585</u>

* 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 2017

	Fabric HK\$'000 (Restated)	Garment HK\$'000 (Restated)	Others HK\$'000 (Restated)	Total HK\$'000
Segment revenue:				
Revenue from external customers	4,181,729	11,167	–	4,192,896
Segment profit/(loss)	149,828	(8,103)	2,058	143,783
Bank interest income	295	3	1	299
Finance costs	(59,639)	(22)	–	(59,661)
Gain/(loss) on deregistration of subsidiaries, net	(77)	1,817	–	1,740
Profit/(loss) before tax	90,407	(6,305)	2,059	86,161
Income tax credit/(expense)	(23,550)	–	303	(23,247)
Profit/(loss) for the year	66,857	(6,305)	2,362	62,914
Assets and liabilities				
Segment assets	4,614,064	38,584	79,284	4,731,932
Deferred tax assets	4,409	–	–	4,409
Total assets	4,618,473	38,584	79,284	4,736,341
Segment liabilities	2,651,081	16,850	9,055	2,676,986
Deferred tax liabilities	600	–	6,865	7,465
Total liabilities	2,651,681	16,850	15,920	2,684,451
Other segment information:				
Depreciation and amortisation	310,658	1,280	3,480	315,418
Gain on disposal of items of property, plant and equipment, net	(524)	–	–	(524)
Write-back of impairment allowance for accounts receivable, net	(8,869)	–	–	(8,869)
Impairment/(write-back of impairment) of financial assets included in prepayments, deposits and other receivables, net	(267)	–	27	(240)
Write-back of impairment of inventories	(1,429)	–	–	(1,429)
Impairment of goodwill	–	–	9,064	9,064
Capital expenditure*	286,902	16,560	18,357	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.

Geographical information

(a) Revenue from external customers

	2018 HK\$'000	2017 HK\$'000
Mainland China	1,468,013	1,164,948
Korea	1,273,855	1,073,189
Hong Kong	551,754	503,827
Taiwan	372,330	406,489
Singapore	301,181	325,706
Others	683,825	718,737
	<u>4,650,958</u>	<u>4,192,896</u>

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

(b) Non-current assets

	2018 HK\$'000	2017 HK\$'000
Mainland China	1,911,148	2,106,854
Hong Kong	74,559	94,174
Cambodia	44,736	15,165
Singapore	122	57
Others	22,933	6
	<u>2,053,498</u>	<u>2,216,256</u>

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

Information about a major customer

During the years ended 31 December 2018 and 2017, 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, NET

An analysis of revenue is as follows:

	2018 HK\$'000	2017 HK\$'000
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	4,445,414	4,181,729
Production and sale of garment products and provision of related subcontracting services	205,544	11,167
	<u>4,650,958</u>	<u>4,192,896</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Fabric HK\$'000	Garment HK\$'000	Total HK\$'000
Type of goods or services			
Sale of goods	4,445,414	186,413	4,631,827
Subcontracting services	–	19,131	19,131
Total revenue from contracts with customers	<u>4,445,414</u>	<u>205,544</u>	<u>4,650,958</u>
Geographical markets			
Mainland China	1,467,704	309	1,468,013
Korea	1,273,855	–	1,273,855
Hong Kong	424,341	127,413	551,754
Singapore	294,842	6,339	301,181
Taiwan	370,637	1,693	372,330
Others	614,035	69,790	683,825
Total revenue from contracts with customers	<u>4,445,414</u>	<u>205,544</u>	<u>4,650,958</u>
Timing of revenue recognition			
At a point in time	<u>4,445,414</u>	<u>205,544</u>	<u>4,650,958</u>

(ii) *Performance obligations*

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

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

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

		2018	2017
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income			
Fee income from freight handling services		8,478	8,759
Bank interest income		537	299
Gross rental income		392	465
Subsidy income from the People's Republic of China (the "PRC") government	5	6,118	9,365
Others		22,554	30,971
		38,079	49,859
Gains/(losses), net			
Fair value gains/(losses):			
Financial asset at fair value through profit or loss – held for trading		(154)	25
Other income and gains, net		37,925	49,884

5. PROFIT BEFORE TAX

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cost of inventories sold and services provided	4,070,280	3,675,927
Depreciation of items of property, plant and equipment	331,934	312,366
Amortisation of prepaid land lease payments	3,469	3,052
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	510,205	453,519
Pension scheme contributions	55,446	56,997
	565,651	510,516
Minimum lease payments under operating leases	8,704	7,157
Loss/(gain) on disposal of items of property, plant and equipment, net*	76	(524)
Write-back of impairment of financial assets, net:		
Write-back of impairment allowance for accounts receivable, net	(6,403)	(8,869)
Impairment of other receivables***	–	86
Write-back of impairment of financial assets included in prepayments, deposits and other receivables	(768)	(326)
	(7,171)	(9,109)
Write-off of other receivables*	700	–
Write-back of impairment of inventories**	(642)	(1,429)
Impairment of goodwill*	2,914	9,064
Loss/(gain) on deregistration of subsidiaries, net*	356	(1,740)
Foreign exchange differences, net*	15,111	32
Subsidy income from the PRC government****	(6,118)	(9,365)

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

** These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

*** Included in the above impairment allowance for other receivables as at 31 December 2017 was an allowance for other receivables of HK\$86,000 with a carrying amount of HK\$213,000 before impairment allowance. The impaired other receivables were not expected to be recovered.

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

The cost of inventories sold and services provided includes depreciation, staff costs and write-back of impairment of inventories of HK\$761,814,000 (2017: HK\$686,470,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

6. INCOME TAX

	2018 HK\$'000	2017 HK\$'000
Current tax – Hong Kong		
Charge for the year	7,914	6,900
Overprovision in prior years	(57)	(40)
Current tax – Elsewhere		
Charge for the year	8,725	19,804
Land appreciation tax	21,459	–
Underprovision/(overprovision) in prior years	5,817	(2,679)
Deferred tax credit	(27,054)	(738)
	16,804	23,247
Total tax charge for the year	16,804	23,247

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2017: 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 (2017: HK1.5 cents) per ordinary share, in aggregate of approximately HK\$13,049,000 (2017: 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\$72,826,000 (2017: HK\$64,575,000), and 869,919,000 (2017: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2018 and 2017.

9. ACCOUNTS AND BILLS RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Accounts receivables	756,587	651,865
Impairment	(7,697)	(15,175)
	<u>748,890</u>	<u>636,690</u>
Bills receivables	241,658	210,055
	<u>990,548</u>	<u>846,745</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 receivables balances.

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

	2018 HK\$'000	2017 HK\$'000
Within 1 month	399,424	328,404
1 to 2 months	224,629	239,766
2 to 3 months	144,496	123,326
Over 3 months	221,999	155,249
	<u>990,548</u>	<u>846,745</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:

	2018 HK\$'000	2017 <i>HK\$'000</i>
Within 3 months	650,850	610,280
3 to 6 months	129,307	48,627
Over 6 months	1,637	1,553
	<u>781,794</u>	<u>660,460</u>

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 the first half of 2018, the U.S. experienced prosperous economic development and restored consumer confidence, while trade frictions with China embedded gloom in the second half of 2018. The U.S. consumer sentiment index averaged 98.4 in 2018, hitting the highest since 2000; at the same time, the U.S. unemployment rate dropped to a 49-year low of 3.7% in September and November, with an average of approximately 3.9% in 2018. Improvement in the U.S. employment and wage growth that boosted household spending power drove strong U.S. retail sales; therefore, a handful of U.S. apparel retailers have reported sales growth on a yearly basis. Yet, the escalation of the U.S.-China trade war cast shadow on the macroeconomic environment, especially after the U.S. released a list of tariff on an amount of US\$200 billion of Chinese goods in July 2018, officially kicking off the trade war against China. The U.S. textile and garment enterprises then reacted with more prudent procurement strategy in preparation for the possible trade dispute and global economic slowdown.

In China, domestic demand for necessities remained robust as the central government started to publish a series of guidelines to encourage consumer spending and expand domestic demand in the second half of 2018. Consumption upgrade gave rise to the prosperity of high quality apparel, as well as women's and children's apparel markets. Taking this opportunity, the Group successfully gained a considerable amount of orders from China.

Among numerous textile manufacturers in China, rounds of market consolidation have phased out unqualified market players that were unable to meet either environmental or quality standards. Highly competitive players like the Group has stood out riding on its proven competence and strategies. Given the fact that some of the manufacturing clusters have been moving to Southeast Asia, the Group also accelerated its pace in its geographical expansion to buffer the effects of the possible export market shrinking of China and other adverse influences brought by the trade war.

BUSINESS OVERVIEW

During the Year, the Group is pleased to present a consecutive positive yearly growth. The overall revenue for the Year recorded a year-on-year growth of 10.9%, increased from HK\$4,192.9 million in 2017 to HK\$4,651.0 million in 2018. Due to the continued optimisation of its customer mix, the Group recorded a 12.3% rise in gross profit, increased from HK\$517.0 million in 2017 to HK\$580.7 million in 2018. Gross profit margin exhibited a mild increase of 0.2 percentage point from 12.3% in 2017 to 12.5% in 2018 as a result of the increase in unit price together with continuous optimisation of clientele. Profit attributable to ordinary equity holders of the Company for the Year amounted to HK\$72.8 million for 2018, representing a growth of 12.7% from HK\$64.6 million in 2017. The basic earnings per share for the Year was HK8.4 cents, increased by 13.5% when compared with HK7.4 cents in 2017.

For year 2018, sales generated from the fabric business and garment business were HK\$4,445.4 million and HK\$205.6 million respectively, accounted for 95.6% and 4.4% of the overall revenue respectively. The Group continued to be one of the beneficiaries of the market consolidation with lessening supply capacity in China. With the knitted and functional fabrics manufactured in the two production plants in Enping and Panyu in China, as well as the garment produced in the new factory in Cambodia, orders were processed within the Group's production bases with better and shorter production schedules with ensured product quality during the Year. This is one of the Group's core values to attract customers and reinforce its competitiveness in pricing and gaining bulk orders from global brand customers. With sufficient order flow during the Year, the Group was selective in taking higher-margin orders with an aim to diversify and optimise its customer portfolio, thus effectively improving its production output and profitability. Despite the newly ramped up garment sector not reaching breakeven point in 2018, the fabric sector recorded a growth of 6.3% in revenue and 10.5% in profit before tax which were contributed by customer portfolio optimisation.

By analysing Group's end-market, the U.S. was still the Group's largest end-market with 59.7% revenue contribution, while China ranked the second largest end-market with 27.0%. China's market has been enlarging as it is supported by a series of policies to boost domestic consumption demand, leading to the growth of the apparel market, particularly for women's and children's wear. In order to further enhance the composition of its end markets and to avoid developing any reliance on certain countries, the Group continued to extend its business footprints around the globe.

To diversify any regional economic and political risks, the Group signed a land lease principle contract to lease land of about 100,000 square metres in Vietnam in September 2018 for building a complex of textile plants and warehouses. The site is located at Nam Dinh Province, which is the biggest textile and garment province in Vietnam and is the economic focal point in the South of Red River Delta region. It is also well-connected to the major economic and political centres in Vietnam by expressway and roads. Given its proximity with the current production facilities of the Group and the maturity of its infrastructure, the new Vietnam production base will be a good support to the Group's capacity to capture the trust and orders from global brand customers. The construction of facilities is under planning at present and is expected to commence construction in the second half of 2019.

PROSPECTS

Stepping into 2019, the Group is prudent and cautious about the outlook of the textile industry as well as the impacts of the U.S.- China trade turbulence. With no direct impact on the Group's order backlog and raw material supply, the Group tends to maintain a stable level of inventory and to stay financially healthy with strong cash flow.

Facing the fast-changing external environment, the Group is determined to remain competent in fulfilling orders with premium quality under tight schedules. The Group will keep on strengthening its competitive edge by effectively allocating resources among its production bases to enhance its overall efficiency, focusing on research and development for new and value-added products for quality customers to improve profitability, and expanding to new markets and regions to mitigate operational risks.

In early 2018, the Group initiated a residential property project with its 108-mu land in Enping, Guangdong province. However, a slowdown in the Chinese property market was observed in the middle of the Year. The data lately released by the National Bureau of Statistics shows the annual growth rate of new homes sales volume cooled down to 1.3% in 2018 as compared to 7.7% in 2017. As the public held off from buying new homes, the Group decided to decelerate the construction and postpone its pre-sale schedule. The Group will stay alert to the policy enforcement at the central and local level and speed up the project at the most appropriate time, for it is important to fully rejuvenate the true asset value of this land, which is located in the Greater Bay Area with great potential, for the benefit of the Company's shareholders.

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved approximately HK\$4,651.0 million, representing an increase of approximately 10.9% as compared with last year (2017: approximately HK\$4,192.9 million). During the Year, there was a significant increase in revenue from garment business which started in last year. Revenue from garment products segment increased to approximately HK\$205.6 million (2017: approximately HK\$11.2 million). Revenue from fabric products segment increased by approximately HK\$263.7 million or 6.3% which was due to increase in sales volume and average selling price.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK\$580.7 million, representing an increase of approximately 12.3% from last year (2017: approximately HK\$517.0 million). Gross profit margin increased slightly to approximately 12.5% (2017: approximately 12.3%), which was mainly attributable to increased unit price together with continuous optimisation of clientele.

Other Income and Expenses

Other income of approximately HK\$37.9 million (2017: approximately HK\$49.9 million) mainly comprised approximately HK\$1.4 million (2017: approximately HK\$3.1 million) from sales of excess steam generated by the power plant to nearby facilities in the district, approximately HK\$8.5 million (2017: approximately HK\$8.8 million) from fee on air and ocean freight, and approximately HK\$13.2 million (2017: approximately HK\$7.9 million) from income received from sewage treatment provided, and HK\$6.1 million (2017: approximately HK\$9.4 million) from subsidy income from PRC government. The remaining balance was primarily the result of insurance claims, sales of scrap, rental income and bank interest income, etc.

Selling and distribution expenses increased to approximately HK\$122.8 million (2017: approximately HK\$112.6 million), which is in line with the increase in revenue. Also, the Group increased spending in order to expand garment business during the Year. Administrative expenses, which included salaries and welfare, depreciation and other related expenses, slightly increased to approximately HK\$314.0 million (2017: approximately HK\$305.0 million).

Finance Costs

Finance costs, which included an amortisation of syndicated loan charges, interest on long-term loans from banks, bank overdraft and finance lease interests, increased by approximately 20.1% to approximately HK\$71.7 million (2017: approximately HK\$59.7 million) as compared with last year. The increase was primarily due to increase in interest borrowing rate and increase in bank loan borrowing during the Year.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK\$72.8 million, representing a year-on-year increase of approximately 12.7% (2017: approximately HK\$64.6 million). The increase in net profit was mainly due to customer portfolio optimisation on fabric sector. Net profit margin remained stable approximately 1.5% (2017: approximately 1.5%).

Liquidity and Financial Resources

As at 31 December 2018, the Group's net current assets were approximately HK\$657.5 million (2017: approximately HK\$895.0 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan in September 2019 to current liabilities. 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 2018, the Group had cash and cash equivalents of approximately HK\$558.2 million (2017: approximately HK\$421.7 million). Current ratio as at 31 December 2018 was approximately 1.3 times (2017: approximately 1.6 times).

As at 31 December 2018, total bank and other borrowings of the Group were approximately HK\$2,003.6 million (2017: approximately HK\$1,794.8 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was at approximately 55.9% (2017: approximately 52.1%). 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 77.7 days (2017: 73.7 days), 101.1 days (2017: 115.6 days) and 70.1 days (2017: 65.6 days) respectively. The increase in debtors' turnover period was mainly due to increase in sales to PRC customers with relatively long credit period. The decrease in inventory turnover period was mainly due to improvement in inventories management to shorten the length of inventories storage. The increase in creditors' turnover period was mainly due to increase in procurement in the fourth quarter of the Year in order to meet the delivery schedule in first quarter of 2019.

Financing

As at 31 December 2018, the total banking and loan facilities of the Group amounted to approximately HK\$5,463.5 million (2017: approximately HK\$4,959.9 million), of which approximately HK\$2,380.0 million (2017: approximately HK\$2,069.8 million) was utilised.

As at 31 December 2018, the Group's long-term loans were approximately HK\$827.6 million (2017: approximately HK\$1,088.0 million), comprising syndicated loan and term loans from banks.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.5 cents (2017: 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 Monday, 10 June 2019. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company ("AGM"), the proposed final dividend will be paid on or about Wednesday, 3 July 2019.

Capital Structure

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

As at 31 December 2018, 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 60.9% (2017: approximately 62.3%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars, Renminbi, and euros (2017: 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 2018, certain of the Group's land and buildings with a net carrying amount of approximately HK\$56.8 million (2017: HK\$60.4 million) were pledged to secure a bank loan of HK\$9.9 million (2017: HK\$15.6 million) granted to the Group.

Capital Expenditure

During the Year, the Group invested approximately HK\$316.6 million (2017: approximately HK\$321.9 million) in capital expenditure of which approximately 77.0% (2017: approximately 77.5%) was used for the purchase of plant and machinery, approximately 5.7% (2017: approximately 13.2%) 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 2018, the Group had capital commitments of approximately HK\$37.6 million (2017: approximately HK\$56.3 million) in property, plant and equipment and approximately HK\$184.2 million (2017: approximately HK\$194.1 million) in construction of new manufacturing facilities. The Group also had commitments of approximately HK\$18.3 million (2017: Nil) in relation to the construction of properties under development. All are funded or will be funded by internal resources and bank loans.

Staff Policy

The Group had 5,895 (2017: 5,988) employees in the PRC, 1,606 (2017: 778) employees in Cambodia and 142 employees (2017: 116) in Hong Kong, Macau, Singapore and others as at 31 December 2018. 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 2018, sales to the Group's five largest customers accounted for approximately 19.5% (2017: approximately 22.1%) of total sales and sales to the largest customer included therein accounted for approximately 6.3% (2017: approximately 6.0%).

Purchases from the Group's five largest suppliers accounted for approximately 36.7% (2017: approximately 36.0%) of total purchases and purchases from the largest supplier therein accounted for approximately 11.2% (2017: approximately 12.5%).

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 (the "Stock Exchange")) 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 2018, the U.S. remained as the major end-market. By analysis of location of customers, which are garment factories, by regions, sales to the five largest regions (The PRC (other than Hong Kong and Macau), Korea, Hong Kong, Taiwan and Singapore) accounted for approximately 85.3% (2017: (Singapore, Taiwan, Hong Kong, The PRC (other than Hong Kong and Macau) and Korea) approximately 82.9%) of total sales of the Group and sales to the largest region (the PRC (other than Hong Kong and Macau)) (2017: the PRC (other than Hong Kong and Macau)) included therein accounted for approximately 31.6% (2017: approximately 27.8%) of the Group.

As at 31 December 2018, the Group's assets located in the fabric operation and garment operation accounted for approximately 93.1% and approximately 3.4% respectively (2017: approximately 97.5% and approximately 0.8%) of the total assets of the Group. Capital expenditure in the fabric operation and garment operation during the Year accounted for 89.6% and approximately 9.3% (2017: 89.2% and approximately 5.1%) 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

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, 3 June 2019.

DIVIDEND POLICY

The Company has adopted a policy which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. There is no pre-determined dividend payout ratio and the declaration and distribution of dividends shall be determined at the sole discretion of the Board taking into account, among others, the financial results, cashflow situation, future operations, capital requirements and any other factors that the Board may consider relevant. The declaration and distribution of dividends shall also be subject to the articles of the association of the Company and all applicable laws and regulations. The Board will review the policy from time to time and make relevant amendments as necessary.

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 AGM, the register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 28 May 2019.
- (b) For determining the entitlement to the proposed final dividend for the Year (subject to approval by the shareholders at the AGM), the register of members of the Company will be closed on Monday, 10 June 2019, on which 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, 6 June 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The Company has applied the principles and complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the Year.

AUDIT COMMITTEE

The audit committee of the Company, comprising all the three independent non-executive Directors, namely, Mr. Wu Tak Lung (as Chairman), Mr. Ho Gilbert Chi Hang and Mr. Ting Kay Loong, has met with the external auditor of the Company, Messrs. Ernst & Young, to review the accounting principles and practices adopted by the Group and the annual results of the Group for the Year.

APPRECIATION

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

GENERAL INFORMATION

As at the date this announcement, the Board comprises Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk, and Mr. 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, 2019