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 2017

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2017	2016	Change
	HK$'000	*HK$'000*	
CONTINUING OPERATIONS			
Revenue	**594,115**	1,013,988	-41.4%
Gross profit	**107,242**	170,253	-37.0%
Gross profit margin	**18.1%**	16.8%	+1.3 points
Profit for the period attributable to equity holders of the Company			
Recurring profit#	**49,730**	78,170	-36.4%
Non-recurring profit^	**176,233**	(19,830)	
Total	**225,963**	58,340	+287.3%
	(HK cents)	*(HK cents)*	
Basic Earnings Per Share			
– For profit for the period	**32.30**	8.40	+284.5%
– For profit for the period from continuing operations	**32.03**	11.25	+184.7%
Proposed interim and special dividends			
Interim dividend per share	**3.8**	4.2	
Special dividend per share	**11.2**	3.8	
Total dividends per share for the period	**15.0**	8.0	+87.5%

- Cash and cash equivalents of approximately HK$931 million

\# *Balance included profit for the period attributable to equity holders of the Company, excluding gain on disposal of a subsidiary from continuing operations and profit/(loss) for the period from discontinued operation*

^ *Balance included profit/(loss) for the period from discontinued operation and gain on disposal of a subsidiary from continuing operations*

* *For identification purposes only*

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Kingmaker Footwear Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2017, together with the comparative figures for the corresponding period in 2016 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 2017

		For the six months ended 30 September	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATIONS			
Revenue	*3*	**594,115**	1,013,988
Cost of sales		**(486,873)**	(843,735)
Gross profit		**107,242**	170,253
Other income and gains, net		**15,247**	5,039
Distribution and selling expenses		**(12,586)**	(22,934)
Administrative expenses		**(55,304)**	(65,995)
Finance costs	*4*	**(4)**	(2)
Share of losses of associates		**(2,045)**	–
Gain on disposal of a subsidiary	*5(a)*	**174,381**	–
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**226,931**	86,361
Income tax expense	*7*	**(3,415)**	(8,731)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**223,516**	77,630
DISCONTINUED OPERATION			
Profit/(loss) for the period from discontinued operation	*5(b)*	**1,852**	(19,830)
PROFIT FOR THE PERIOD		**225,368**	57,800
ATTRIBUTABLE TO:			
Equity holders of the Company		**225,963**	58,340
Non-controlling interests		**(595)**	(540)
		225,368	57,800

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 September 2017

		For the six months ended 30 September	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	*8*		
Basic *(HK cents)*:			
– For profit for the period		**32.30**	8.40
– For profit for the period from continuing operations		**32.03**	11.25
Diluted *(HK cents)*:			
– For profit for the period		**32.22**	8.37
– For profit for the period from continuing operations		**31.96**	11.21

Details of the dividends are disclosed in note 9 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**225,368**	57,800
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investment revaluation reserve:		
Changes in fair value	**78**	79
Reclassification adjustments for gains on disposal included in the consolidated statement of profit or loss	**(447)**	–
	(369)	79
Exchange differences:		
Exchange differences on translation of foreign operations	**10,073**	(10,782)
Reclassification adjustment for a foreign operation disposed of during the period	**(22,441)**	–
	(12,368)	(10,782)
Net other comprehensive expenses to be reclassified to profit or loss in subsequent periods	**(12,737)**	(10,703)
OTHER COMPREHENSIVE EXPENSES FOR THE PERIOD	**(12,737)**	(10,703)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**212,631**	47,097
ATTRIBUTABLE TO:		
Equity holders of the Company	**213,226**	47,663
Non-controlling interests	**(595)**	(566)
	212,631	47,097

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	**As at 30 September 2017 (Unaudited)** ***HK$'000***	31 March 2017 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**329,753**	338,037
Prepaid land lease payments		**51,551**	51,587
Investment properties		**142,234**	136,484
Deposits		**3,916**	3,916
Investments in associates		**55,513**	57,558
Investments in club memberships		**863**	870
Available-for-sale investments		**161**	530
Total non-current assets		**583,991**	588,982
CURRENT ASSETS			
Inventories		**154,477**	158,673
Accounts and bills receivable	*10*	**113,730**	141,459
Prepayments, deposits and other receivables		**13,587**	8,410
Due from an associate		**20,793**	11,116
Tax recoverable		**624**	207
Cash and cash equivalents		**930,736**	775,816
		1,233,947	1,095,681
Assets of disposal groups classified as held for sale	*5*	**–**	56,524
Total current assets		**1,233,947**	1,152,205

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2017

	Notes	As at 30 September 2017 (Unaudited) HK$'000	31 March 2017 (Audited) HK$'000
CURRENT LIABILITIES			
Accounts and bills payable	*11*	**126,839**	148,822
Accrued liabilities and other payables		**165,079**	192,067
Tax payable		**198,470**	197,684
		490,388	538,573
Liabilities directly associated with the assets classified as held for sale	*5*	**–**	17,542
Total current liabilities		**490,388**	556,115
NET CURRENT ASSETS		**743,559**	596,090
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,327,550**	1,185,072
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**19,916**	19,877
Net assets		**1,307,634**	1,165,195
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**69,841**	69,969
Reserves		**1,214,928**	1,075,588
		1,284,769	1,145,557
Non-controlling interests		**22,865**	19,638
Total equity		**1,307,634**	1,165,195

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2017 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 2017 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 2017, except for adoption of revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective to the Group for accounting period beginning on 1 April 2017 as disclosed below.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements 2012-2014 Cycle	*Disclosure of Interests in Other Entities*

The Group has assessed the adoption of the amendments 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. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is manufacturing and sale of footwear products after the closure of the retailing and wholesaling business (the "Closure"). Further details of the Closure are set out in note 5 to the financial statements. Since the manufacturing and sale of footwear products is the only continuing operating segment of the Group, no further analysis thereof is presented.

3. REVENUE

Revenue represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of intra-group transactions.

An analysis of revenue from continuing operation is as follow:

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sale of footwear products	**594,115**	1,013,988

4. FINANCE COSTS

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**4**	2

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

(a) Disposal group held for sale

On 28 December 2016, the Group entered into a sale and purchase agreement with an independent third party, Talent Union (Hong Kong) Investments Limited (the "Purchaser"), to dispose of 100% equity interest in Kingmaker Footwear (Zhong Shan) Co., Ltd. ("Kingmaker Zhong Shan"), which holds the site and manufacturing facilities in Zhongshan, the People's Republic of China (the "PRC"), at a cash consideration of RMB168,000,000 (equivalent to approximately HK$187,584,000).

Upon completion of the registration process with the relevant industrial and commercial administration in the PRC on 27 April 2017 in respect of the transfer of the entire equity interest in Kingmaker Zhong Shan (the "Disposal"), 50% of the consideration amounting to RMB84,000,000 (equivalent to approximately HK$93,792,000) was released by the escrow agent to the Group in April 2017 and the remaining 50% of the consideration amounting to RMB84,000,000 (equivalent to approximately HK$93,792,000) was also released by the escrow agent to the Group in July 2017.

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION (Continued)

(a) Disposal group held for sale (Continued)

	For the six months ended 30 September 2017 (Unaudited) *HK$'000*
Net assets disposed of:	
Property, plant and equipment	**43,441**
Prepaid land lease payments	**7,440**
Accrued liabilities and other payables	**(6,255)**
Tax payable	**(8,982)**
	35,644
Exchange fluctuation reserve	**(22,441)**
Gain on disposal of a subsidiary	**174,381**
	187,584
Satisfied by:	
Cash consideration	**187,584**

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION (Continued)

(a) Disposal group held for sale (Continued)

The major classes of assets and liabilities of Kingmaker Zhong Shan classified as held for sale as at 31 March 2017 are as follows:

	HK$'000
Assets	
Property, plant and equipment	43,441
Prepaid land lease payments	7,440
Cash and cash equivalents	355
Assets of a disposal group classified as held for sale	51,236
Liabilities	
Accrued liabilities and other payables	(6,998)
Tax payable	(8,982)
Liabilities directly associated with the assets classified as held for sale	(15,980)
Net assets directly associated with the disposal group	35,256

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION (Continued)

(b) Discontinued operation

On 29 August 2016, the Company announced the decision of its board of directors to wind down, discontinue or sell its retailing and wholesaling business (the "Retailing and Wholesaling Business"). The Group has decided to cease the Retailing and Wholesaling Business because it plans to focus its resources on its manufacturing and sale of footwear products business. As at 31 March 2017, final negotiations for the sale of the Retailing and Wholesaling Business were in progress and the Retailing and Wholesaling Business was classified as a disposal group held for sale and as a discontinued operation. With the Retailing and Wholesaling Business being classified as a discontinued operation, the retailing and wholesaling business is no longer included in the note for operating segment information.

On 28 May 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest of 上海君勳如舞國際貿易有限公司, a wholly-owned subsidiary of the Group, at a cash consideration of approximately RMB2,962,000 (equivalent to approximately HK$3,489,000).

Following the above disposal, the Retailing and Wholesaling Business was discontinued during the period ended 30 September 2017.

The results of the Retailing and Wholesaling Business in the period are presented below:

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue	**–**	16,622
Cost of sales	**–**	(10,507)
Gross profit	**–**	6,115
Other losses, net	**(266)**	(297)
Distribution and selling expenses	**–**	(18,181)
Administrative expenses	**(431)**	(7,467)
Loss before tax from discontinued operation	**(697)**	(19,830)
Income tax expense	**–**	–
Loss for the period before gain on disposal of a subsidiary	**(697)**	(19,830)
Gain on disposal of a subsidiary *(Note)*	**2,549**	–
Profit/(loss) for the period from discontinued operation	**1,852**	(19,830)

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION (Continued)

(b) Discontinued operation (Continued)

Note:

	For the six months ended 30 September 2017 (Unaudited) *HK$'000*
Net assets disposed of:	
Accounts and bills receivable	**456**
Prepayments, deposits and other receivables	**595**
Cash and cash equivalents	**1,483**
Accounts and bills payable	**(31)**
Accrued liabilities and other payables	**(1,563)**
	940
Gain on disposal of a subsidiary	**2,549**
	3,489
Satisfied by:	
Cash consideration	**3,489**

5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION (Continued)

(b) Discontinued operation (Continued)

The major classes of assets and liabilities of the Retailing and Wholesaling Business as at 31 March 2017 are as follows:

	HK$'000
Assets	
Accounts and bills receivable	647
Prepayments, deposits and other receivables	568
Cash and cash equivalents	4,073
Assets classified as held for sale	5,288
Liabilities	
Accounts and bills payable	(464)
Accrued liabilities and other payables	(1,098)
Liabilities directly associated with the assets classified as held for sale	(1,562)
Net assets directly associated with the disposal group	3,726

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**297,478**	529,982
Depreciation	**20,143**	29,022
Amortisation of prepaid land lease payments	**871**	1,190
Amortisation of a club membership	**7**	7
Gain on disposal of an available-for-sale investment	**(447)**	–
Fair value losses on derivative financial instruments	**–**	530
Fair value gains on revaluation of investment properties	**(158)**	(361)
Impairment of property, plant and equipment	**–**	3,072
Bank interest income	**(7,161)**	(3,347)
Interest income from accounts receivable	**(406)**	(477)
Dividend income	**(4)**	(8)

7. INCOME TAX EXPENSE

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
– Hong Kong	**333**	250
– Elsewhere	**3,043**	8,572
Deferred	**39**	(91)
Total tax charge related to continuing operations	**3,415**	8,731

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

8. 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	
	2017	2016
	(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)		
From continuing operations	**224,111**	78,170
From discontinued operation	**1,852**	(19,830)
	225,963	58,340
	'000	*'000*
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**699,620**	694,907
Effect of dilutive share options	**1,609**	2,154
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**701,229**	697,061

9. DIVIDENDS

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends paid during the period		
Final in respect of the financial year ended 31 March 2017 – HK5.5 cents per ordinary share (2016: final in respect of the financial year ended 31 March 2016 – HK5.2 cents per ordinary share)	**38,434**	36,072
Special in respect of the financial year ended 31 March 2017 – HK4.5 cents (2016: HK4.0 cents) per ordinary share	**31,446**	27,747
	69,880	63,819
Proposed interim and special dividends		
Interim – HK3.8 cents (2016: HK4.2 cents) per ordinary share	**26,544**	29,101
Special – HK11.2 cents (2016: HK3.8 cents) per ordinary share	**78,234**	26,329
	104,778	55,430

The interim and special dividends were declared after the period ended 30 September 2017, and therefore has not been included as a liability in the condensed consolidated statement of financial position. The interim and special dividends will be paid to the shareholders whose names appear in the register of members on 17 January 2018.

10. 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 balances due from a customer of HK$37,954,000 at 30 September 2017 (31 March 2017: HK$65,480,000) which bear interest at a rate of 0.25% (31 March 2017: 0.25%) 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	31 March
	2017	2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**112,861**	141,441
Between 91 and 180 days	**707**	13
Between 181 and 365 days	**158**	5
Over 365 days	**4**	–
	113,730	141,459

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	31 March
	2017	2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**113,997**	129,954
Between 91 and 180 days	**8,872**	14,757
Between 181 and 365 days	**–**	547
Over 365 days	**3,970**	3,564
	126,839	148,822

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

As discussed in our outlook in the Annual Report 2017, global growth has remained modest for most regions, with downward revisions to previous economic forecasts for the United States (the "US") and the European Union (the "EU").

The six months ended 30 September 2017 (the "Period") saw continued efforts by the Group to reform its production set-up and business portfolio, in order to overcome challenges brought by rising manufacturing costs and a soft demand scenario for footwear retailers in the US and Europe.

By shifting most its manufacturing activities from the People's Republic of China (the "PRC") to Vietnam and Cambodia, the Group was able to lower its fundamental cost structure, aided by continued efforts to enhance the efficiency of the Southeast Asian facilities while reducing labor input. There were also further adjustments to the product and clientele portfolios as the Group set out to pursue higher-margin business.

The Group recorded a 287.3% period-to-period gain in net profit attributable to equity holders of the Company to approximately HK$226 million (2016: approximately HK$58.3 million). This significant growth was mainly attributable to (i) the non-recurring profit amounting to approximately HK$177 million which included gains on disposal of Kingmaker Footwear (Zhong Shan) Co., Ltd. and disposal of a subsidiary from discontinued operation; and (ii) the reduction of a loss incurred by the discontinued operation of the retailing business.

Included in the first-half results was a loss of approximately HK$2.0 million (2016: HK$nil) shared from the operation with associates in central Vietnam, which was still in its early stage of operation.

During the period under review, owing to the termination of production at the Zhongshan factory, the reduction of production volume in Zhuhai factory in the PRC, and under the dual impact of the clientele portfolio enhancement and slower orders, the Group's turnover from continuing operations decreased by 41.4% period-to-period to approximately HK$594 million (2016: approximately HK$1,014 million) during the Period. The decline in turnover was accounted for by a 45.5% decrease in business volume (pairs) against a 5.2% improvement in the average selling price ("ASP").

The introduction of leaner but more effective “concept lines” in Vietnam and Cambodia has helped bring material usage and subcontracting charges down by 49.8% and 1.6% respectively. Labor costs also showed a significant decrease as a result of reduced production lines and efficiency enhancements, as well as management’s swift decision to streamline the workforce in the light of weak demand. The manufacturing segment’s labor and salaries costs, including allowances and other benefits, went down significantly to approximately HK$167 million (2016: approximately HK$266 million).

As a result of these favorable changes in the cost factors, the gross profit margin from continuing operations improved to approximately 18.1% (2016: approximately 16.8%).

Earnings per share for the Period were approximately HK32.3 cents (2016: approximately HK8.4 cents), up 284.5% 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 interim and special dividends of HK3.8 cents (2016: HK4.2 cents) and HK11.2 cents (2016: HK3.8 cents) per ordinary share respectively.

The Group recorded healthy and improving financial ratios during the Period:

- Debtors’ turnover increased from 38 days for the six months ended 30 September 2016 to 39 days for the Period;

- Creditors’ turnover decreased from 89 days to 83 days;

- Stock turnover increased from 77 days to 93 days owing to a temporary holding of stock at customer request;

- Strong liquidity with net cash in hand of approximately HK$931 million as at 30 September 2017 (31 March 2017: HK$776 million);

- Current ratio changed from 1.6 as at 30 September 2016 to 2.5 as at 30 September 2017;

- Quick ratio changed from 1.3 as at 30 September 2016 to 2.2 as at 30 September 2017.

Operational Performance

Faced with a soft retail market, the Group's strategy is to prioritize profitability over business volume. This was implemented during the Period through continued efficiency enhancement at its facilities in Vietnam and Cambodia by restructuring the production process and providing training and incentives to workers.

On the other hand, management has continued to evaluate the potential for redevelopment or sale of the Group's assets. In doing so, the Group aims to maintain a balance between furthering financial strength, returning value to shareholders, and accommodating the development needs of the manufacturing operations.

Continuing Operations – Manufacturing Business

As at the period-end date, the Group had a total of 34 production lines: 20 in southern Vietnam, 10 in Cambodia, and 4 in southern PRC. Subsequent to the disposal of the factory in Zhongshan, the PRC, and the set up of the associated operation in central Vietnam factory, total annual capacity of the Group has been reduced to about 18 million pairs, and the remaining facilities were approximately 60.0% utilized (2016: approximately 74.0%).

The Group's production network includes research and development ("R&D") centers, located in southern Vietnam, Cambodia and the PRC, as well as two outsole factories in southern Vietnam and Cambodia. In addition, the Group holds a 40% interest in a joint-venture factory in central Vietnam.

Southern Vietnam continued to be the core manufacturing base in terms of its contribution to Group turnover and output. As more orders were shifted from the PRC to southern Vietnam, output from this center grew to approximately 59.4% of total production (pairs) (2016: approximately 56.1%), or approximately 53.5% of turnover (2016: approximately 49.2%). Production in Cambodia was also further geared up, accounting for approximately 21.5% of total output (pairs) (2016: approximately 19.0%), or approximately 24.1% of turnover (2016: approximately 23.6%), as the facilities were upgraded. Management is confident that the flexible production arrangements between the Vietnam and Cambodia centers will meet future customer requirements in terms of product variety and more frequent change in models.

The Group maintained 4 production lines in the Zhuhai plant in southern PRC. Output from the PRC increased slightly to approximately 19.1% of output (pairs) (2016: approximately 17.3%), or approximately 22.4% of turnover (2016: approximately 19.2%). The PRC base will continue to play a strategic role in clients' procurement mix, and the Group will continue to raise its value-adding capability. An R&D center equipped with advanced technologies will be installed to support the manufacturing of innovative and sophisticated products in this hub.

The geographical distribution changed in line with the clientele portfolio shift. Contribution of the European segment increased to approximately 36.0% (2016: approximately 30.8%), whereas that of the US dropped to approximately 16.0% (2016: approximately 23.3%). Shipments to other markets, including Asia, increased to approximately 48.0% (2016: approximately 45.9%).

Premium casual footwear continued to be the major product category, contributing approximately 51.1% of total turnover (2016: approximately 49.4%). Children's footwear and rugged products generated approximately 19.8% (2016: approximately 21.5%) and 17.2% (2016: approximately 12.7%) of turnover respectively. The athleisure and athletic category's contribution dropped to approximately 11.9% (2016: approximately 16.4%) owing to excess inventory holding of clients from over-optimistic demand estimates back in 2015.

The Group's major customers for the Period included Asics, Clarks, K1X, Skechers and Wolverine, which in aggregate contributed approximately 94.7% (2016: approximately 94.4%) of total turnover.

Discontinued Operation – Retailing Business

The retail unit gradually ceased operation since September 2016 and all major retail operations have been ceased as of 31 March 2017. During the period under review, the retailing unit recorded a gain on disposal of a subsidiary of approximately HK$2.5 million and reduced its operating loss to approximately HK$697,000 (2016: approximately HK$19.8 million).

FUTURE PLANS AND PROSPECTS

Retail sentiments will likely continue to be subdued in the US and Europe, as reflected in our clients' orders for the second half of fiscal 2017/18. However, clients' projections for 2018/19 point to a more promising outlook, and active R&D work is currently underway on new footwear models for both existing and new clients.

In particular, the development of new fashionable athleisure footwear items is expected to bring this product category back to a growth track in fiscal 2018/19. While we are cautiously optimistic about a rebound in the next financial year, we will stay alert to potential external risks that may have an impact on market demand, particularly the escalation of tensions between the US and North Korea and the formal commencement of Brexit negotiations, as well as growing calls for more trade protectionism in some markets, including the push by some members of the US government to introduce import tariffs on Chinese-made goods.

Our long-term goals remain to pursue profit margin enhancement and shareholder value. To achieve these goals, we will seek sustainable development through market-driven capacity and business portfolio planning, as we position ourselves as a production partner for global footwear brands.

The Group is confident that the gross margin will continue to improve on the back of further enhanced efficiencies in the southern Vietnam and Cambodia production centers. The application of innovative technologies, including the setting up of "concept lines" under our LEAN manufacturing system, and automation of the production process, will also help raise operational efficiency and reduce the Group's reliance on manual labor. The Group will also continue to introduce digital technologies to enhance operational management, enabling real-time monitoring and faster work processes from production planning through to products delivery.

In the following sections, we will discuss our plans and prospects in greater detail.

Continuing Operations – Manufacturing Business

A Dynamic Production Platform Catering to Market Changes

The multi-year facilities relocation program is substantially complete, with our core production base now shifted from the PRC to Vietnam and Cambodia. This shift has renewed our cost competence. As always, the Group maintains flexibility in adjusting its production mix in future to cope with clients' needs amid market changes.

Southern Vietnam

Withdrawal of the US from the Trans-Pacific Partnership ("TPP") trade arrangement has no significant impact on our investments in Vietnam, as we have diversified our plant's geographical distribution over previous years. Currently shipments from the southern Vietnam center to the US, Europe and Asia (mainly the PRC and Japan) account for more or less equal proportions of its output.

Having completed the expansion program by setting up new facilities on an adjacent site, the Group is able to strengthen its production platform to cater to anticipated new orders in the future.

The Group has also taken proactive steps to invest in improving its competitiveness. First, we seek to enhance the manufacturing process by deploying a "concept-line" LEAN and automated system. Upon successful trial of two lines in the previous year, we plan to add 8 "concept lines" to the Vietnam factory in the coming years.

Other investments will include the establishment of an additional R&D center to cater to development work for new customers, as well as office automotion and staff training facilities upgrade. We will also commit to upgrade our IT system and factory equipment. These planned investments are estimated to aggregate to US$10 million.

Cambodia

The Group will seek to further improve the operational efficiency of the Cambodian factory, as this is key to fulfilling future orders.

PRC

Manufacturing activities in the PRC are maintained at a satisfactory and stable level, but the Zhuhai plant's role has been changed from a core production base to a strategic center for development and production of innovative new footwear products.

As mentioned in the Annual Report 2017, we will explore and evaluate the value of the Zhuhai premises in order to consider the appropriateness of including the site in the asset enhancement program.

Due consideration will be given to the strategic role of the Zhuhai factory as recognized by some customers. In order to enhance the position of this center, the Group will explore various ways to strengthen its value-adding functions for clients, including the setting up of an R&D center to meet the requirements of innovative products. A complete renovation of the factory, sample areas and customers' offices is also under planning. These enhancement works will call for an investment of about US$1.5 million.

Joint Venture in Central Vietnam

The operation of the 40%-held joint venture with Evervan Group ("Evervan") in central Vietnam commenced in March 2017. Evervan is a leading international footwear manufacturer.

We expect the footwear market to be subject to a few uncertainties. In order to achieve sustainable development, the Board recognizes the need to broaden the Group's customer and product portfolios. One of the ways to achieve this goal is by forming joint ventures with suitable partners. Having considered the strong background of Evervan, the Board anticipates synergies to be created between the Group and Evervan towards our goal. In particular, the joint venture can provide inroads into the manufacturing of more high-end athletic products.

According to the latest business plan of the joint venture, the existing 3 production lines in central Vietnam are under modification. By the end of 2018, the number of production lines will be increased to 10. By the end of 2019 and subject to global market needs, another 10 new production lines will be expected to install, raising its annual production volume to 7.2 million pairs. The collaboration with Evervan through this joint venture will enable the Group to utilize its production facilities in central Vietnam more effectively and efficiently.

This new operation is still at an early set-up stage, and it will take some time to realize the synergies between the Group and Evervan. The management is optimistic of its future development.

Assets Enhancement

After the cessation of the retailing business, the Group is seeking to lease out the self-owned property in Shanghai to independent third parties as soon as practicable in order to generate a yield on this asset.

Succession Planning

As the Group's business grows, we continue to recruit and nurture young talents with a view to building a robust second-generation management team within the next three to five years. Another ongoing task is to train local staff members of various centers to take up local management roles in future.

The injection of new blood into management will not only lower the overall age profile of the executive team, but also ensure the smooth implementation of our long-term business development and facilities reengineering plans. Our experienced senior management members, who are approaching their retirement ages, will gradually take up non-executive and mentoring roles to ensure a smooth transition.

We are well on track to achieve the goals of our succession plan.

Concluding Remarks

Kingmaker has a long track record of delivering results amid cyclical changes and macroeconomic challenges. We will continue to strengthen our competitiveness in order to brace for the new challenges of tomorrow.

With years of dedicated efforts, we have built a sound and time-proven business model, which allows the Group to rapidly adapt to new circumstances, markets and trends. This competence will support our long-term mission of being a leading provider of footwear products in the Asia Pacific region.

We take pride in our loyal staff team, who have demonstrated resilience and adaptability to realize the Group's development blueprint, as well as the forward vision of our outstanding management team to ensure sustainable growth.

A strong financial position is central to the Group's success. We will continue to adopt prudent financial management to ensure the Group's healthy growth, while allowing us to invest in promising projects and to maintain a healthy dividend payout. With every plan and move, the Board upholds the principle of constantly creating shareholder value.

Appreciation

The continued progress of our businesses in the face of challenging market conditions validates the strength of the Group and the capabilities of our team. I wish to take the opportunity to thank my fellow directors, senior management and all staff members for their performance and support. I would also like to thank all our shareholders, suppliers, business partners and customers, whose support has contributed to our resilience over a period of macro challenges, business remodeling and production competence uplift.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group is substantially debt-free. Prudent financial management and selective investment criteria have enabled the Group to maintain a strong financial position. As at 30 September 2017, the Group's cash and cash equivalents were approximately HK$931 million (as at 31 March 2017: approximately HK$776 million).

As at 30 September 2017, the Group had banking facilities amounted to an aggregate sum of approximately HK$99 million (as at 31 March 2017: approximately HK$99 million) with various banks. Out of the trade and overdraft banking facilities of approximately HK$99 million (as at 31 March 2017: approximately HK$99 million), no banking facilities (as at 31 March 2017: approximately HK$0.8 million) had been utilised as at 30 September 2017.

As at 30 September 2017, the current ratio was approximately 2.5 (as at 31 March 2017: approximately 2.1) based on current assets of approximately HK$1,234 million and current liabilities of approximately HK$490 million and the quick ratio was approximately 2.2 (as at 31 March 2017: approximately 1.8).

As at 30 September 2017, 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 Vietnam and Cambodia in the next two to three years, the Directors are of the opinion 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, the Vietnamese Dong ("VND") and the US dollars ("US$"). 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 fixed 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 financial instruments, 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 flows and the net working capital translation of its PRC and Vietnam subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options, if consider 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$1,285 million as at 30 September 2017 (as at 31 March 2017: approximately HK$1,146 million). As at 30 September 2017, the Group did not have any interest-bearing bank borrowings (as at 31 March 2017: nil), resulting nil% (as at 31 March 2017: nil%) of the shareholders equity.

INTERIM AND SPECIAL DIVIDENDS

On 28 November 2017, the Board has resolved to declare the payment of an interim dividend of HK3.8 cents per ordinary share and a special dividend of HK11.2 cents per ordinary share in respect of the six months ended 30 September 2017 to shareholders registered on the register of members on 17 January 2018, resulting in an appropriation of approximately HK$105 million. The interim and special dividends will be payable on or about 31 January 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 January 2018 to Wednesday, 17 January 2018, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the interim and special dividends, 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 Friday, 12 January 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2017, the Company repurchased 2,786,000 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$6,667,000 excluding transaction cost and 2,786,000 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 2017	230,000	2.33	2.31	534
August 2017	2,172,000	2.42	2.32	5,183
September 2017	384,000	2.48	2.46	950
Total	2,786,000			6,667

The premium paid on the repurchased and cancelled shares of approximately HK$6,388,000 has been debited to the share premium account during the six months ended 30 September 2017. 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 9,500 as at 30 September 2017 (30 September 2016: approximately 14,000). 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 2017, 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.

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 2017 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 2017.

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
Chan Ho-man, Daniel
Chairman

Hong Kong, 28 November 2017

As of the date of this announcement, the Board consists of four executive Directors, namely, Mdm. HUANG Hsiu-duan, Helen, Mr. KIMMEL, Phillip Brian, Mr. MUMMA Adin David 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.