

Interim Report

08/09



KWONG HING INTERNATIONAL HOLDINGS (BERMUDA) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1131)

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RESULTS

The Board of Directors (the “Board”) of Kwong Hing International Holdings (Bermuda) Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2008 with comparative figures for the corresponding period as follows. The interim results have been reviewed by the Company’s audit committee.

Condensed Consolidated Income Statement

For the six months ended 30th September, 2008

	Notes	Six months ended	
		30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Revenue	3	141,417	187,115
Cost of sales		(129,935)	(171,860)
Gross profit		11,482	15,255
Other income		2,872	1,206
Distribution and selling expenses		(2,476)	(3,674)
Administrative expenses		(11,833)	(11,616)
Impairment loss on trade and other receivables		–	(3,800)
Fair value changes on financial instruments at fair value through profit or loss		(13,342)	6,288
Finance costs		(1)	(59)
(Loss) profit before taxation	4	(13,298)	3,600
Income tax	5	–	(825)
(Loss) profit for the period		(13,298)	2,775
(Loss) earnings per share			
Basic	6	(3.5)HK cents	0.7HK cents
Diluted	6	(3.4)HK cents	0.7HK cents

Condensed Consolidated Balance Sheet

At 30th September, 2008

	Notes	30.9.2008 HK\$'000 (Unaudited)	31.3.2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	97,594	100,669
Prepaid lease payments		1,955	1,984
Held-to-maturity investments		15,600	15,600
		115,149	118,253
Current assets			
Inventories		76,728	102,898
Trade and other receivables	8	57,030	36,469
Bills receivable		857	448
Prepaid lease payments		58	58
Financial assets at fair value through profit or loss		41,380	39,595
Derivative financial instruments		–	3,131
Pledged bank deposit		4,000	4,000
Bank balances and cash		75,651	70,349
		255,704	256,948
Current liabilities			
Trade and other payables	9	31,283	25,660
Bills payable – secured		1,752	1,728
Taxation payable		1,391	2,794
Obligations under finance leases – due within one year		–	134
Derivative financial instruments		3,883	4,424
		38,309	34,740
Net current assets		217,395	222,208
Total assets less current liabilities		332,544	340,461
Capital and reserves			
Share capital	10	38,376	38,376
Reserves		294,168	302,085
		332,544	340,461

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September, 2008

	Attributable to equity holders of the Company							
	Share capital	Share premium	Contributed surplus	Translation reserve	Warrant reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2007	38,376	129,781	122,652	4,886	-	-	65,274	360,969
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	1,472	-	-	-	1,472
Equity-settled share option arrangements	-	-	-	-	-	245	-	245
Proceeds from issue of warrants	-	-	-	-	3,800	-	-	3,800
Expenses related to issue of warrants	-	-	-	-	(117)	-	-	(117)
Profit for the period	-	-	-	-	-	-	2,775	2,775
Total recognised income for the period	-	-	-	1,472	3,683	245	2,775	8,175
At 30th September, 2007	38,376	129,781	122,652	6,358	3,683	245	68,049	369,144
At 31st March, 2008	38,376	129,781	122,652	12,795	3,607	2,854	30,396	340,461
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	4,594	-	-	-	4,594
Equity-settled share option arrangements	-	-	-	-	-	787	-	787
Loss for the period	-	-	-	-	-	-	(13,298)	(13,298)
Total recognised income and expense for the period	-	-	-	4,594	-	787	(13,298)	(7,917)
At 30th September, 2008	38,376	129,781	122,652	17,389	3,607	3,641	17,098	332,544

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September, 2008

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HKD'000 (Unaudited)
Net cash from (used in) operating activities	2,359	(15,953)
Net cash from (used in) investing activities:	226	(2,022)
Net cash (used in) from financing activities:		
Other financing cash flows	(134)	(1,618)
Net proceeds from issue of warrants	–	3,683
	(134)	2,065
Net increase (decrease) in cash and cash equivalents	2,451	(15,910)
Cash and cash equivalents at beginning of the period	70,349	108,239
Effect on foreign exchange rate changes	2,851	179
Cash and cash equivalents at end of the period, representing bank balances and cash	75,651	92,508

Notes To The Condensed Consolidated Financial Statements

For the six months ended 30th September, 2008

1. Basis of Preparation

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

2. Principal Accounting Policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st March, 2008.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st April, 2008. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required. The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment Information

As over 90% of the Group’s revenue and contribution to segment results based on location of customers for the six months ended 30th September, 2008 are derived from People’s Republic of China including Hong Kong and Macau, geographical analyses of segment revenue and results are not presented.

4. (Loss) Profit Before Taxation

	Six months ended	
	30.9.2008 HK\$'000	30.9.2007 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Cost of inventories recognized as an expense	129,935	171,860
Depreciation of property, plant and equipment	7,999	9,868
Amortisation of prepaid lease payments	29	29
Impairment loss on trade and other receivables	-	3,800
and after crediting:		
Interest income from banks	774	1,159
Gain (loss) on disposal of property, plant and equipment	1,756	(7)
	<u>1,756</u>	<u>(7)</u>

5. Taxation

	Six months ended	
	30.9.2008 HK\$'000	30.9.2007 HK\$'000
Current tax:		
Hong Kong Profits Tax	-	10
Other jurisdictions	-	874
	<u>-</u>	<u>884</u>
Overprovision in prior years:		
Other jurisdictions	-	(59)
	<u>-</u>	<u>(59)</u>
	<u>-</u>	<u>825</u>

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

6. (Loss) Earnings Per Share

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

	Six months ended	
	30.9.2008 HK\$'000	30.9.2007 HK\$'000
(Loss) profit for the period	<u>(13,298)</u>	<u>2,775</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>383,763,200</u>	383,763,200
Effect to dilutive potential ordinary shares in respect of share options	<u>1,801,300</u>	<u>760,736</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>385,564,500</u>	<u>384,523,936</u>

7. Property, Plant and Equipment

The Group invested approximately HK\$3,181,000 in acquiring property, plant and equipment during the period under review.

8. Trade and Other Receivables

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

Included in trade and other receivables of the Group are trade receivables of approximately HK\$53,116,000 (31st March, 2008: HK\$33,209,000). The following is an aged analysis of trade receivables at the balance sheet date:

	30.9.2008 HK\$'000	31.3.2008 HK\$'000
0 – 60 days	<u>31,841</u>	15,474
61 – 90 days	<u>16,072</u>	10,632
91 – 120 days	<u>3,875</u>	5,816
Over 120 days	<u>1,328</u>	<u>1,287</u>
	<u>53,116</u>	<u>33,209</u>

9. Trade and Other Payables

Included in trade and other payables of the Group are trade payables of approximately HK\$18,987,000 (31st March, 2008: HK\$15,253,000). The following is an aged analysis of trade payables at the balance sheet date:

	30.9.2008 HK\$'000	31.3.2008 HK\$'000
0 – 60 days	9,902	8,389
61 – 90 days	4,760	2,401
Over 90 days	4,325	4,463
	<u>18,987</u>	<u>15,253</u>

10. Share Capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st March, 2008 and 30th September, 2008	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 31st March, 2008 and 30th September, 2008	<u>383,763,200</u>	<u>38,376</u>

On 16th July, 2007, the Company has entered into two agreements with Emperor Securities Limited, pursuant to which, the Company will issue 38,000,000 unlisted warrants at the price of HK\$0.10 each, the subscription price of the warrant is HK\$1.06 per subscription share. Details of this transaction were disclosed on the announcement dated 18th July, 2007. Upon the issuance of warrants, HK\$3,800,000 was credited to warrant reserve.

As at 30th September, 2008 and 2007, the Company had outstanding 38,000,000 warrants. Exercise in full of such warrants would result in the issue of approximately 38,000,000 additional ordinary shares at HK\$1.06 each.

11. Pledge of Assets

As at 30th September, 2008, certain of the Group's buildings with an aggregate carrying amount of approximately HK\$2,152,000 (31st March, 2008: HK\$2,183,000), held-to-maturity investment of approximately HK\$7,800,000 (31st March, 2008: HK\$7,800,000) and bank deposit of HK\$4,000,000 (31st March, 2008: HK\$4,000,000) were pledged to banks as securities for general banking facilities granted to the Group.

12. Capital Commitments

The Group had no material capital commitment as at 30th September, 2008 and 2007.

INTERIM DIVIDEND

The directors do not recommend payment of any interim dividend for the six months ended 30th September 2008.

BUSINESS REVIEW

For the six months ended 30th September, 2008, the world economic conditions had worsened, and such conditions had given an adverse impact to the Group's business. As a result, the Group recorded a turnover of approximately HK\$141,417,000 representing a decrease of 24.4% as compared to same period last year, and gross profit was only approximately HK\$11,482,000 representing a decrease of 24.7% as compared to the same period last year. Moreover, the Group also recorded an unfavourable valuation adjustment of HK\$13,342,000 on the fair value changes on the financial instruments due to the worsening conditions of the global financial markets. Consequently, the Group recorded a net loss of approximately HK\$13,298,000 for the period.

During the period under review, manufacturing and sales of the knitted fabric and dyed yarns, and provision of dyeing services are the principal operations of the Group. Production costs had increased markedly because of rise in price of dyed material, coal and electricity, and salary and wages in China. Moreover, the Group also suffered from the negative impact from the currency appreciation of Renminbi against Hong Kong dollars. The impact of production cost increase was largely offset by the stringent cost control measures which had enabled the Group to maintain stable gross margin level of approximately 8.1%.

During the period, the Group managed to control other production costs and overhead expenses reasonably well. The Group has also continued its prudent and conservative credit policy towards customers, and has monitored closely its inventory level as well as production requirements. These measures have enabled the Group to maintain a healthy cash level.

During the period under review, the Group has invested approximately HK\$3,181,000 in property, plant and equipment.

PROSPECTS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2008, the Group's shareholders' equity amounted to HK\$332,544,000, while total bank indebtedness amounted to approximately HK\$1,752,000, and cash on hand amounted to approximately HK\$79,651,000. The Group's bank indebtedness to equity ratio is only 0.005. Current ratio is 6.7. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

As at 30th September, 2008, the Group has financial assets of approximately HK\$41,380,000 and long-term high graded securities and investments of approximately HK\$15,600,000 of which approximately HK\$7,800,000 has been pledged to bank as securities for general banking facilities granted to the Group.

The Groups' assets, liabilities and business transactions are principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars and therefore the Group is exposed to foreign exchange risk from U.S. dollar and Renminbi. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. The Group will consider using forward currency contracts as a tool to manage and reduce such risks.

PLEDGE OF ASSETS

As at 30th September, 2008, certain of the Group's buildings with an aggregate net book value of approximately HK\$2,152,000, held-to-maturity investment of approximately HK\$7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2008, the Group had approximately 790 employees. The Group mainly determines staff remuneration in accordance with market terms, individual qualifications and experience.

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

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the option holders to participate and contribute the growth of the Group. During the period, options to subscribe for a total of 3,100,000 shares of the Company were granted, and fair value of share options for HK\$787,000 was charged to the income statement.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 30th September, 2008, the interests of the directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long position

Name of director	Number of ordinary shares other interests (note)	Interest in underlying shares pursuant to share option	Aggregated interest	Percentage of the issued share capital of the Company
Ms. Li Mei Lin	171,043,000	3,100,000	174,143,000	45.38%
Mr. Li Man Shun	171,043,000	2,380,000	173,423,000	45.19%
Mr. Li Man Ching	–	3,830,000	3,830,000	1.0%
Mr. Fung Chi Ki	–	1,933,200	1,933,200	0.5%

Note: Ms. Li Mei Lin and Mr. Li Man Shun beneficially own 30,600 shares and 29,700 shares, respectively, in Rayten Limited, representing, 34% and 33%, respectively, of the issued share capital of Rayten Limited, which in turn owns 171,043,000 shares of HK\$0.10 each in the Company.

SHARE OPTION SCHEME

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

Category	Date of Grant	Exercisable period	Exercise Price per share HK\$	Number of share options		
				At 1.4.2008	Granted	At 30.9.2008
1. Directors						
Mr. Li Man Ching	26.7.2007	26.7.2007 to 25.7.2010	1.04	3,830,000	-	3,830,000
Ms. Li Mei Lin	17.9.2007	17.9.2007 to 16.9.2010	0.77	3,100,000	-	3,100,000
Mr. Li Man Shun	26.7.2007	26.7.2007 to 25.7.2010	1.04	2,380,000	-	2,380,000
Mr. Fung Chi Ki	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	-	1,933,200
				<u>11,243,200</u>	<u>-</u>	<u>11,243,200</u>
2. Employees in aggregate						
	2.11.2002	2.11.2002 to 1.11.2012	0.51	11,599,200	-	11,599,200
	2.4.2008	2.4.2008 to 31.3.2011	0.77	-	3,100,000	3,100,000
				<u>11,599,200</u>	<u>3,100,000</u>	<u>14,699,200</u>
				<u>22,842,400</u>	<u>3,100,000</u>	<u>25,942,400</u>

During the six months ended 30th September, 2008, options were granted on 2nd April, 2008. The estimated fair values of the options granted were HK\$787,000.

The fair value was calculated using the Black-Scholes Options pricing model. The inputs into the model were as follows:

2nd April 2008

Closing share price at date of grant	HK\$0.68
Exercise price	HK\$0.77
Expected volatility	91.96%
Expected life	1.5 years
Risk-free rate	1.26%
Expected dividend yield	–
Fair value per option	HK\$0.25

Expected volatility was determined by using the historical volatility of the Company's share price over the previous trading days which was equivalent to the assumed life of the share option. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Black-Scholes Option Pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO discloses, the following persons had notified the Company as being interested in 5% or more of the issued share capital of the Company as at 30th September, 2008.

Long position

Name	Ordinary Shares held (Note)	Percentage of total issued shares
Ho Mei Tak	24,000,000	6.25%
Shum Kit Hing	24,000,000	6.25%

Note : The shares are jointly held by Ho Mei Tak and Shum Kit Hing.

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

During the six months ended 30th September, 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th September, 2008 with the Code on Corporate Government Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. Certain Company's independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation under the Company's Bye-laws, so that every independent non-executive directors shall retire at least once every three years. The above deviation is rectified in July 2008.

The Company has adopted the Model Code (the "Model Code") in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

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

By Order of the Board
Li Man Ching
Chairman

Hong Kong, 19th December, 2008