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 2019

FINANCIAL HIGHLIGHTS

- Revenue decreased by 6.5% to HK$4,350.7 million (2018: HK$4,651.0 million)
- Gross profit increased by 1.8% to HK$591.1 million (2018: HK$580.7 million)
- Net profit for the year attributable to ordinary equity holders of the Company decreased by 17.4% to HK$60.1 million (2018: HK$72.8 million)
- Proposed final dividend of HK1.5 cents per share (2018: 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 2019 (the "Year"), together with the comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	4	**4,350,664**	4,650,958
Cost of sales		**(3,759,516)**	(4,070,280)
Gross profit		**591,148**	580,678
Other income and gains, net	4	**44,314**	37,925
Selling and distribution expenses		**(116,668)**	(122,831)
Administrative expenses		**(334,766)**	(314,010)
Write-back of impairment losses/(impairment losses) on financial assets, net		**(2,465)**	7,171
Other operating expenses, net		**(20,689)**	(30,162)
Finance costs		**(88,685)**	(71,673)
PROFIT BEFORE TAX	5	**72,189**	87,098
Income tax expense	6	**(11,941)**	(16,804)
PROFIT FOR THE YEAR		**60,248**	70,294
Attributable to:			
Ordinary equity holders of the Company		**60,091**	72,826
Non-controlling interests		**157**	(2,532)
		60,248	70,294
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		**HK6.9 cents**	HK8.4 cents
Diluted		**HK6.9 cents**	HK8.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**60,248**	70,294
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)
Realisation of exchange reserve and statutory surplus reserve upon deregistration of subsidiaries	**3,776**	356
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	**3,776**	(170,279)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	**64,024**	(99,985)
Attributable to:		
Ordinary equity holders of the Company	**63,867**	(95,626)
Non-controlling interests	**157**	(4,359)
	64,024	(99,985)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,688,473**	1,896,746
Right-of-use assets		**249,477**	–
Prepaid land lease payments		**–**	118,135
Goodwill		**–**	–
Interest in an associate		**–**	–
Prepayments		**5,847**	6,163
Long term receivables		**33,277**	32,444
Deposits paid		**15,037**	32,454
Deferred tax assets		**27,830**	29,236
Total non-current assets		**2,019,941**	2,115,178
CURRENT ASSETS			
Properties under development		**56,114**	42,846
Inventories		**1,024,780**	1,127,358
Accounts and bills receivables	*9*	**845,990**	990,548
Prepayments, deposits and other receivables		**49,378**	67,549
Financial asset at fair value through profit or loss		**135**	160
Tax recoverable		**2,367**	7,742
Pledged deposits		**55,552**	58,967
Cash and cash equivalents		**772,957**	558,249
Total current assets		**2,807,273**	2,853,419
CURRENT LIABILITIES			
Accounts and bills payables	*10*	**663,253**	781,794
Accrued liabilities and other payables		**201,840**	228,155
Due to an associate		**951**	1,926
Tax payable		**10,164**	8,062
Interest-bearing bank borrowings		**603,312**	1,176,001
Lease liabilities		**8,886**	–
Total current liabilities		**1,488,406**	2,195,938
NET CURRENT ASSETS		**1,318,867**	657,481
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,338,808**	2,772,659

	2019	2018
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,308,003**	827,593
Lease liabilities	**34,845**	–
Deferred tax liabilities	**6,152**	6,210
Total non-current liabilities	**1,349,000**	833,803
Net assets	**1,989,808**	1,938,856
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	**86,992**	86,992
Reserves	**1,903,771**	1,854,491
	1,990,763	1,941,483
Non-controlling interests	**(955)**	(2,627)
Total equity	**1,989,808**	1,938,856

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

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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

New definition of a 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.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of leasehold land, property, plant and machinery, and motor vehicle. 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, 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$59,182,000, HK$118,135,000 and HK$3,249,000 that were reclassified from property, plant and equipment, prepaid land lease payments, and current portion of prepaid land lease payments included in prepayments, deposits and other receivables, respectively, adjusted by prepaid rental of HK$771,000 included in prepayments, deposits and other receivables and accrued effective rent of HK$1,814,000 included in accrued liabilities and other payables.

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

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/(decrease)
	HK$'000
Assets	
Increase in right-of-use assets	224,523
Decrease in property, plant and equipment	(59,182)
Decrease in prepaid land lease payments	(118,135)
Decrease in prepayments, deposits and other receivables	(4,020)
Increase in total assets	43,186
Liabilities	
Increase in lease liabilities	45,000
Decrease in accrued liabilities and other payables	(1,814)
Increase in total liabilities	43,186

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

	HK$'000
Operating lease commitments as at 31 December 2018	48,133
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,180)
Add: Payments for optional extension periods not recognised as at 31 December 2018	9,310
	56,263
Weighted average incremental borrowing rate as at 1 January 2019	3.66%
Discounted operating lease commitments and lease liabilities as at 1 January 2019	**45,000**

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.

Year ended 31 December 2019

	Fabric *HK$'000*	Garment *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue:				
Revenue from external customers	3,940,554	410,110	–	4,350,664
Intersegment sales	66,815	–	–	66,815
	4,007,369	410,110	–	4,417,479
Elimination of intersegment sales				(66,815)
				4,350,664
Segment profit/(loss)	158,382	3,677	(2,617)	159,442
Bank interest income	3,148	15	24	3,187
Finance costs (other than interest on lease liabilities)	(85,439)	(1,225)	–	(86,664)
Loss on deregistration of a subsidiary	(3,776)	–	–	(3,776)
Profit/(loss) before tax	72,315	2,467	(2,593)	72,189
Income tax credit/(expense)	(10,065)	(2,072)	196	(11,941)
Profit/(loss) for the year	62,250	395	(2,397)	60,248
Assets and liabilities				
Segment assets	4,402,750	250,482	146,152	4,799,384
Deferred tax assets	3,016	–	24,814	27,830
Total assets	4,405,766	250,482	170,966	4,827,214
Segment liabilities	2,777,285	40,200	13,769	2,831,254
Deferred tax liabilities	402	–	5,750	6,152
Total liabilities	2,777,687	40,200	19,519	2,837,406
Other segment information:				
Depreciation of property, plant and equipment	313,212	4,125	3,467	320,804
Depreciation of right-of-use assets	11,527	2,557	646	14,730
Gain on disposal of items of property, plant and equipment, net	(1)	–	–	(1)
Impairment/(write-back of impairment) of allowance for accounts receivable, net	2,439	(59)	2	2,382
Impairment of other receivables	–	–	83	83
Write-off of other receivables	439	–	–	439
Write-back of provision for inventories	(307)	–	–	(307)
Capital expenditure*	202,498	3,402	3,055	208,955

* Capital expenditure consists of additions of property, plant and equipment and certain of right-of-use assets.

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
	4,478,830	205,544	–	4,684,374
Elimination of intersegment sales				(33,416)
				4,650,958
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)
Profit/(loss) before tax	99,920	(13,923)	1,101	87,098
Income tax credit/(expense)	(43,915)	903	26,208	(16,804)
Profit/(loss) for the year	56,005	(13,020)	27,309	70,294
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	4,626,479	168,847	173,271	4,968,597
Segment liabilities	2,925,659	81,744	16,128	3,023,531
Deferred tax liabilities	79	–	6,131	6,210
Total liabilities	2,925,738	81,744	22,259	3,029,741
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 prepayment, deposits and other receivables, net	(558)	–	(210)	(768)
Write-back of provision for inventories	(642)	–	–	(642)
Impairment of goodwill	–	–	2,914	2,914
Capital expenditure*	283,665	29,562	3,358	316,585

* 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*

	2019	2018
	HK$'000	*HK$'000*
Korea	**1,253,923**	1,273,855
Mainland China	**1,192,981**	1,468,013
Hong Kong	**614,241**	551,754
Taiwan	**441,746**	372,330
Singapore	**179,864**	301,181
Others	**667,909**	683,825
	4,350,664	4,650,958

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

(b) *Non-current assets*

	2019	2018
	HK$'000	*HK$'000*
Mainland China	**1,797,867**	1,911,148
Hong Kong	**71,975**	74,559
Cambodia	**51,143**	44,736
Singapore	**1,769**	122
Others	**36,080**	22,933
	1,958,834	2,053,498

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 2019 and 2018, 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:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	**3,940,554**	4,445,414
Production and sale of garment products and provision of related subcontracting services	**410,110**	205,544
	4,350,664	4,650,958

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Fabric**	**Garment**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Type of goods or services			
Sale of goods	**3,940,554**	**393,629**	**4,334,183**
Subcontracting services	**–**	**16,481**	**16,481**
Total revenue from contracts with customers	**3,940,554**	**410,110**	**4,350,664**
Geographical markets			
Korea	**1,253,923**	**–**	**1,253,923**
Mainland China	**1,192,061**	**920**	**1,192,981**
Hong Kong	**428,530**	**185,711**	**614,241**
Taiwan	**441,746**	**–**	**441,746**
Singapore	**179,864**	**–**	**179,864**
Others	**444,430**	**223,479**	**667,909**
Total revenue from contracts with customers	**3,940,554**	**410,110**	**4,350,664**
Timing of revenue recognition			
At a point in time	**3,940,554**	**410,110**	**4,350,664**

For the year ended 31 December 2018

Segments	Fabric	Garment	Total
	HK$'000	*HK$'000*	*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	4,445,414	205,544	4,650,958
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
Taiwan	370,637	1,693	372,330
Singapore	294,842	6,339	301,181
Others	614,035	69,790	683,825
Total revenue from contracts with customers	4,445,414	205,544	4,650,958
Timing of revenue recognition			
At a point in time	4,445,414	205,544	4,650,958

(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.

	Note	**2019** **HK$'000**	2018 *HK$'000*
Other income			
Fee income from freight handling services		**9,623**	8,478
Bank interest income		**3,187**	537
Subsidy income from the People's Republic of China (the "PRC") government	*5*	**4,380**	6,118
Others		**27,149**	22,946
		44,339	38,079
Losses			
Fair value losses:			
Financial asset at fair value through profit or loss – held for trading		**(25)**	(154)
Other income and gains, net		**44,314**	37,925

5. PROFIT BEFORE TAX

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

	2019 *HK$'000*	2018 *HK$'000*
Cost of inventories sold and services provided	**3,759,516**	4,070,280
Depreciation of items of property, plant and equipment	**320,804**	331,934
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**14,730**	3,469
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**526,908**	510,205
Pension scheme contributions	**58,074**	55,446
	584,982	565,651
Minimum lease payments under operating leases	**–**	8,704
Lease payments not included in the measurement of lease liabilities	**1,126**	–
Loss/(gain) on disposal of items of property, plant and equipment, net*	**(1)**	76
Impairment/(write-back of impairment) of financial assets, net:		
Impairment/(write-back of impairment) of allowance for accounts receivable, net	**2,382**	(6,403)
Impairment of other receivables***	**83**	–
Write-back of impairment of financial assets included in prepayments, deposits and other receivables	**–**	(768)
	2,465	(7,171)
Write-off of other receivables*	**439**	700
Write-back of provision for inventories**	**(307)**	(642)
Impairment of goodwill*	**–**	2,914
Loss on deregistration of subsidiaries, net*	**3,776**	356
Foreign exchange differences, net*	**(4,964)**	15,111
Subsidy income from the PRC government****	**(4,380)**	(6,118)

* 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 2019 was an allowance for other receivables of HK$83,000 with a carrying amount of HK$83,000 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 provision for inventories of HK$764,556,000 (2018: HK$761,814,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

6. INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**7,529**	7,914
Overprovision in prior years	**(1,279)**	(57)
Current tax – Elsewhere		
Charge for the year	–	8,725
Land appreciation tax	–	21,459
Underprovision in prior years	**4,343**	5,817
Deferred tax expense/(credit)	**1,348**	(27,054)
Total tax charge for the year	**11,941**	16,804

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2018: 16.5%), except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 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 (2018: HK1.5 cents) per ordinary share, in aggregate of approximately HK$13,049,000 (2018: 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$60,091,000 (2018: HK$72,826,000), and 869,919,000 (2018: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2019 and 2018.

9. ACCOUNTS AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Accounts receivable	**622,338**	756,587
Impairment	**(8,718)**	(7,697)
	613,620	748,890
Bills receivable	**232,370**	241,658
	845,990	990,548

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**313,764**	399,424
1 to 2 months	**216,949**	224,629
2 to 3 months	**118,246**	144,496
Over 3 months	**197,031**	221,999
	845,990	990,548

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:

	2019	2018
	HK$'000	*HK$'000*
Within 3 months	**587,202**	650,850
3 to 6 months	**75,162**	129,307
Over 6 months	**889**	1,637
	663,253	781,794

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 2019, the intensification of the U.S.-China trade war during the first half of the Year had dampened the overall economic outlook for the U.S., with the Conference Board's consumer confidence index recorded as 121.5 in June, the lowest level since September 2017. Textile and garment buyers in the U.S. therefore turned prudent amidst uncertain trade conditions. Towards the end of 2019, however, the trade disputes showed signs of winding down, leading to a slight recovery of sentiments with consumer confidence index rose to 126.5 in December 2019. For the Year, the textile and garment industry generally remained cautious with procurement as several sets of tariffs affecting the industry remained in place.

As for China, its economic growth rate slowed down to 6.1% in 2019, according to the National Bureau of Statistics, as a result of the U.S. tariffs throughout the Year causing pressure to many industries, especially the manufacturing and export sectors. Many export players redirected their focuses back to China, which had sparked fierce domestic competition. At the same time, China continued to tighten environmental regulations on the textile, dyeing and finishing industry, which had caused further market consolidation. With the Group's exceptional core competencies, scale and expertise, this round of market consolidation presented the Group opportunities for stronger market presence.

BUSINESS OVERVIEW

The overall revenue for 2019 recorded a year-on-year decrease of 6.5%, from HK$4,651.0 million in 2018 to HK$4,350.7 million in 2019 with gross profit increased by 1.8%, from HK$580.7 million in 2018 to HK$591.1 million in 2019. Gross profit margin recorded an increment of 1.1 percentage points from 12.5% in 2018 to 13.6% in 2019. Profit attributable to ordinary equity holders of the Company for the Year amounted to HK$60.1 million, representing a decrease of 17.4% from HK$72.8 million in 2018. The basic earnings per share for the Year was HK6.9 cents, decreased by 17.9% when compared with HK8.4 cents in 2018.

For the Year, revenue generated from the fabric business and garment business accounted for 90.6% and 9.4% of the overall revenue respectively. The Group's two production plants in Enping and Nansha in China continued to manufacture knitted and functional fabrics during the Year, while the factories in Cambodia manufactured garment products. During the Year, the fabric business has suffered from the sluggish demand resulted from the weakened global market sentiment amid the trade war. The China market competition has also become intense as Chinese exporters have turned to the domestic market to hedge against the global economic swings. As a result, revenue of the fabric business decreased by 11.4% year-on-year for 2019. On the other hand, the garment business achieved a growth of 99.5% year-on-year as the Cambodia production base had turned profitable for the Year, despite that it had only established for a short period of time since 2017. The set-up of the Cambodia base not only provided extended values to the Group's existing customers, but also expanded the geographical coverage for new businesses. Encouraged by such performance, the Group is building its own production plant in Cambodia to further capture the growth opportunities in the booming garment export market in South East Asia. A self-owned production plant would allow greater production capacity and incorporation of more sophisticated production technology and stronger research and development capabilities. Such factors are essential to attract global customers with higher margins and tendency for bulk purchases.

In light of the ongoing concerns of geopolitical risks, the Group has started the planning for a new factory complex in Nam Dinh Province, Vietnam to provide a one-stop textile manufacturing solutions outside China. The construction of infrastructure is scheduled in 2020 and is expected to complete in the first half of 2021. The trial production will commence in 2021.

PROSPECTS

Looking ahead, the U.S.-China trade war has abated following the signing of the initial phase of U.S.-China trade agreements. The Group remains prudent about the outlook of the textile and garment industry, as the outbreak of the Covid-19 pandemic would undoubtedly disrupt daily lives and business activities around the world in 2020. In support of official pandemic prevention and containment policies, many manufacturing plants in Mainland China suspended their operations for an extended period of time. Traffic and travel controls have caused shortage in labour in the supply chains for most of the sectors. Wholesalers and retailers that rely on supply chains in China would consequently be affected inevitably. However, it is expected that the impacts brought about by the pandemic will not be permanent. The Group will closely monitor the situation and deploy necessary measures to mitigate the impact on its annual production output and product delivery.

In the meantime, tightened environmental regulations in mainland China and fierce competition from other developing regions in Asia may cause another round of market consolidation in the textile manufacturing and export market in China. Industry players that are unable to weather these impacts may be eliminated. To remain competitive during this downward economic cycle, the Group is determined to pursue self-enhancement and internal optimization in 2020 by further diversifying client mix to mitigate regional risks, accelerating the operations set up in Cambodia and Vietnam, streamlining production and internal procedures to reduce operating expenses and thoughtfully monitoring and reacting fast to the market dynamics. 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 maintain stable development and profitability in 2020. As a token of support to the Company during this difficulty time, all executive Directors have voluntarily waived 10% of their respective salaries commencing from February 2020 until the coronavirus pandemic is under control.

FINANCIAL REVIEW

Revenue

Overall sales turnover reached approximately HK$4,350.7 million, representing a decrease of approximately 6.5% (2018: HK$4,651.0 million). The decrease was mainly attributable to the decrease in order as a result of keen competition in China market.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK$ 591.1 million, representing an increase of approximately 1.8% (2018: approximately HK$580.7 million). Gross profit margin increased slightly to approximately 13.6% (2018: approximately 12.5%), which was mainly attributable to decrease in cost of sales due to depreciation of Renminbi and contribution by increase in sales turnover in garment business.

Other Income and Expenses

Other income of approximately HK$44.3 million (2018: approximately HK$37.9 million) mainly comprised approximately HK$3.2 million (2018: approximately HK$0.5 million) from bank interest income, approximately HK$9.6 million (2018: approximately HK$8.5 million) from fee on air and ocean freight handling services, and approximately HK$18.5 million (2018: approximately HK$13.2 million) from income on sewage treatment provided, and approximately HK$4.4 million (2018: approximately HK$6.1 million) from PRC government subsidy. The remaining balance was primarily the result of rental income and sales of scrap.

Selling and Distribution Expenses

Selling and distribution expenses decreased to approximately HK$116.7 million (2018: approximately HK$122.8 million), which is in line with the decrease in sales. The Group has implemented cost control in which selling expenses should be linked up with the sales contributions for the year.

Administrative Expenses

Administrative expenses, which included salaries, depreciation, custom declaration and other related expenses, increased to approximately HK$334.8 million (2018: approximately HK$314.0 million) which reflected a rise in overall business operation costs, such as salaries, utilities and travelling expenses.

Finance Costs

Finance costs, which included an amortisation of syndicated loan charges, interest on term loans from banks, trade loan, bank overdraft and finance lease interests, increased by approximately 23.7% to approximately HK$88.7 million (2018: approximately HK$71.7 million) as compared with last year. The increase was primarily due to increase in interest borrowing rate, increase in bank loan borrowing and a non-cash amortization 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 2019.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK$60.1 million, representing a year-on-year decrease of approximately 17.4% (2018: approximately HK$72.8 million). The decrease in net profit was mainly due to the drop in revenue and increase in administrative expenses and finance costs as explained above. Net profit margin slightly decreased to approximately 1.4% (2018: approximately 1.5%).

Liquidity and Financial Resources

As at 31 December 2019, the Group's net current assets were approximately HK$1,318.9 million (2018: approximately HK$657.5 million). The increase in net current assets was mainly due to increase in cash and bank balance and the availability of the new syndicated loan in August 2019, which was used to replace the previous syndicated loan in 2017, such that the interest-bearing bank borrowings which were classified as current liabilities as at 31 December 2018 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 2019, the Group had cash and cash equivalents of approximately HK$773.0 million (2018: approximately HK$558.2 million). Current ratio was approximately 1.9 times (2018: approximately 1.3 times).

As at 31 December 2019, total bank and other borrowings of the Group were approximately HK$1,911.3 million (2018: approximately HK$2,003.6 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was approximately 50.7% (2018: approximately 55.9%). Net debts comprise all interest-bearing bank borrowings, accounts and bills payables, accrued liabilities and other payables, an amount due to an associate and lease liabilities 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 71.0 days (2018: 77.7 days), 99.5 days (2018: 101.1 days) and 64.4 days (2018: 70.1 days) respectively. Debtors' turnover period has slightly improved. The inventory turnover period was maintained at similar level. Creditors' turnover period has slightly decreased due to improvement in procurement control.

Financing

As at 31 December 2019, total banking and other borrowings facilities of the Group amounted to approximately HK$5,704.1 million (2018: approximately HK$5,463.5 million), of which approximately HK$2,288.0 million (2018: approximately HK$2,380.0 million) was utilised.

As at 31 December 2019, the Group's long-term loans were approximately HK$1,308.0 million (2018: approximately HK$827.6 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 (2018: 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, 8 June 2020. Subject to the approval of shareholders regarding the payments of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about Friday, 3 July 2020.

Capital Structure

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

As at 31 December 2019, 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 65.7% (2018: approximately 60.9%) 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 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 employ necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 31 December 2019, none of the Group's land and buildings (2018: HK$56.8 million) were pledged. The pledged assets are to secure a bank loan of HK$9.9 million granted to the Group as at 31 December 2018 and was repaid in full in 2019.

Capital Expenditure

As at 31 December 2019, the Group invested approximately HK$209.0 million (2018: approximately HK$316.6 million) in capital expenditure of which approximately 75.2% was used for the purchase of plant and machinery, approximately 17.8% was used for the purchase of certain of right-of-use assets, and the remaining was used for the purchase of other property, plant and equipment.

As at 31 December 2019, the Group had capital commitments of approximately HK$48.1 million (2018: approximately HK$33.7 million) in property, plant and equipment and approximately HK$184.2 million (2018: approximately HK$184.2 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 5,530 (2018: 5,895) employees in the PRC, 1,819 (2018: 1,606) employees in Cambodia and 134 employees (2018: 142) in Hong Kong, Macau, Singapore and others as at 31 December 2019. 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, sales to the Group's five largest customers accounted for approximately 24.3% (2018: approximately 19.5%) of total sales and sales to the largest customer included therein accounted for approximately 5.6% (2018: approximately 6.3%).

Purchases from the Group's five largest suppliers accounted for approximately 38.1% (2018: approximately 36.7%) of total purchases and purchases from the largest supplier therein accounted for approximately 13.7% (2018: approximately 11.2%).

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, 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 (Korea, the PRC (other than Hong Kong and Macau), Hong Kong ,Taiwan and Singapore) accounted for approximately 84.6% (2018: (the PRC (other than Hong Kong and Macau), Korea, Hong Kong, Taiwan and Singapore) approximately 85.3 %) of total sales of the Group and sales to the largest region (Korea) (2018: the PRC (other than Hong Kong and Macau)) included therein accounted for approximately 28.8% (2018: approximately 31.6%) of the Group.

As at 31 December 2019, the Group's assets located in the fabric operation accounted for approximately 91.3% (2018: approximately 93.1%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 96.9% (2018: 89.6%) 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.

EVENT AFTER THE REPORTING PERIOD

The novel coronavirus outbreak in early 2020 casted certain degree of uncertainties to the global economy. The overall operations of the textile and garment industry were inevitably affected by the quarantine measures and emergency health policies imposed by the PRC government. As of the date of this announcement, the Group's manufacturing facilities were gradually restored to its normal operation capacities, the customers, suppliers and logistics network of the Group were subjected to different degrees of disruptions to their normal operations and the Group's product deliveries and procurement activities have been affected. As a result, the performance of the Group would be impacted during the first half of 2020. Given the rapid development of the novel coronavirus outbreak, the Directors consider it is impractical to estimate the financial impact to the Group. The management of the Group will remain vigilant to the development of novel coronavirus outbreak and maintain close communication with different stakeholders of the Group.

Save as disclosed in this announcement, there were no other important events affecting the Group that had occurred after 31 December 2019 and up to the date of this announcement.

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, 8 June 2020.

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, 3 June 2020 to Monday, 8 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 June 2020.

(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, 12 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 11 June 2020.

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, on behalf of the Board of Directors, I would like to extend my gratitude to our Directors, 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. Lei Heong Man 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 March, 2020