KINGMAKER

KINGMAKER FOOTWEAR HOLDINGS LIMITED
信星鞋業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 01170)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2014	2013	Change
	HK$'000	*HK$'000*	
Revenue	**1,189,649**	975,951	+21.9%
Gross profit	**156,140**	153,761	+1.5%
Gross profit margin	**13.1%**	15.8%	-2.7 points
Profit for the period attributable to equity holders of the Company	**39,464**	53,640	-26.4%
Net profit margin	**3.3%**	5.5%	-2.2 points
	(HK cents)	*(HK cents)*	
Basic earnings per share	**5.71**	7.79	-26.7%
Proposed interim dividend per share	**2.8**	3.3	-15.2%

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Kingmaker Footwear Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2014, together with the comparative figures for the corresponding period in 2013 and the relevant explanatory notes as set out below. The condensed consolidated results are unaudited, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

		For the six months ended 30 September	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*2*	**1,189,649**	975,951
Cost of sales		**(1,033,509)**	(822,190)
Gross profit		**156,140**	153,761
Other income and gains, net		**7,800**	22,970
Distribution and selling expenses		**(41,422)**	(38,679)
Administrative expenses		**(78,277)**	(73,503)
Finance costs	*3*	**(9)**	(9)
PROFIT BEFORE TAX	*4*	**44,232**	64,540
Income tax expense	*5*	**(6,066)**	(10,900)
PROFIT FOR THE PERIOD		**38,166**	53,640
ATTRIBUTABLE TO:			
Equity holders of the Company		**39,464**	53,640
Non-controlling interests		**(1,298)**	–
		38,166	53,640
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*7*		
– Basic *(HK cents)*		**5.71**	7.79
– Diluted *(HK cents)*		**5.69**	7.74

Details of the dividends are disclosed in note 6 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**38,166**	53,640
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments revaluation reserve:		
Changes in fair value	**149**	(474)
Exchange differences on translation of foreign operations	**794**	7,004
Net other comprehensive income to be reclassified to profit or loss in subsequents periods	**943**	6,530
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**943**	6,530
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**39,109**	60,170
ATTRIBUTABLE TO:		
Equity holders of the Company	**40,367**	60,170
Non-controlling interests	**(1,258)**	–
	39,109	60,170

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

		As at	
		30 September 2014	31 March 2014
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**496,275**	453,019
Prepaid land lease payments		**54,461**	55,321
Investment properties		**110,445**	110,694
Deposits		**19,381**	21,625
Investments in club memberships		**917**	925
Available-for-sale investments		**1,639**	1,490
Total non-current assets		**683,118**	643,074
CURRENT ASSETS			
Inventories		**276,975**	249,212
Accounts and bills receivable	*9*	**289,773**	245,573
Prepayments, deposits and other receivables		**15,726**	15,051
Derivative financial instruments	*10*	**–**	1,072
Tax recoverable		**347**	801
Restricted bank balance		**945**	2,044
Cash and cash equivalents		**419,872**	423,871
Total current assets		**1,003,638**	937,624
CURRENT LIABILITIES			
Bank overdraft		**3,272**	–
Accounts and bills payable	*11*	**241,196**	191,940
Accrued liabilities and other payables		**165,534**	156,538
Tax payable		**169,477**	163,857
Due to non-controlling interests		**26,705**	4,855
Derivative financial instruments	*10*	**1,565**	2,215
Total current liabilities		**607,749**	519,405
NET CURRENT ASSETS		**395,889**	418,219
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,079,007**	1,061,293
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**18,824**	18,942
Net assets		**1,060,183**	1,042,351
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**68,833**	68,719
Reserves		**993,153**	973,632
		1,061,986	1,042,351
Non-controlling interests		**(1,803)**	–
Total equity		**1,060,183**	1,042,351

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2014 has 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 (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 March 2014 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies and method of computation used in the preparation of these condensed interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 March 2014, except for adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective to the Group for accounting period beginning on 1 April 2014 as disclosed below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The Group has assessed the adoption of the new and revised HKFRSs and considered that there had no significant financial effect on the results and financial position of the Group for the current and prior accounting periods.

2. SEGMENT INFORMATION

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

(a) manufacturing and sale of footwear products; and

(b) retailing and wholesaling business.

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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs and other unallocated income and gains, net and unallocated expenses are excluded from such measurement.

Segment assets exclude unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated liabilities as these liabilities are managed on a group basis.

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

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the periods under review:

Group

	Manufacturing and sale of footwear products For the six months ended 30 September		**Retailing and wholesaling business For the six months ended 30 September**		**Consolidated For the six months ended 30 September**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**1,162,621**	950,675	**27,028**	25,276	**1,189,649**	975,951
Intersegment sales	**5,165**	4,033	**–**	–	**5,165**	4,033
Total	**1,167,786**	954,708	**27,028**	25,276	**1,194,814**	979,984
Elimination of intersegment sales					**(5,165)**	(4,033)
Total					**1,189,649**	975,951
Segment results	**58,239**	78,800	**(11,621)**	(16,618)	**46,618**	62,182
Unallocated income and gains, net					**(680)**	2,858
Interest income					**3,985**	4,731
Unallocated expenses					**(5,682)**	(5,222)
Finance costs					**(9)**	(9)
Profit before tax					**44,232**	64,540
Income tax expense					**(6,066)**	(10,900)
Profit for the period					**38,166**	53,640

	Manufacturing and sale of footwear products		**Retailing and wholesaling business**		**Consolidated**	
	30 September 2014 (Unaudited)	31 March 2014 (Audited)	**30 September 2014 (Unaudited)**	31 March 2014 (Audited)	**30 September 2014 (Unaudited)**	31 March 2014 (Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**1,152,156**	1,034,554	**32,858**	35,051	**1,185,014**	1,069,605
Unallocated assets					**501,742**	511,093
Total assets					**1,686,756**	1,580,698
Segment liabilities	**430,121**	345,429	**3,741**	4,817	**433,862**	350,246
Unallocated liabilities					**192,711**	188,101
Total liabilities					**626,573**	538,347

3. FINANCE COSTS

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**9**	9

4. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**641,573**	525,898
Depreciation	**27,091**	23,720
Amortisation of prepaid land lease payments	**866**	869
Amortisation of a club membership	**7**	9
Fair value loss/(gain) on derivative financial instruments	**317**	(2,329)
Fair value loss/(gain) on revaluation of investment properties	**473**	(11,932)
Bank interest income	**(3,176)**	(3,525)
Interest income from accounts receivable	**(809)**	(1,206)
Dividend income	**(17)**	(22)
Net rental income	**(2,974)**	(2,778)

5. INCOME TAX EXPENSE

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
– Hong Kong	**275**	404
– Elsewhere	**5,909**	7,513
Deferred	**(118)**	2,983
Total tax charge	**6,066**	10,900

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

6. DIVIDENDS

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends paid during the period		
Final in respect of the financial year ended 31 March 2014 – HK2.2 cents per ordinary share (2013: final in respect of the financial year ended 31 March 2013 – HK5.0 cents per ordinary share)	**15,201**	34,505
Special in respect of the financial year ended 31 March 2014 – HK1.0 cent (2013: HK2.0 cents) per ordinary share	**6,910**	13,802
	22,111	48,307
Proposed interim dividend		
Interim – HK2.8 cents (2013: HK3.3 cents) per ordinary share	**19,275**	22,760

The interim dividend was declared after the period ended 30 September 2014, and therefore has not been included as a liability in the condensed consolidated statement of financial position. The interim dividend will be paid to the shareholders whose names appear in the register of members on 31 December 2014.

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

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (unaudited profit for the period attributable to equity holders of the Company)	**39,464**	53,640
	'000	*'000*
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**690,598**	688,478
Effect of dilutive share options	**2,681**	4,499
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**693,279**	692,977

8. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 September 2014, the Group acquired property, plant and equipment with a cost of HK$71,171,000 (2013: HK$37,737,000). Property, plant and equipment with a net book value of HK$647,000 were disposed of by the Group during the period (2013: HK$981,000).

9. ACCOUNTS AND BILLS RECEIVABLE

The Group's accounts and bills receivable mainly related to a few recognised and creditworthy customers. Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the terms are extended to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the Group's senior management. Accounts receivable are non-interest-bearing, except for a balance due from a customer of HK$39,409,000 at 30 September 2014 (31 March 2014: HK$54,730,000) which bear interest at a rate of 0.5% for a fixed period of 60 days.

An aged analysis of the accounts and bills receivable as at the end of reporting period, based on the date of goods delivered, is as follows:

	As at	
	30 September 2014 (Unaudited)	31 March 2014 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**289,773**	243,738
Between 91 and 180 days	**–**	1,731
Between 181 and 365 days	**–**	104
	289,773	245,573

10. DERIVATIVE FINANCIAL INSTRUMENTS

	As at			
	30 September 2014 (Unaudited)		31 March 2014 (Audited)	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Forward currency contracts	**–**	**1,565**	1,072	2,215

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Net fair value loss on non-hedging currency derivatives amounting to HK$317,000 was charged to the statement of profit or loss during the period (2013: net fair value gain of HK$2,329,000) (Note 4).

The fair values of derivative financial instruments are based on quoted market prices.

11. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the end of reporting period, based on the date of goods received, is as follows:

	As at	
	30 September 2014 (Unaudited)	31 March 2014 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**213,824**	173,561
Between 91 and 180 days	**26,379**	16,490
Between 181 and 365 days	**161**	1,037
Over 365 days	**832**	852
	241,196	191,940

The accounts payable are non-interest-bearing and are normally settled on 90-day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

As the Group's active expansion of its production base in Southeast Asia has met with strong customer support, the Board is pleased to report an approximately 21.9% period-to-period growth in turnover to approximately HK$1,190 million during the six months ended 30 September 2014 (2013: approximately HK$976 million). The increase in turnover was matched with an approximately 15.6% growth in business volume, in terms of pairs of footwear, to approximately 10 million pairs, as well as an approximately 5.8% increase in the average selling price ("ASP") during the period.

Extended efforts to diversify the production base to lower-cost locations have yielded a more competitive cost structure for the Group. Further maturing of the production lines providing sophisticated tailor-made services in southern Vietnam and Cambodia, as well as their better interaction with new customers, has resulted in continued efficiency enhancement as witnessed in the increasing output on reduced material usage and costs. However, input cost inflation in general has continued to exert pressure on the Group's gross profit margin, which dropped to approximately 13.1% (2013: approximately 15.8%).

Salaries and wages, including benefits and allowances, increased by approximately 24.5% and approximately 25.4% respectively in the PRC and Vietnam, placing continued negative impact on the gross profit margin. Moreover, for the purpose of retaining labor with sophisticated skills, additional employee benefits, including housing allowances, have been put into effect in the PRC. The increase in labor and salaries accounted for an approximately 2.3% percentage-point drop in the gross margin. Despite being mitigated in part by the mild increase in the ASP, total labor and salaries for the manufacturing unit, including allowances and other benefits, increased approximately 35.6% during the period to account for approximately 23.0% of the total manufacturing turnover compared to approximately 20.8% in the first half of 2013.

The manufacturing segment recorded an operating profit of approximately HK$58 million (2013: approximately HK$79 million) during the period, while the operating loss of the retailing unit continued to narrow to approximately HK$12 million (2013: approximately HK$17 million).

Taking into account the losses of approximately HK$0.5 million (2013: gain of approximately HK$11.9 million) and losses of approximately HK$0.3 million (2013: gain of approximately HK$2.3 million) respectively from the fair value changes of investment properties in the PRC and Renminbi ("RMB")-denominated derivative financial instruments, net profit attributable to equity holders of the Company decreased approximately 26.4% period-to-period to approximately HK$39.5 million (2013: approximately HK$53.6 million).

Earnings per share for the period were HK5.71 cents (2013: HK7.79 cents), a decline of approximately 26.7% period-to-period. In anticipation of ongoing strong cash generation from the manufacturing segment and the Group's healthy financial position, the Group pledges to continue its dividend policy of sharing results with shareholders. Accordingly, the Board is pleased to declare an interim dividend of HK2.8 cents (2013: HK3.3 cents).

The Group continued to record healthy financial ratios during the period:

- Debtors' turnover was reduced from 49 days for the six months ended 30 September 2013 to 44 days for the six months ended 30 September 2014;

- Stock turnover increased from 67 days to 74 days as a result of facilities expansion;

- Strong liquidity with net cash in hand of approximately HK$417 million as at 30 September 2014;

- Quick ratio changed from 1.55 as at 30 September 2013 to 1.20 as at 30 September 2014.

Business Strategies

The Group's business composition continued to evolve to address changes in market trends and the operating environment. The manufacturing and retailing operations are well guided by their respective business strategies aimed at achieving sustainable growth.

Manufacturing business: Facing challenges effectively by optimizing production capability

The Group has risen to the continuing challenges of a difficult overall operating environment and achieved significant progress in the development of its core business in accordance with its established targets and strategies.

Faced with inexorable increases in labor and other operating costs over the past few years, the Group has devised a more rational allocation of production activities to different plant premises following a full assessment of various hubs. In the light of this, it has consolidated or expanded plant premises as appropriate in order to meet both business development needs and customer requirements.

In the course of this exercise, the PRC plants (mainly those in Zhongshan and Zhuhai) were consolidated, while facilities in southern Vietnam were expanded to support business development. The reallocation of production between plants will accommodate more efficient planning of order fulfilment to support stronger future growth.

The Group has also carried out a comprehensive program to optimize and streamline its plant equipment and production processes, in addition to refining its management and operating structure.

The continued optimization of production facilities has been accompanied by active efforts to develop new business with both existing and potential customers, as well as in various markets, with the goal of achieving a more balanced segmental growth.

Retailing business: Addressing a challenging operating environment

Continuing global economic weakness worldwide and diminished consumer sentiment in the PRC, coupled with overcapacity across various sectors, have intensified market competition. Nevertheless the retailing business was able to sustain sales growth and reduce its operating loss on a downsized network.

This is attributable to the segment's network upgrading strategy, pursuant to which the under-performing stores are being closed down, while new stores with better prospects are opened with a view to increasing overall network efficiency.

Fiona's Prince's repositioning as a fashionable 'mid-tier luxury' brand has helped it reach new target customers. With fine quality products and more affordable price points, the brand aims to grow its sales amid the new economic realities. The new young line, *Fiona's Prince Junior*, has also made its way in the market to reach fashionable children and teens.

Operational Performance

During the period, the general adverse cost environment has affected the industrial sector as a whole. Nevertheless, with its core strengths and leadership position in niche research-and-development-based manufacturing, the Group was able to grow its revenue by further broadening its customer and product portfolios.

Net earnings declined against a number of cost factors. The Group will strive to improve its net profit margin through continued efficiency enhancement and further reduction of the loss incurred by the retailing business.

Manufacturing Business

As at the period-end date, the Group's facilities, each located and designed to accommodate different product development and manufacturing requirements, had a total of 46 production lines: 20 in Vietnam, 8 in Cambodia, and 18 in the PRC, comprising 8 in Zhongshan, 6 in Zhuhai and 4 in Jiangxi Province. These facilities, aggregating to an annual capacity of 25 million pairs, were approximately 80.0% utilized during the period (2013: approximately 69.1%).

The southern Vietnam production center continued to be a key growth driver; during the period, Vietnam contributed approximately 52.6% of total production (2013: approximately 44.9%) in terms of pairs, representing an approximately 17.2% increase period-to-period. The protests in Vietnam caused a brief suspension of operation of the factory in May 2014, but the impact was immaterial and political conditions have stabilised since then. As the production lines in Cambodia continued to mature, its production volume was maintained at approximately 10.5% of total output (2013: approximately 10.5%).

The facilities in the PRC were restructured to cater to footwear production in smaller batch sizes and with shorter delivery lead time. Despite the drop in the contribution of the PRC facilities to approximately 38.0% of the Group's turnover compared to 45.8% of last corresponding period, they delivered a higher gross margin for their ability to accommodate these orders which have become more in demand.

The geographical mix continued to shift in line with economic and demand changes. For the manufacturing segment, turnover to the United States (the "US") dropped significantly to approximately 36.9% (2013: approximately 49.2%). Shipments to European countries also dropped slightly to approximately 31.5% (2013: approximately 32.2%). Growth in shipments to other markets, including Asia, drove this geographical segment's contribution to approximately 31.6% (2013: approximately 18.6%).

Driven by strong demand for the comfortable and fashionable line of ath-leisure shoes, premium casual footwear remained the core product category, accounting for approximately 55.9% of turnover (2013: approximately 52.6%), whereas babies' and children's footwear and rugged products generated approximately 37.1% and 7.0% of turnover respectively. The Group's expansion plans in central Vietnam will continue to support the growing production of premium casual footwear.

The diversification strategy has proved to enable the Group to arrange production flexibly in response to the market environment and consumer preferences.

A partnership operation for outsole production commenced in Cambodia during the period, furthering the Group's capability of providing tailored services to customers. Its output was mainly supplied to the manufacturing facilities in Vietnam and Cambodia. Another outsole factory under partnership also started operation in Vietnam in September 2014. With its output dedicated for supply to a major customer, this setup will help strengthen the Group's relationship with existing customers while serving to appeal to potential new customers. With the Trans-Pacific Partnership set to be implemented, the Group is confident that its manufacturing activities in Vietnam and Cambodia will add further value and momentum to the core business in future.

The Group's major customers for the period included New Balance, Skechers, Clarks, Stride Rite and Wolverine, which in aggregate contributed approximately 83.3% (2013: approximately 91.1%) of total turnover. With further expansion plans in Vietnam under way, the Group is confident that the newly engaged customers will develop into key growth drivers in the next fiscal year.

Retailing and Wholesaling Business

During the period, the house brand *Fiona's Prince* was able to achieve turnover growth of approximately 6.9%. The business unit's loss was reduced by approximately 30.1% to approximately HK$11.6 million (2013: segment loss of approximately HK$16.6 million). It is encouraging to witness further increases in same-store sales for major shops of 27.2% in the PRC.

As at the reporting date, the segment maintained a total of 33 shops in the PRC and 4 shops in Hong Kong. In view of the short-term soft market environment in the PRC, the segment has focused its efforts on upgrading its retail network. By relocating some of the major stores to better locations, the segment aims to strengthen the performance of these outlets. Such efforts and other branding activities may have a negative impact on the segment's short-term margin, but they will help improve the long-term earnings potential of the unit.

Partnerships with such international brands as *Miss Blumarine* help to complete the offering of the segment in the infant and children category. Having received positive customer response for its international alliance, the segment will continue to pursue partnerships in the PRC and Hong Kong.

Online sales of a full range of footwear products have been launched. In view of the market's increasing acceptance of e-commerce, the segment remains confident of this new line of business in parallel with the store operations.

Overall, the Group looks to achieving improvement in the segment's performance despite the loss currently incurred owing to initial setup costs and high rentals.

Future Plans And Prospects

Economic recovery in the US is expected to continue, while the economies of Western Europe will remain unstable.

In this environment, the Group is targeting a modest revenue growth for the full financial year 2014/15, with a stable gross margin. It has been a solid start to the financial year. Looking ahead, the Group will continue to focus on the development of innovative products, gains in market share, expanding our presence geographically, and achieving operational excellence to generate sustainable returns for shareholders.

Manufacturing Business

Short-term goals – Improving operating efficiency and strengthening production capability

The Group anticipates that all manufacturing players in the PRC will have to tackle an increasingly challenging production environment of rising labor and welfare costs. The challenge to the industry is huge, and industry consolidation will continue. Bearing in mind that the operating environment will be increasingly competitive, the Group has been putting efforts into improving operating efficiency and strengthening production capability.

The Group will continue to implement strict cost control measures throughout the rest of the year and beyond to preserve margins and sustain growth.

The Group believes that the current tough operating environment also represents a historic development opportunity for those enterprises with a leading competitive edge to seize more market share during this industry consolidation.

Mid-to-long-term goals – Infrastructure and long-term development

With reorganization and selective capacity expansion taking place at the same time, the Group is able to optimize its facilities utilization, mitigate cost hikes, and secure a stable labor supply.

To secure continuous long-term development, the Group has exploited various opportunities to diversify its production territories during the last few years. Despite plenty of challenges ahead, our strategy of geographical diversification is of utmost importance for the long-term growth and development of the Group.

We will, at the same time, continue to improve our production capability in southern Vietnam and Cambodia. To this end, the Group will explore a further opportunity to extend the factory site in southern Vietnam by obtaining the land use rights of an adjacent land parcel. The extended land will provide flexibility to build new infrastructure with potential to further increase the production capacity in southern Vietnam. The Board will update the shareholders on the progress of this plan when appropriate.

On the other hand, one of our key initiatives in the next 3 to 5 years is to set up new footwear production facilities in central Vietnam. We have identified a site in an industrial zone in Quang Ngai, central Vietnam, for this purpose.

As mentioned in 2014 Annual Report, the expansion program in central Vietnam would proceed as planned. We will commence construction of the phase I of the new factory premises in central Vietnam in the second half of 2014/15 and target to have commercial production by the middle of 2015. The Vietnam facilities will enable our brand owners to import finished products into European countries on a duty-free basis as well as to diversify their sourcing base. With additional footwear production facilities in central Vietnam, the Group can further enhance its competitiveness.

The Group is optimistic that these major developments, together with a strong financial position with net cash in hand of approximately HK$417 million, will further enhance the value of the Company and hence its contribution to shareholders. With the planned developments in southern Vietnam and Cambodia, as well as the expansion in central Vietnam in the coming year, more high-value services can be provided for customers and further contribution to shareholders is expected.

Retailing and Wholesaling Business

The retail business was set up as a part of the Group's long-term diversification strategy. Its operations mainly comprise the retailing of babies' and children's footwear and other products under its house brand *Fiona's Prince*.

In a move to optimize the segment's retail network in the PRC and Hong Kong, the Group is evaluating and adjusting the locations of its stores, while prudently moving ahead with its business plans. The segment targets to complete the initial stage of network enhancement work in the PRC and Hong Kong by the end of 2014. The segment is under negotiation to open new shop-in-shops within department stores and will continue to close down low-yielding shops.

The Board maintains a cautiously optimistic view of the ongoing development of the retailing and wholesaling segment. To cope with a number of market risks, the Group will prudently monitor and analyze market trends, step up risk management, and formulate and put into practice development strategies taking a pragmatic and cautious approach, so as to capture the valuable opportunities arising from the steady economic development of China.

Overall

Looking forward, we expect to grow further for our business in the remainder of the year, especially in light of better than expected economic recovery in the US in the second half of 2014/15. We tentatively expect the pick-up in orders experienced in recent months to continue through the end of the year, barring a sudden drop in consumer sentiment arising as a result of current geopolitical issues. We will continue to closely monitor any risks arising from such events in order to minimize their impact on our operations.

The Group will adhere to its core values and develop its business in a relatively prudent manner so as to achieve stable long-term growth. With its veteran management team and flexible and responsive mechanisms, the Group is confident of sustaining its competitive edges in an ever-changing market. We are also well prepared for any adversity ahead. This should enable us to achieve further growth in revenue and hence deliver sustainable returns to shareholders.

On behalf of the Board, I would like to once again extend my sincere gratitude to our shareholders, customers and business partners for their continued support. I would also like to take this opportunity to thank all my colleagues for their ongoing contribution and commitment to Kingmaker.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Group to maintain a strong financial position. As at 30 September 2014, the Group's cash and cash equivalents were approximately HK$420 million (as at 31 March 2014: approximately HK$424 million).

As at 30 September 2014, the Group had banking facilities amounted to an aggregate sum of approximately HK$99 million (as at 31 March 2014: approximately HK$99 million) with various banks. The banking facilities of approximately HK$3 million (as at 31 March 2014: approximately HK$5 million) had been utilised as at 30 September 2014.

As at 30 September 2014, the current ratio was approximately 1.65 (as at 31 March 2014: approximately 1.81) based on current assets of approximately HK$1,004 million and current liabilities of approximately HK$608 million and the quick ratio was approximately 1.20 (as at 31 March 2014: approximately 1.33).

As at 30 September 2014, the Group did not have any interest-bearing bank borrowings.

The Group will continue to maintain conservative cash flow management to sustain a strong cash position. Having considered the major expansion plans of the Group, including Cambodia and Vietnam in the next two to three years, the Directors believe that the Group has adequate liquidity to meet its current and future working capital requirements on its operations and expansion.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenue and expenditure are denominated in Hong Kong dollars, the RMB and the US dollars ("USD"). It is the Group's policy to adopt a conservative approach on foreign exchange exposure management.

However, the Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Group generally finances its operation with internal resources and bank facilities provided by banks in Hong Kong. Interest rates of borrowings are determined by reference to the Hong Kong Inter-Bank Offered Rate or the London Inter-Bank Offered Rate.

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimise the Group's financial risks. As a measure of additional prudence, the Group cautiously uses derivatives, principally forward currency contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's receivables and payables.

The exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options, if considered necessary. The management of currency risk is centralised in the headquarter of the Group in Hong Kong.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$1,060 million as at 30 September 2014 from approximately HK$1,042 million as at 31 March 2014. As at 30 September 2014, the Group did not have any interest-bearing bank borrowings (as at 31 March 2014: nil), resulting nil% (as at 31 March 2014: nil%) of the shareholders equity.

CONTINGENT LIABILITIES

As at 30 September 2014, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$3,082,000 (as at 31 March 2014: HK$4,545,000) as at the end of the reporting period.

INTERIM DIVIDEND

On 27 November 2014, the Board has resolved to declare the payment of an interim dividend of HK2.8 cents per ordinary share in respect of the six months ended 30 September 2014 to shareholders registered on the register of members on 31 December 2014, resulting in an appropriation of approximately HK$19,275,000. The interim dividend will be payable on or about 16 January 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 24 December 2014 to Wednesday, 31 December 2014, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 23 December 2014.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2014, the Company repurchased 4,270,000 of its ordinary shares of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$5,999,000 excluding transaction cost and 4,270,000 repurchased ordinary shares were cancelled during the period. The repurchase of the Company's shares during the period was effected by the Board, pursuant to the repurchase mandate granted by the shareholders, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Details of the shares repurchase during the period under review are as follows:

Month/year	Number of shares repurchased	Highest price per share	Lowest price per share	Aggregated consideration (excluding transaction cost)
		HK$	*HK$*	*HK$'000*
July 2014	542,000	1.33	1.27	708
August 2014	878,000	1.47	1.37	1,253
September 2014	2,850,000	1.44	1.40	4,038
Total	4,270,000			5,999

The premium paid on the repurchased and cancelled shares of approximately HK$5,572,000 has been debited to the share premium account during the six months ended 30 September 2014. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

EMPLOYMENT AND REMUNERATION POLICIES

The Group, including its subsidiaries in Hong Kong, Macau, Taiwan, the PRC, Vietnam and Cambodia had a total number of employees of approximately 18,000 as at 30 September 2014 (2013: approximately 15,000). The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Share options and awarded shares may also be granted in accordance to the terms of the Group's approved share option scheme and share award scheme, respectively.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not during the six months ended 30 September 2014, in compliance with the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except the deviation from provision A.2.1 as explained below.

Under provision A.2.1 of the Code, the roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Chen Ming-hsiung, Mickey. The Board believes that vesting the roles of the Chairman and the CEO in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operation of the Board which comprises experienced and high calibre individuals with a substantial number thereof being non-executive directors. The Board would still consider segregation of the roles of Chairman and CEO if and when appropriate.

AUDIT COMMITTEE

The audit committee of the Company (the "Committee") comprises three independent non-executive Directors and one non-executive Director. The primary duties of the Committee are to review and supervise the Group's financial reporting process and internal control systems.

The Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed the Group's auditing, internal control and financial reporting matters during the period. The Group's unaudited consolidated results for the six months ended 30 September 2014 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed their compliance with the required standard set out in the Model Code during the six months ended 30 September 2014.

PUBLICATION OF INTERIM REPORT

The interim report containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the websites of the Stock Exchange at http://www.hkex.com.hk and the Company at http://www.irasia.com/listco/hk/kingmaker/interim/index.htm in due course.

On behalf of the Board
Chen Ming-hsiung, Mickey
Chairman

Hong Kong, 27 November 2014

As of the date of this announcement, the Board consists of four executive Directors, namely Mr. Chen Ming-hsiung, Mickey, Mdm. Huang Hsiu-duan, Helen, Mr. Kimmel, Phillip Brian and Mr. Wong Hei-chiu; two non-executive Directors, namely Mr. Chow Wing-kin, Anthony and Mr. Chan Ho-man, Daniel; and three independent non-executive Directors, namely Mr. Tam King-ching, Kenny, Mr. Yung Tse-kwong, Steven and Ms. Chan Mei-bo, Mabel.

* *For identification purposes only*