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 2018

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2018	2017	Change
	HK$'000	*HK$'000*	
CONTINUING OPERATIONS			
Revenue	**644,260**	594,115	+8.4%
Gross profit	**75,127**	107,242	-29.9%
Gross profit margin	**11.7%**	18.1%	-6.4 points
Profit for the period attributable to equity holders of the Company			
Recurring profit#	**38,296**	49,730	-23.0%
Non-recurring profit^	**–**	176,233	
Total	**38,296**	225,963	-83.1%
	(HK cents)	*(HK cents)*	
Basic earnings per share			
– For profit for the period	**5.52**	32.30	-82.9%
– For profit for the period from continuing operations	**5.52**	32.03	-82.8%
Proposed interim and special dividends			
Interim dividend per share	**2.8**	3.8	
Special dividend per share	**1.2**	11.2	
Total dividends per share for the period	**4.0**	15.0	-73.3%

- Cash and cash equivalents of approximately HK$642 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 for the period from discontinued operation*

^ *Balance included profit 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 2018, together with the comparative figures for the corresponding period in 2017 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 2018

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATIONS			
Revenue	*2*	**644,260**	594,115
Cost of sales		**(569,133)**	(486,873)
Gross profit		**75,127**	107,242
Other income and gains, net		**23,877**	15,247
Distribution and selling expenses		**(19,494)**	(12,586)
Administrative expenses		**(52,328)**	(55,304)
Finance costs	*3*	**(33)**	(4)
Share of losses of associates		**(1,680)**	(2,045)
Gain on disposal of a subsidiary	*4*	**–**	174,381
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*5*	**25,469**	226,931
Income tax credit/(expense)	*6*	**12,107**	(3,415)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**37,576**	223,516
DISCONTINUED OPERATION			
Profit for the period from discontinued operation	*7*	**–**	1,852
PROFIT FOR THE PERIOD		**37,576**	225,368
ATTRIBUTABLE TO:			
Equity holders of the Company		**38,296**	225,963
Non-controlling interests		**(720)**	(595)
		37,576	225,368

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 September 2018

	Notes	For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	*8*		
Basic :			
– For profit for the period		**HK5.52 cents**	HK32.30 cents
– For profit from continuing operations		**HK5.52 cents**	HK32.03 cents
Diluted :			
– For profit for the period		**HK5.52 cents**	HK32.22 cents
– For profit from continuing operations		**HK5.52 cents**	HK31.96 cents

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 2018

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**37,576**	225,368
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
Reclassification adjustments for gains on disposal included in the consolidated statement of profit or loss	**–**	(447)
	–	(369)
Exchange differences:		
Exchange differences on translation of foreign operations	**(20,564)**	10,073
Reclassification adjustment for a foreign operation disposed of during the period	**–**	(22,441)
	(20,564)	(12,368)
Net other comprehensive expenses to be reclassified to profit or loss in subsequent periods	**(20,564)**	(12,737)
OTHER COMPREHENSIVE EXPENSES FOR THE PERIOD	**(20,564)**	(12,737)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**17,012**	212,631
ATTRIBUTABLE TO:		
Equity holders of the Company	**17,732**	213,226
Non-controlling interests	**(720)**	(595)
	17,012	212,631

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		As at	
		30 September	31 March
		2018	2018
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**268,199**	278,740
Prepaid land lease payments		**86,494**	91,048
Investment properties		**195,685**	197,718
Investments in associates		**44,250**	45,930
Investments in club memberships		**1,991**	858
Total non-current assets		**596,619**	614,294
CURRENT ASSETS			
Inventories		**143,043**	169,945
Accounts and bills receivable	*10*	**158,182**	95,886
Prepayments, deposits and other receivables		**12,898**	13,437
Due from an associate		**31,633**	31,633
Tax recoverable		**919**	1,336
Cash and cash equivalents		**642,406**	804,292
Total current assets		**989,081**	1,116,529

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2018

		As at	
		30 September	31 March
		2018	2018
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
CURRENT LIABILITIES			
Accounts and bills payable	*11*	**121,463**	132,959
Accrued liabilities and other payables		**131,486**	165,304
Tax payable		**149,020**	165,320
Derivative financial instruments		**–**	927
Total current liabilities		**401,969**	464,510
NET CURRENT ASSETS		**587,112**	652,019
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,183,731**	1,266,313
NON-CURRENT LIABILITIES			
Deposit received		**1,269**	1,348
Deferred tax liabilities		**27,542**	23,711
Total non-current liabilities		**28,811**	25,059
Net assets		**1,154,920**	1,241,254
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**69,380**	69,350
Reserves		**1,065,880**	1,151,524
		1,135,260	1,220,874
Non-controlling interests		**19,660**	20,380
Total equity		**1,154,920**	1,241,254

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2018 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 2018 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 2018, 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 2018 as disclosed below.

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
HK (IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the new and revised HKFRSs has had no significant impact on the condensed consolidated interim financial statements of the Group. The principal effects of adopting HKFRS 9 and HKFRS 15 are as follows:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 9 Financial Instruments

HKFRS 9 brings together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9 for annual periods on or after 1 April 2018. The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented as at 30 September 2018 and for the period then ended.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

(a) Classification and measurement

The new classification and measurement of the Group's financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Group reviewed and assessed its financial assets and financial liabilities as at 1 April 2018 based on the facts and circumstances that existed at that date. The adoption of HKFRS 9 does not have a significant financial effect on the classification and measurement of the Group's financial assets and financial liabilities.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 9 Financial Instruments (continued)

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The adoption of the ECL requirements of HKFRS 9 does not have a significant financial effect on the condensed consolidated financial statements.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has elected to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as adjustment to the opening balance of retained profits as at 1 April 2018 and only apply to contracts that are not completed before 1 April 2018. The adoption does not have a significant financial effect on the opening balance of retained profits at 1 April 2018.

The Group is in the business of the manufacturing and sale of footwear products. The Group has concluded that revenue from the manufacturing and sale of footwear products should be recognised at the point in time when the products is delivered to the customers. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

2. OPERATING 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) property investment.

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, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs and other unallocated income and gains, net and unallocated expenses are excluded from the 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, results and certain assets, liabilities and expenditure information for the Group's operating segments for the six months ended 30 September 2018 and 2017.

	Manufacturing and sale of footwear products For the six months ended 30 September		**Property investment For the six months ended 30 September**		**Consolidated For the six months ended 30 September**	
	2018	2017	**2018**	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**644,260**	594,115	**–**	–	**644,260**	594,115
Revenue from continuing operations	**644,260**	594,115	**–**	–	**644,260**	594,115
Rental income	**–**	–	**6,387**	4,234	**6,387**	4,234

2. **OPERATING SEGMENT INFORMATION (continued)**

	Manufacturing and sale of footwear products For the six months ended 30 September		Property investment For the six months ended 30 September		Consolidated For the six months ended 30 September	
	2018	2017	**2018**	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment results	**4,893**	221,846	**15,315**	3,592	**20,208**	225,438
Unallocated income and gains, net					**1,671**	714
Interest income					**8,234**	7,568
Unallocated expenses					**(4,611)**	(6,785)
Finance costs					**(33)**	(4)
Profit before tax from continuing operations					**25,469**	226,931
Income tax credit/(expense)					**12,107**	(3,415)
Profit for the period from continuing operations					**37,576**	223,516

	Manufacturing and sale of footwear products		Property investment		Consolidated	
	30 September 2018	31 March 2018	**30 September 2018**	31 March 2018	**30 September 2018**	31 March 2018
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**736,758**	717,148	**195,685**	197,718	**932,443**	914,866
Unallocated assets					**653,257**	815,957
Total assets					**1,585,700**	1,730,823
Segment liabilities	**247,187**	294,270	**3,461**	1,878	**250,648**	296,148
Unallocated liabilities					**180,132**	193,421
Total liabilities					**430,780**	489,569

3. FINANCE COSTS

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**33**	4

4. DISPOSAL OF A SUBSIDIARY

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 of Kingmaker Footwear (Zhong Shan) Co., Ltd. ("Kingmaker Zhong Shan"), a wholly-owned subsidiary of the Group which held the site and manufacturing facilities in Zhongshan, at a cash consideration of RMB168,000,000, equivalent to HK$187,584,000.

During the six months ended 30 September 2017, condition precedent to the disposal was fulfilled and the disposal of Kingmaker Zhong Shan was completed.

4. DISPOSAL OF A SUBSIDIARY (continued)

Disposal of Kingmaker Zhong Shan

	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. 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**350,911**	297,478
Depreciation	**16,286**	20,143
Amortisation of prepaid land lease payments	**1,367**	871
Amortisation of club memberships	**18**	7
Gain on disposal of an available-for-sale investment	**–**	(447)
Fair value gains on derivative financial instruments	**(1,295)**	–
Fair value gains on revaluation of investment properties	**(15,327)**	(158)
Bank interest income	**(8,050)**	(7,161)
Interest income from accounts receivable	**(184)**	(406)
Dividend income	**–**	(4)

6. INCOME TAX

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
– Hong Kong	**313**	333
– Elsewhere	**(16,252)**	3,043
Deferred	**3,832**	39
Total tax charge/(credit) related to continuing operations	**(12,107)**	3,415

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

7. 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.

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). The disposal was completed and the Retailing and Wholesaling Business was discontinued during the period ended 30 September 2017.

The results of the Retailing and Wholesaling Business in the six months ended 30 September 2017 are presented below:

	(Unaudited) *HK$'000*
Revenue	–
Cost of sales	–
Gross profit	–
Other losses, net	(266)
Administrative expenses	(431)
Loss before tax from discontinued operation	(697)
Income tax expense	–
Loss for the period before gain on disposal of a subsidiary	(697)
Gain on disposal of a subsidiary	2,549
Profit for the period from discontinued operation	1,852

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	
	2018	2017
	(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	**38,296**	224,111
From discontinued operation	**–**	1,852
	38,296	225,963
	'000	*'000*
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**693,559**	699,620
Effect of dilutive share options	**785**	1,609
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**694,344**	701,229

9. DIVIDENDS

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends paid during the period		
Final in respect of the financial year ended 31 March 2018 – HK2.2 cents per ordinary share (2017: final in respect of the financial year ended 31 March 2017 – HK5.5 cents per ordinary share)	**15,264**	38,434
Special in respect of the financial year ended 31 March 2018 – HK12.8 cents (2017: HK4.5 cents) per ordinary share	**88,806**	31,446
	104,070	69,880
Proposed interim and special dividends		
Interim – HK2.8 cents (2017: HK3.8 cents) per ordinary share	**19,426**	26,544
Special – HK1.2 cents (2017: HK11.2 cents) per ordinary share	**8,326**	78,234
	27,752	104,778

The interim and special dividends were declared after the period ended 30 September 2018, 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 2019.

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$27,288,000 at 30 September 2018 (31 March 2018: HK$28,490,000) which bear interest at a rate of 0.25% (31 March 2018: 0.25%) for a fixed period of 60 days.

10. ACCOUNTS AND BILLS RECEIVABLE (continued)

An ageing 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 2018	31 March 2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**152,921**	95,515
Between 91 and 180 days	**5,261**	366
Between 181 and 365 days	**–**	1
Over 365 days	**–**	4
	158,182	95,886

11. ACCOUNTS AND BILLS PAYABLE

An ageing 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 2018	31 March 2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**106,563**	115,162
Between 91 and 180 days	**11,375**	13,201
Between 181 and 365 days	**1,573**	220
Over 365 days	**1,952**	4,376
	121,463	132,959

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

12. EVENT AFTER THE REPORTING PERIOD

On 31 October 2018, the Group as vendor entered into a sale and purchase agreement with a purchaser to dispose of the Group's land parcel in Jiangxi and the properties thereon, which were included in the Group's investment properties as at 30 September 2018, for a consideration of RMB14,000,000. Further details on the disposal will be disclosed in the Company's annual results for the year ending 31 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The six months ended 30 September 2018 (the "Period") was a time of transition for the Group. In an effort to enhance its business mix, the Group has adopted a more selective strategy which helped it achieve higher selling prices amid keen price competition. On the other hand, this business refocus has led the Group's further migration from mass production to customization. These events have different impacts on the Group's financial parameters.

Turnover

Turnover increased by 8.4% period-to-period to approximately HK$644 million (2017: approximately HK$594 million) during the Period, driven mainly by a 8.1% improvement in the average selling price ("ASP") though a 1.4% decrease in business volume (pairs) of footwear products was recorded.

The improvement in the ASP was mainly contributed by the further shift in the product mix towards higher-value premium casual footwear items. Despite intensifying competition, the Group was able to maintain a relatively stable business volume.

Gross Profit

Subsequent to a re-evaluation of the Group's business strategy and direction in response to the consumers' preference changes, there has been a shift in our focus onto higher-value premium products. As part of this move, the Group needs to cope with the fast-changing fashion trends of the premium line and an increasing client requirement for smaller order sizes and quick turnaround time. These in turn have led to a revamp of the Group's manufacturing platform, highlighted by the phased conversion of the traditional production lines into concept lines.

The concept lines are designed to accommodate small batch size production, and fast and frequent line changes, but material usage and labor costs would inevitably increase under the new setup. In addition, to accommodate more models, additional staff training and product development costs were incurred. The premium products also required the use of more expensive leather material.

Despite being partially mitigated by the depreciation of the Vietnamese Dong ("VND"), the increased levels of minimum wages in Vietnam and Cambodia had a negative effect on the gross profit. The much shortened order lead times have also posed challenges for the Group's labor and staff planning. In light of ongoing labor shortages, the Group opted to maintain a relatively stable pool of skilled workers in spite of the short-term order fluctuations, thereby resulting in increased wage expenses. During the Period, labor and salaries costs, including allowances and other benefits, increased to approximately HK$201 million (2017: approximately HK$167 million).

Costs associated with the furtherance of lean manufacturing and process automation, as well as resources invested to cope with tightening human rights regulations, also had an effect on the gross profit.

As a result, the gross profit margin has been under pressure since the second half of fiscal year 2017/18, and stood at approximately 11.7% (2017: approximately 18.1%) during the Period.

Net Profit

The Group recorded a 83.1% period-to-period decrease in net profit attributable to equity holders of the Company to approximately HK$38 million (2017: approximately HK$226 million). The decline in the net profit was principally attributable to: (a) the absence of the non-recurring profit of approximately HK$174 million from the net gain on the disposal of Kingmaker Footwear (Zhong Shan) Co., Ltd. recognized for the six months ended 30 September 2017; and (b) the 23.0% decrease in recurring profit to approximately HK$38 million (2017: approximately HK$50 million).

Included in the first-half net earnings was share of losses of associates amounting to approximately HK$1.7 million (2017: approximately HK$2.0 million), incurred by the operation of the associates in Central Vietnam.

The net profit also took into account: (a) a gain of approximately HK$15.3 million arising from the change in the fair value of investment properties; and (b) the writing back of an overprovision for prior years' income taxes in the amount of approximately HK$16.3 million.

There was an exchange loss of approximately HK$7.9 million owing to the depreciation of the Renminbi ("RMB") and VND during the Period. With strict cost control measures in place, administrative expenses were kept broadly stable, while the distribution and selling expenses have risen in line with turnover increase. In order to maintain on-time delivery, additional transportation costs were incurred to meet the more frequent deliveries of materials and end products under small batch size production.

Earnings per share for the Period were approximately HK5.52 cents (2017: approximately HK32.3 cents), down 82.9% period-to-period.

Key Financial Ratios

The Group maintained healthy financial ratios during the Period:

- Debtors' turnover decreased from 39 days for the six months ended 30 September 2017 to 35 days for the Period;
- Creditors' turnover decreased from 83 days to 71 days;
- Stock turnover decreased from 93 days to 81 days;
- Strong liquidity with net cash in hand of approximately HK$642 million as at 30 September 2018 (31 March 2018: HK$804 million);
- Current ratio maintained at 2.5 as at 30 September 2017 and 30 September 2018;
- Quick ratio changed from 2.2 as at 30 September 2017 to 2.1 as at 30 September 2018.

Interim Dividend

In anticipation of ongoing strong cash generation from the manufacturing business and in view of 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 per ordinary share and a special dividend of HK1.2 cents per ordinary share (2017: interim and special dividends of HK3.8 cents and HK11.2 cents per ordinary share respectively).

OPERATIONAL PERFORMANCE

Macro Environment

The retail environment in the United States (the "US") and Europe remained lukewarm during the Period, with spending still weak despite modest economic growth. Retailers in major consumer markets continued to contend with the negative impacts of protectionist sentiments, geopolitical tensions and interest rate increases.

Against this backdrop, the Group has taken a more conservative approach in rolling out its capacity expansion plans. More stringent cost and risk management was also adopted to guard against heightened uncertainty in the operating landscape.

Manufacturing Business

The Group operates two core manufacturing bases in southern Vietnam and Cambodia. The production network also includes research and development ("R&D") centers, located in southern Vietnam, Cambodia and the People's Republic of China (the "PRC"), as well as two outsole factories in southern Vietnam and Cambodia. In addition, the Group holds a 40% interest in the associates in central Vietnam.

With the Group's multi-year effort to relocate its production lines from the PRC to the lower-cost Southeast Asian sites, 76.5% of the total production lines were based in Vietnam and Cambodia as at the Period-end date, with 23.5% being retained in Mainland China.

As at the Period-end date, the Group had a combined production scale of 34 production lines, aggregating to an annual capacity of around 10.5 million pairs of shoes, with a 41.5% utilization rate (2017: 60.0%).

In southern Vietnam, there were 22 concept lines and 4 traditional lines in operation, while in Cambodia the Group had 5 concept lines and 3 traditional lines. The conversion of traditional lines to concept lines has been ongoing as the trend of more brand customers opting for the small batch manufacturing system continues.

In terms of output (of pairs of footwear), the Southeast Asian production base contributed 84.4% of total production (2017: 80.9%), while Mainland China accounted for 15.6% (2017: 19.1%). The Group keeps a flexible geographical setup to offer clients production solutions and choices that best match their product and time-to-market requirements.

The geographical distribution of markets shifted in accordance with the change in product and clientele portfolios. During the Period, European markets' contribution remained stable at 36.8% (2017: 36.0%), whereas turnover from the US dropped to 13.2% (2017: 16.0%). Shipments to other markets, including Asia and other areas, accounted for 50.0% (2017: 48.0%) of turnover.

Premium casual footwear remained the major product category, accounting for 52.9% (2017: 51.1%) of turnover. Babies' and children's footwear and rugged products generated 18.6% (2017: 19.8%) and 22.9% (2017: 17.2%) of turnover respectively. The performance of the athleisure product category was still lackluster, and this category contributed 5.6% (2017: 11.9%) of turnover.

Major customers for the Period included Asics, Clarks, K1X, Skechers and Wolverine; these in aggregate contributed 92.6% (2017: 94.7%) of total turnover.

Key developments in the Group's production centers include:

Southern Vietnam

Southern Vietnam remained the core manufacturing site for the Group, contributing 64.4% (2017: 59.4%) of total volume output.

Construction of new factory premises has been completed on a site adjacent to the existing facilities. The plan is to fully utilize the capacity of the existing facilities, before moving to install machinery and equipment to ramp up the production capacity of the new premises.

The Group has also obtained the land use right of another plot of land located about half-an-hour's drive from the existing facilities. This new site will be reserved for expansion purposes in the next three to five years.

Cambodia

The number of production lines remained stable, but more of them have been converted to the concept line setup. This manufacturing site contributed 20.0% (2017: 21.5%) of output in pairs during the Period.

Mainland China

The Group continued to review the value of the production site in Zhuhai in terms of its strategic function as an alternative R&D and manufacturing center, against its asset value or redevelopment potential upon the commissioning of the Hong Kong-Zhuhai-Macao Bridge.

In view of the escalating Sino-US trade disputes, the Group will maintain prudence in planning its manufacturing activity in China. The Zhuhai site is currently retained as an alternative for clients who opted to keep a sourcing base in the country. A lean labor force has therefore been retained. During the Period, the Zhuhai site generated 15.6% (2017: 19.1%) of total volume output.

The Jiangxi factory has ceased production since 2016 and been rented out for rental income since then. As disclosed in the Company's annual report for the year ended 31 March 2017, in June 2017, the Group received from the Yifeng County Land and Resources Bureau a notice of idle land investigation in respect of the land on which the Group's facilities in Jiangxi were located. In the course of negotiation with the relevant land authority, the land authority proposed that the land parcel be transferred to the then tenant of the Group. On 31 October 2018, the Group entered into a sale and purchase agreement with the tenant to dispose of the land parcel, together with the properties thereon, to the tenant. The Board believes that the disposal decision was arrived at after much deliberation, and is in the best interest of the shareholders.

Investment in associates

The Group holds a 40% interest in associates with Evervan Group ("Evervan") in central Vietnam. Evervan is a leading international footwear manufacturer. As at 30 September 2018, 3 production lines were in operation.

Due to the overall footwear market sentiment, the business plan of this associated operation has lagged behind the original schedule but active negotiations have been ongoing with potential customers. In view of the positive feedback from customers, orders are expected to increase in fiscal year 2019/20. To facilitate such business development, the Group will further invest HK$6.2 million in this associated operation during the second half of this financial year.

During the Period, the share of losses incurred reduced slightly to HK$1.7 million (2017: approximately HK$2.0 million).

Asset Enhancement

During the Period, the Group continued to lease out its self-owned property in Shanghai to independent third parties. In Hong Kong, the Group is reorganizing its offices and warehouse, and is seeking to sell or lease out some of these self-owned properties.

To this end, the Group plans to consolidate its corporate office in Hong Kong in order to clear out one floor of office space for possible sale or lease. Renovation works have already been underway. The value of the warehouse is also under review.

As for the Zhuhai site, the Board will continue to evaluate its potential and value. Due consideration will be given to the potential of capital appreciation of this asset as the development of the Greater Bay Area continues to roll out. Management will carefully weigh the pros and cons, with a view to coming up with a plan that is in the best interest of the shareholders.

FUTURE PLANS AND PROSPECTS

The prolonged trade war, a possible hard Brexit landing and rising interest rates are all calling for caution in the global economy. The Group will cast a prudent eye over its business plans and portfolios.

The impact of greater uncertainty and slowing economic growth is already being felt by manufacturers. Apart from facing tougher operating conditions and keen price competition in the market, the manufacturing industry is experiencing a major change from mass volume to a small batch production mode.

In the face of the trade war and other uncertainties, customers are hesitant in committing to long-term and large-scale production plans. Manufacturers must equip themselves to respond quickly to fluctuations in orders and short production cycles. The Group has proactively dealt with these new market characteristics with the design of the concept line system. This early move will give the Group a strong competence to adapt to the future manufacturing environment featuring increased product styles and small lot sizes.

Despite the current impact of the transition from traditional mass production to selective small batch manufacturing, the Board is confident that this conversion is necessary to stay competitive in the ongoing market environment.

Tough operating conditions for retailers have also called for manufacturers to accommodate longer credit terms, while shorter payment terms are at times requested by client-designated upstream suppliers. It is therefore critical to maintain a strong financial position to enable adequate working capital to cope with these circumstances. With years of prudent financial management behind it, the Group is well equipped to survive the hard times.

The Board believes that the current tough operating conditions will prevail in the short– to medium-term. The way forward is to maximize labor efficiency and reduce yield loss so as to strengthen the competitive position of the Group.

Taking a long-term view in the footwear manufacturing business, the Group will continue to maintain a strong and flexible manufacturing platform to respond to clients' requirements. Its goal remains to work in long-term partnership with clients which have strong brand appeal and growth potential.

Apart from seeking to grow business with existing clients, the Group is also soliciting orders from new accounts. Business development activities, including negotiations, site visits and capacity planning, are actively underway.

The Group has a long track record of delivering results amid cyclical changes and macroeconomic challenges. It has a time-proven business model and strong management team to support its long-term mission of being a leading footwear producer in the Asia Pacific region.

Appreciation

We take pride in our loyal staff team, and are thankful to the Board and senior management for their leadership during such a challenging time. I am also grateful for the support from all our shareholders, suppliers, business partners and customers. Together, we will continue to maintain resilience and move ahead with our business remodeling work amid testing macro challenges.

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 2018, the Group's cash and cash equivalents were approximately HK$642 million (as at 31 March 2018: approximately HK$804 million).

The Group is substantially debt-free. As at 30 September 2018, the Group had banking facilities amounted to an aggregate sum of approximately HK$99 million (as at 31 March 2018: approximately HK$99 million) with various banks. Out of the trade and overdraft banking facilities of approximately HK$99 million (as at 31 March 2018: approximately HK$99 million) in Hong Kong being granted to the Group, the Group had not utilized the banking facilities and did not have any interest-bearing bank borrowings as at 30 September 2018 (as at 31 March 2018: nil).

As at 30 September 2018, the current ratio was approximately 2.5 (as at 31 March 2018: approximately 2.4) based on current assets of approximately HK$989 million and current liabilities of approximately HK$402 million and the quick ratio was approximately 2.1 (as at 31 March 2018: approximately 2.0).

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 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 decreased to approximately HK$1,135 million as at 30 September 2018 (as at 31 March 2018: approximately HK$1,221 million). As at 30 September 2018, the Group did not have any interest-bearing bank borrowings (as at 31 March 2018: nil), resulting nil% (as at 31 March 2018: nil%) of the shareholders equity.

INTERIM AND SPECIAL DIVIDENDS

On 30 November 2018, the Board has resolved to declare the payment of an interim dividend of HK2.8 cents per ordinary share and a special dividend of HK1.2 cents per ordinary share in respect of the six months ended 30 September 2018 to shareholders registered on the register of members on 17 January 2019, resulting in an appropriation of approximately HK$28 million. The interim and special dividends will be payable on or about 31 January 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 January 2019 to Thursday, 17 January 2019, 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 Monday, 14 January 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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 9,900 as at 30 September 2018 (30 September 2017: approximately 9,500). 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 2018, 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 2018 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 2018.

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, 30 November 2018

As of the date of this announcement, the Board consists of three executive Directors, namely, Mdm. HUANG Hsiu-duan, Helen, Mr. MUMMA Adin David and Mr. WONG Hei-chiu; three non-executive Directors, namely, Mr. CHAN Ho-man, Daniel, Mr. KIMMEL, Phillip Brian and Mr. CHOW Wing-kin, Anthony; and three independent non-executive Directors, namely Mr. TAM King-ching, Kenny, Mr. YUNG Tse-kwong, Steven and Ms. CHAN Mei-bo, Mabel.