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KAM HING INTERNATIONAL HOLDINGS LIMITED

錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02307)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “Board”) of directors (the “Directors”) of Kam Hing International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019 (the “Period”), together with the comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June 2019	Six months ended 30 June 2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	2, 3	2,028,330	2,149,004
Cost of sales		(1,717,119)	(1,829,481)
Gross profit		311,211	319,523
Other income and gains, net	3	19,653	15,160
Selling and distribution expenses		(55,816)	(60,212)
Administrative expenses		(162,992)	(162,254)
Other operating expenses, net		(20,931)	(5,460)
Finance costs		(39,089)	(31,426)

		Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
	<i>Notes</i>		
PROFIT BEFORE TAX	4	52,036	75,331
Income tax expense	5	<u>(7,512)</u>	<u>(21,674)</u>
PROFIT FOR THE PERIOD		<u>44,524</u>	<u>53,657</u>
Attributable to:			
Ordinary equity holders of the Company		44,539	53,694
Non-controlling interests		<u>(15)</u>	<u>(37)</u>
		44,524	53,657
Interim dividend	6	<u>Nil</u>	<u>Nil</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	7	<u>HK5.1 cents</u>	<u>HK6.2 cents</u>
Diluted	7	<u>HK5.1 cents</u>	<u>HK6.2 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	44,524	53,657
OTHER COMPREHENSIVE INCOME		
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Realisation of exchange fluctuation reserve upon deregistration of a subsidiary	—	356
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	44,524	54,013
Attributable to:		
Ordinary equity holders of the Company	44,539	54,050
Non-controlling interests	(15)	(37)
	44,524	54,013

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019	31 December 2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,821,981	1,896,746
Right-of-use assets		163,763	—
Prepaid land lease payments		—	118,135
Goodwill		—	—
Interest in an associate		—	—
Prepayments		6,005	6,163
Long term receivables		32,860	32,444
Deposits paid		24,573	32,454
Deferred tax assets		29,237	29,236
Total non-current assets		2,078,419	2,115,178
CURRENT ASSETS			
Properties under development		55,175	42,846
Inventories		1,157,882	1,127,358
Accounts and bills receivables	8	767,403	990,548
Prepayments, deposits and other receivables		35,934	67,549
Financial assets at fair value through profit or loss		148	160
Tax recoverable		10,277	7,742
Pledged deposits		37,901	58,967
Cash and cash equivalents		488,005	558,249
Total current assets		2,552,725	2,853,419

		30 June 2019	31 December 2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Accounts and bills payables	9	580,049	781,794
Accrued liabilities and other payables		149,352	228,155
Due to an associate		1,146	1,926
Tax payable		10,955	8,062
Bank advance for discounted bills		6,246	—
Interest-bearing bank and other borrowings		1,216,918	1,176,001
Lease liabilities		6,349	—
Total current liabilities		1,971,015	2,195,938
NET CURRENT ASSETS		581,710	657,481
TOTAL ASSETS LESS CURRENT LIABILITIES		2,660,129	2,772,659
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		645,189	827,593
Lease liabilities		38,612	—
Deferred tax liabilities		6,020	6,210
Total non-current liabilities		689,821	833,803
Net assets		1,970,308	1,938,856
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital		86,992	86,992
Reserves		1,884,443	1,854,491
		1,971,435	1,941,483
Non-controlling interests		(1,127)	(2,627)
Total equity		1,970,308	1,938,856

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

The condensed consolidated interim financial statements for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). These condensed consolidated financial statements are unaudited but have been reviewed by the Company’s audit committee.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards are not relevant to the preparation of the Group’s condensed consolidated interim financial statements. the nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for leasehold lands, properties and plant and equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). the Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payment, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets of HK\$118,150,000 and HK\$3,250,000 that were reclassified from prepaid land lease payments and prepayments, deposits and other receivables respectively.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right of use asset at date of initial application.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) HK\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	168,465
Decrease in prepaid land lease payments	(118,135)
Decrease in prepayments, deposits and other receivables	(3,250)
Increase in total assets	47,080
Liabilities	
Increase in lease liabilities	47,080
Increase in total liabilities	47,080

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>HK\$'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	48,133
Weighted average incremental borrowing rate as at 1 January 2019	4.2%
Discounted operating lease commitments as at 1 January 2019	38,066
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,210)
Commitments relating to leases of low-value assets	(5)
Payments for optional extension periods not recognised as at 31 December 2018	10,229
Lease liabilities as at 1 January 2019	47,080

2. OPERATING SEGMENT INFORMATION

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

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

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

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

For the year ended 31 December 2018, 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 Period. Accordingly, certain comparative operating segment information has been reclassified to conform with current period's presentation.

	Fabric <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2019 (Unaudited)				
Segment revenue:				
Revenue from external customers	1,861,716	166,614	–	2,028,330
Intersegment sales	36,085	–	–	36,085
	<u>1,897,801</u>	<u>166,614</u>	<u>–</u>	<u>2,064,415</u>
Elimination of intersegment sales				<u>(36,085)</u>
				<u>2,028,330</u>
Segment profits/(losses)	91,529	683	(1,533)	90,679
Bank interest income	427	7	12	446
Finance costs	(38,103)	(986)	–	(39,089)
	<u>53,853</u>	<u>(296)</u>	<u>(1,521)</u>	<u>52,036</u>
Profit/(loss) before tax	53,853	(296)	(1,521)	52,036
Income tax credit/(expense)	(7,702)	–	190	(7,512)
	<u>46,151</u>	<u>(296)</u>	<u>(1,331)</u>	<u>44,524</u>
Profit for the period	46,151	(296)	(1,331)	44,524
As at 30 June 2019 (Unaudited)				
Assets and liabilities				
Segment assets	4,231,228	231,330	139,349	4,601,907
Deferred tax assets	7,973	903	20,361	29,237
	<u>4,239,201</u>	<u>232,233</u>	<u>159,710</u>	<u>4,631,144</u>
Total assets	<u>4,239,201</u>	<u>232,233</u>	<u>159,710</u>	<u>4,631,144</u>
Segment liabilities	2,571,218	78,081	5,517	2,654,816
Deferred tax liabilities	79	–	5,941	6,020
	<u>2,571,297</u>	<u>78,081</u>	<u>11,458</u>	<u>2,660,836</u>
Total liabilities	<u>2,571,297</u>	<u>78,081</u>	<u>11,458</u>	<u>2,660,836</u>
Other segment information:				
Six months ended 30 June 2019 (Unaudited)				
Depreciation and amortisation	167,575	1,992	2,017	171,584
Capital expenditure	92,921	2,066	2,980	97,967
	<u>167,575</u>	<u>1,992</u>	<u>2,017</u>	<u>171,584</u>
	<u>92,921</u>	<u>2,066</u>	<u>2,980</u>	<u>97,967</u>

	Fabric HK\$'000 (Restated)	Garment HK\$'000 (Restated)	Others HK\$'000 (Restated)	Total HK\$'000
Six months ended 30 June 2018 (Unaudited)				
Segment revenue:				
Revenue from external customers	2,078,906	70,098	–	2,149,004
Segment profits/(losses)	104,280	(65)	2,377	106,592
Bank interest income	160	2	3	165
Finance costs	(31,186)	(240)	–	(31,426)
Profit/(loss) before tax	73,254	(303)	2,380	75,331
Income tax credit/(expense)	(21,711)	–	37	(21,674)
Profit for the period	<u>51,543</u>	<u>(303)</u>	<u>2,417</u>	<u>53,657</u>
As at 31 December 2018 (Audited)				
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
Total assets	<u>4,626,479</u>	<u>168,847</u>	<u>173,271</u>	<u>4,968,597</u>
Segment liabilities	2,925,659	81,744	16,128	3,023,531
Deferred tax liabilities	79	–	6,131	6,210
Total liabilities	<u>2,925,738</u>	<u>81,744</u>	<u>22,259</u>	<u>3,029,741</u>
Other segment information:				
Six months ended 30 June 2018 (Unaudited)				
Depreciation and amortisation	164,371	893	2,041	167,305
Capital expenditure	<u>130,565</u>	<u>1,697</u>	<u>184</u>	<u>132,446</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Korea	576,207	630,851
Mainland China	556,237	576,318
Hong Kong	304,634	263,772
Taiwan	217,266	174,334
Singapore	95,900	156,262
Others	278,086	347,467
	2,028,330	2,149,004

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

(b) Non-current assets

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Mainland China	1,920,127	1,911,148
Cambodia	51,580	44,736
Hong Kong	21,399	74,559
Singapore	283	122
Others	22,933	22,933
	2,016,322	2,053,498

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

Information about a major customer

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

3. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered by the Group.

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

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Revenue		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	1,861,716	2,078,906
Production and sale of garment products and provision of related subcontracting services	166,614	70,098
	<u>2,028,330</u>	<u>2,149,004</u>
Other income		
Fee income from freight handling services	4,805	3,761
Bank interest income	446	165
Gross rental income	188	155
Others	14,226	11,221
	<u>19,665</u>	<u>15,302</u>
Gains, net		
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss – held for trading	(12)	(142)
Other income and gains, net	<u>19,653</u>	<u>15,160</u>

4. PROFIT BEFORE TAX

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

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Cost of inventories sold and services provided	1,717,119	1,829,481
Research and development costs	22,597	6,408
Depreciation of items of property, plant and equipment	166,142	165,548
Depreciation of right-of-use assets	5,442	–
Amortisation of prepaid land lease payments	–	1,757
Employee benefits expense (including directors' remuneration):		
Wages and salaries	258,916	255,220
Pension scheme contributions	28,658	27,539
	287,574	282,759
Loss on disposal of items of property, plant and equipment	135	30
Impairment of accounts receivable, net	5,182	(1,512)
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss – held for trading	12	142
Loss on deregistration of a subsidiary	–	356
Foreign exchange differences, net	4,914	2,728

5. INCOME TAX

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Current tax – Hong Kong		
Charge for the period	5,629	4,322
Current tax – Elsewhere		
Charge for the period	2,073	6,398
Underprovision in prior years	–	10,841
Deferred tax expenses/(credit)	(190)	113
Total tax charge for the period	7,512	21,674

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (six months ended 30 June 2018: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

6. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2018: Nil).

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

The calculation of basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company of HK\$44,539,000 (six months ended 30 June 2018: HK\$53,694,000), and the number of 869,919,000 (six months ended 30 June 2018: 869,919,000) ordinary shares in issue during the Period.

The Group had no potentially dilutive ordinary shares in issue for the periods ended 30 June 2019 and 30 June 2018.

8. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading with its customers are generally on credit terms of up to three months and are non-interest bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding receivable and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	303,039	399,424
1 to 2 months	167,166	224,629
2 to 3 months	112,099	144,496
Over 3 months	185,099	221,999
	767,403	990,548

9. ACCOUNTS AND BILLS PAYABLE

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 3 months	507,385	650,850
3 to 6 months	71,317	129,307
Over 6 months	1,347	1,637
	580,049	781,794

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of Kam Hing International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 (the “Period”). The interim financial information is not audited but has been reviewed by the audit committee of the Company (the “Audit Committee”).

Market Review

In the first half of 2019, the United States (the “U.S.”) economy witnessed a steady growth, amid intensifying trade disputes with China. U.S. buyers remained cautious in maintaining low-levels of inventory in distribution channels at the beginning of the year, and unfortunately they turned even more prudent in the second quarter when the trade war escalated in May which also brought The Conference Board’s consumer confidence index to its lowest point in nearly two years.

In China, the government initiated measures to boost its economy including tax cut, in order to encourage domestic consumption and investment against the trade disputes. The Chinese consumer confidence index rose in February 2019 and remained at a high-level since then. The demand for textile and garment products was relatively stable. However, the imposition of tariffs on Chinese goods to U.S. had diverted some of the textile manufactures to re-focus on the Chinese market and had led to fiercer competition in the domestic market.

Business Overview

During the Period, the Group’s business was affected by the growing uncertainties of global economic outlook. The overall revenue for the Period recorded a year-on-year decrease of 5.6%, from HK\$2,149.0 million for the six months ended 30 June 2018 to HK\$2,028.3 million; gross profit decreased by 2.6%, from HK\$319.5 million for the six months ended 30 June 2018 to HK\$311.2 million. Gross profit margin recorded a stable increment of 2.7 percentage point from 14.9% for the six months ended 30 June 2018 to 15.3%. Profit attributable to ordinary equity holders of the Company for the Period amounted to HK\$44.5 million, representing a drop of 17.1% from HK\$53.7 million for the six months ended 30 June 2018. The basic earnings per share for the Period was HK5.1 cents, decreased by 17.7% when compared with HK6.2 cents for the six months ended 30 June 2018.

For the first half of 2019, U.S. still remained as the Group’s largest end-market with 60.7% revenue contribution. Despite the fact that the Group does not ship products directly to U.S. and does not suffer directly from the U.S. tariff, the ongoing U.S.-China trade frictions has disrupted the procurement pattern of the Group’s brand customers in U.S.. The unexpected slow down on their buying plan had affected the Group’s production schedule as well as efficiency in the second quarter. As a result, the production output was diminished for the first half and some of the unpredictable orders with very short production lead time also incurred additional distribution expenses, hurting the Group’s profitability.

On the contrary, the demand in the Chinese market was relatively stable, especially for the higher ended markets for women's and children's apparel. The stability of the market also attracted the export manufacturers who suffered from the U.S. tariff to return, bringing more supply to the domestic market. While the market competition has become more intense, the Group maintained its presence with its quality product and delivery. For the first half of 2019, the Chinese market contributed 24.3% to the Group's revenue, remaining as its second largest end-market.

For the Period, revenue generated from the fabric business and garment business accounted for 91.8% and 8.2% of the overall revenue respectively. The knitted and functional fabrics were manufactured in the two production plants in Enping and Panyu of China, and the garments were produced in leased factories in Cambodia. It was encouraging that the garment business commenced full operation at the beginning of 2018, approaching its break-even point in the first half of 2019. In view of the flourishing garment market in Cambodia, the Group decided to build its own factories with greater capacity and design capability. Completion of the factories is expected to be in 2020.

Prospects

Entering the second half of 2019, the Group is cautious about the outlook of the textile industry as the U.S. – China trade war and other geopolitical conflicts continue. All these would possibly further weaken the global economy and consumption for the rest of the year. For the textile and garment industry, Chinese manufacturers are being challenged by both the U.S. tariff and the rising supply in other developing countries, such as Bangladesh and Vietnam, with lower labor and production costs. Under such backdrop, the Group will leverage on its core competence in production efficiency, as well as production innovation to safeguard its leadership. Thanks to its established customer relationship, the Group remains as a reliable partner of its global brand customers. The Group is currently operating in flexible solution to fulfil the quick orders. In the future, the Group will further enhance the composition of its end markets and to reduce the regional concentration to mitigate operating risks.

The Group constantly reviews and adjusts its strategies according to market changes. Considering the uncertainties of global economic outlook, the Group decided to postpone the residential property development in Enping of China. This decision will allow the Group to focus its resources to develop the existing and profit-making operations in its core businesses and to stay financially strong to endure the possible downward economic cycle.

Financial Review

Revenue

Overall sales turnover reached approximately HK\$2,028.3 million, representing a decrease of approximately 5.6% (six months ended 30 June 2018: HK\$2,149.0 million). The decrease was mainly caused by the decrease in sales order due to unpredictable market demand.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK\$311.2 million, representing a decrease of approximately 2.6% (six months ended 30 June 2018: approximately HK\$319.5 million). Gross profit margin increased slightly to approximately 15.3% (six months ended 30 June 2018: approximately 14.9%), which was mainly attributable to improvement on product mix.

Other Income and Expenses

Other income of approximately HK\$19.7 million (six months ended 30 June 2018: approximately HK\$15.2 million) mainly comprised approximately HK\$10.4 million (six months ended 30 June 2018: approximately HK\$4.0 million) from income received from sewage treatment provided, approximately HK\$4.8 million (six months ended 30 June 2018: approximately HK\$3.8 million) from fee on air and ocean freight, approximately HK\$0.8 million (six months ended 30 June 2018: approximately HK\$2.8 million) from sales of scrap, and approximately HK\$2.3 million subsidy income from the Chinese government during the Period (six months ended 30 June 2018: Nil). The remaining balance was primarily the result of rental income and bank interest income, etc.

Selling and distribution expenses decreased to approximately HK\$55.8 million (six months ended 30 June 2018: approximately HK\$60.2 million), which is in line with the decrease in sales. Administrative expenses, which included salaries, depreciation, customs declaration and other related expenses, increased to approximately HK\$163.0 million (six months ended 30 June 2018: approximately HK\$162.3 million) due to the expansion of the Company's business.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Period was approximately HK\$44.5 million, representing a decrease of approximately 17.1% (six months ended 30 June 2018: approximately HK\$53.7 million). The decrease in net profit was mainly due to the lower sales volume especially in fabric sales. Moreover, there was an increase in interest rate for the Period compare to the corresponding period in 2018 which increased the finance cost for the Period. Net profit margin decreased to approximately 2.2% (six months ended 30 June 2018: approximately 2.5%).

Liquidity and Financial Resources

As at 30 June 2019, the Group's net current assets were approximately HK\$581.7 million (31 December 2018: approximately HK\$657.5 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan due in August 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 30 June 2019, the Group had cash and cash equivalents of approximately HK\$488.0 million (31 December 2018: approximately HK\$558.2 million). Current ratio was approximately 1.3 times (31 December 2018: approximately 1.3 times).

As at 30 June 2019, total bank and other borrowings of the Group were approximately HK\$1,862.1 million (31 December 2018: approximately HK\$2,003.6 million). The Group's net debt gearing ratio (net debts divided by the sum of equity and net debts) was approximately 52.2% (31 December 2018: approximately 55.9%). Net debts comprise all interest-bearing bank and other borrowings, accounts and bills payable, an amount due to an associate, lease liabilities and accrued liabilities and other payables less cash and cash equivalents. Sum of equity comprises owners' equity as stated in the consolidated financial statements.

The Group have entered into a 3.5-year term loan facility of HK\$1,300 million dated 19 August 2019 for repaying an existing term loan facility, supplying additional working capital and financing future expansion of production capacity. Due to this refinancing exercise, the interest-bearing bank and other borrowings which are classified as current liabilities will be replaced by such long term loans and this helps to notably improve the liquidity and current ratio of the Group.

Financing

As at 30 June 2019, the Group's long-term loans were approximately HK\$645.2 million (31 December 2018: approximately HK\$827.6 million), comprising syndicated loan and term loans from banks. The decrease in long-term loans was mainly due to reclassification of the first repayment of syndicated loan due in August 2019 to current liabilities. There was no equity fund raising activity during the Period and there was no utilized proceeds brought forward from any issue of equity securities made in previous financial years.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the Period (six months ended 30 June 2018: Nil).

Foreign Exchange Risk and Interest Rate Risk

Approximately 63.8% (six months ended 30 June 2018: approximately 61.7%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Period and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary. The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 30 June 2019, none of the Group's land and buildings (31 December 2018: HK\$56.8 million) was pledged to secure any bank loan (31 December 2018: HK\$9.9 million) granted to the Group.

Capital Expenditure

For the Period, the Group invested approximately HK\$92.4 million (six months ended 30 June 2018: approximately HK\$132.4 million) in capital expenditure of which approximately 92.6% (31 December 2018: approximately 94.7%) was used for the purchase of plant and machinery, approximately 0.3% (six months ended 30 June 2018: approximately 0.4%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment.

As at 30 June 2019, the Group had capital commitments of approximately HK\$32.9 million (31 December 2018: approximately HK\$33.7 million) in property, plant and equipment and approximately HK\$184.2 million (31 December 2018: approximately HK\$184.2 million) in construction of new manufacturing facilities. All were funded or will be funded by internal resources.

Contingent Liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

Staff Policy

The Group had 5,901 (31 December 2018: 5,895) employees in the People's Republic of China (the "PRC"), 1,901 employees in Cambodia (31 December 2018: 1,606) and 138 employees in Hong Kong, Macau, Singapore, Korea and others as at 30 June 2019 (31 December 2018: 142). 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.

Material Acquisition and Disposal

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Audit Committee, comprising all the three independent non-executive Directors, namely Mr. Wu Tak Lung (as Chairman), Mr. Ho Gilbert Chi Hang and Mr. Ting Kay Loong, is primarily responsible for reviewing and supervising the financial reporting, risk management and internal control of the Group. The Audit Committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited interim financial statements of the Group for the Period before recommending them to the Board for approval.

APPRECIATION

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

GENERAL INFORMATION

At the date of this announcement, the Board comprises Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan, Ms. Wong Siu Yuk, and Mr. 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, 30 August 2019