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 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2019	2018	Change
	HK$'000	*HK$'000*	
Revenue	**541,184**	644,260	-16.0%
Gross profit	**37,592**	75,127	-50.0%
Gross profit margin	**6.9%**	11.7%	-4.8 points
Profit/(loss) for the period attributable to equity holders of the Company	**(32,382)**	38,296	N/A
	(HK cents)	*(HK cents)*	
Basic earnings/(loss) per share	**(4.70)**	5.52	N/A
Proposed interim and special dividends			
Interim dividend per share	**–**	2.8	
Special dividend per share	**2.0**	1.2	
Total dividends per share for the period	**2.0**	4.0	-50.0%

- Cash and cash equivalents of approximately HK$529 million

* *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 2019, together with the comparative figures for the corresponding period in 2018 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 2019

		For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**541,184**	644,260
Cost of sales		**(503,592)**	(569,133)
Gross profit		**37,592**	75,127
Other income and gains, net		**3,503**	23,877
Distribution and selling expenses		**(12,007)**	(19,494)
Administrative expenses		**(60,491)**	(52,328)
Finance costs	*3*	**(73)**	(33)
Share of losses of associates		**(17,500)**	(1,680)
PROFIT/(LOSS) BEFORE TAX	*4*	**(48,976)**	25,469
Income tax credit	*5*	**15,501**	12,107
PROFIT/(LOSS) FOR THE PERIOD		**(33,475)**	37,576
ATTRIBUTABLE TO:			
Equity holders of the Company		**(32,382)**	38,296
Non-controlling interests		**(1,093)**	(720)
		(33,475)	37,576

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 September 2019

		For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	*6*		
Basic		**(HK4.70 cents)**	HK5.52 cents
Diluted		**(HK4.70 cents)**	HK5.52 cents

Details of the dividends are disclosed in note 7 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**(33,475)**	37,576
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(14,066)**	(20,564)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Asset revaluation reserve:		
Gain on revaluation of buildings	**48,413**	–
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**34,347**	(20,564)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**872**	17,012
ATTRIBUTABLE TO:		
Equity holders of the Company	**1,965**	17,732
Non-controlling interests	**(1,093)**	(720)
	872	17,012

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		As at	
		30 September	31 March
		2019	2019
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**234,620**	250,454
Right-of-use assets		**88,016**	–
Prepaid land lease payments		**–**	85,744
Investment properties		**235,369**	203,565
Investments in associates		**21,001**	38,501
Investments in club memberships		**1,949**	1,970
Total non-current assets		**580,955**	580,234
CURRENT ASSETS			
Inventories		**137,017**	148,321
Accounts receivable	*8*	**148,362**	109,321
Prepayments, deposits and other receivables		**9,087**	14,277
Due from an associate		**69,073**	37,873
Tax recoverable		**757**	763
Cash and cash equivalents		**528,864**	609,834
Total current assets		**893,160**	920,389

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2019

		As at	
		30 September 2019 (Unaudited)	31 March 2019 (Audited)
	Notes	***HK$'000***	*HK$'000*
CURRENT LIABILITIES			
Accounts payable	*9*	**87,246**	96,391
Accrued liabilities, other payables and contract liabilities		**121,638**	107,912
Lease liabilities		**946**	–
Tax payable		**120,933**	134,511
Total current liabilities		**330,763**	338,814
NET CURRENT ASSETS		**562,397**	581,575
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,143,352**	1,161,809
NON-CURRENT LIABILITIES			
Lease liabilities		**1,223**	–
Deposit received		**955**	1,005
Deferred tax liabilities		**22,173**	24,151
Total non-current liabilities		**24,351**	25,156
Net assets		**1,119,001**	1,136,653
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**68,442**	68,875
Reserves		**1,032,931**	1,049,057
		1,101,373	1,117,932
Non-controlling interests		**17,628**	18,721
Total equity		**1,119,001**	1,136,653

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial information for the six months ended 30 September 2019 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. These unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2019.

The accounting policies adopted in the preparation of these interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 March 2019, except for adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 April 2019.

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

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the adoption of the above new and revised standards has had no significant financial effect on these interim condensed consolidated financial information. The nature and impact of the HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 April 2019, and the comparative information was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the lessee has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of factory, offices and warehouses. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

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

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rates as at 1 April 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This also includes the lease assets of HK$88,481,000 that were reclassified from prepaid land lease payments.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 April 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 April 2019 are as follows:

	Increase/ (decrease) *HK$'000* (Unaudited)
Assets	
Increase in right-of-use assets	90,980
Decrease in prepaid land lease payments	(85,744)
Decrease in prepayments, deposits and other receivables	(2,737)
Increase in total assets	2,499
Liabilities	
Increase in lease liabilities	2,578
Decrease in accrued liabilities, other payables and contract liabilities	(79)
Increase in total liabilities	2,499
Decrease in retained profits	–

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

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 is as follows:

	HK$'000
	(Unaudited)
Operating lease commitments as at 31 March 2019	**3,503**
Weighted average incremental borrowing rate as at 1 April 2019	5%
Discounted operating lease commitments as at 1 April 2019	3,413
Less: Commitments relating to leases of low-value assets, short-term leases and those leases with a remaining lease term ending on or before 31 March 2020	(835)
Lease liabilities as at 1 April 2019	**2,578**

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 March 2019 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 April 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

1. **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)**

Summary of new accounting policies (Continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs and other unallocated income and gains/(losses), 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.

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 2019 and 2018.

	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**	
	2019 (Unaudited) *HK$'000*	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
Segment revenue						
Sales to external customers	**541,184**	644,260	**–**	–	**541,184**	644,260
Rental income	**–**	–	**6,706**	6,387	**6,706**	6,387

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	
	2019	2018	**2019**	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment results	**(42,887)**	4,893	**(4,409)**	15,315	**(47,296)**	20,208
Unallocated income and gains/(loss), net					**(4,036)**	1,671
Interest income					**7,196**	8,234
Unallocated expenses					**(4,767)**	(4,611)
Finance costs					**(73)**	(33)
Profit/(loss) before tax					**(48,976)**	25,469
Income tax credit					**15,501**	12,107
Profit/(loss) for the period					**(33,475)**	37,576

	Manufacturing and sale of footwear products		Property investment		Consolidated	
	30 September	31 March	**30 September**	31 March	**30 September**	31 March
	2019	2019	**2019**	2019	**2019**	2019
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**707,870**	685,372	**235,369**	203,565	**943,239**	888,937
Unallocated assets					**530,876**	611,686
Total assets					**1,474,115**	1,500,623
Segment liabilities	**201,447**	172,567	**6,090**	1,587	**207,537**	174,154
Unallocated liabilities					**147,577**	189,816
Total liabilities					**355,114**	363,970

3. FINANCE COSTS

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**8**	33
Interest on lease liabilities	**65**	–
	73	33

4. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**295,553**	350,911
Depreciation of property, plant and equipment	**16,430**	16,286
Depreciation of right-of-use assets	**1,776**	–
Amortisation of prepaid land lease payments	**–**	1,367
Amortisation of club memberships	**21**	18
Impairment of items of property, plant and equipment	**1,277**	–
Provision for employees' compensation	**9,000**	–
Fair value gains on derivative financial instruments	**–**	(1,295)
Fair value loss/(gains) on revaluation of investment properties	**10,321**	(15,327)
Bank interest income	**(7,057)**	(8,050)
Interest income from accounts receivable	**(139)**	(184)

5. INCOME TAX

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
– Hong Kong	**–**	313
– Elsewhere	**(13,523)**	(16,252)
Deferred	**(1,978)**	3,832
Total tax credit	**(15,501)**	(12,107)

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) to equity holders of the Company	**(32,382)**	38,296
	'000	*'000*
Shares		
Weighted average number of ordinary shares used in calculating the basic earnings/(loss) per share	**688,244**	693,559
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all dilutive options in issue during the period	**817**	785
Weighted average number of ordinary shares used in calculating the diluted earnings/(loss) per share	**689,061**	694,344

7. DIVIDENDS

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends paid during the period		
Final in respect of the financial year ended 31 March 2019 – Nil (2018: final in respect of the financial year ended 31 March 2018 – HK2.2 cents per ordinary share)	**–**	15,264
Special in respect of the financial year ended 31 March 2019 – HK2.0 cents (2018: HK12.8 cents) per ordinary share	**13,754**	88,806
	13,754	104,070
Proposed interim and special dividends		
Interim – Nil (2018: HK2.8 cents) per ordinary share	**–**	19,426
Special – HK2.0 cents (2018: HK1.2 cents) per ordinary share	**13,689**	8,326
	13,689	27,752

The special dividend was declared after the period ended 30 September 2019, and therefore has not been included as a liability in the condensed consolidated statement of financial position. The special dividend will be paid to the shareholders whose names appear in the register of members on 6 January 2020.

8. ACCOUNTS RECEIVABLE

The Group's accounts receivable mainly relate to a few recognised and creditworthy customers. Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days of issuance. 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.

8. ACCOUNTS RECEIVABLE (Continued)

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

	As at	
	30 September 2019	31 March 2019
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**144,143**	102,710
Between 91 and 180 days	**3,279**	5,392
Between 181 and 365 days	**940**	1,219
	148,362	109,321

9. ACCOUNTS PAYABLE

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

	As at	
	30 September 2019	31 March 2019
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**81,725**	86,787
Between 91 and 180 days	**3,637**	7,627
Between 181 and 365 days	**103**	69
Over 365 days	**1,781**	1,908
	87,246	96,391

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The subdued retail conditions in major footwear markets continued to have an impact on the order book of the Group during the six months ended 30 September 2019 (the "Period"). Procurement planning of brand customers has remained conservative, resulting in reduced overall sales, smaller batch sizes and shorter production lead times for the Group. This has undermined our economies of scale and has cost implications for our manufacturing operations.

In addition, the Group continued to adopt a sales strategy to facilitate its long-term goal of building a healthy portfolio of products that can generate higher value and profit margin.

Turnover

As a result, turnover of footwear products was down by 16.0% period-to-period to approximately HK$541 million (2018: approximately HK$644 million) during the Period, accounted for by a 5.5% decline in average selling price ("ASP") and a 11.9% decrease in business volume (pairs). The turnover drop also took into account a delay in the placement of certain new orders.

Despite a lower overall ASP for the Period, the Group was able to achieve higher product value for its new business orders, in line with its sales strategy.

Gross Profit

As the Group continued to adapt to the new procurement model of brand customers, the conversion of the traditional production set-up into new concept lines remained in progress. The concept line system was designed to accommodate small batch size production, as well as fast and frequent assembly line changes. However, with the lack of repeat orders, the production lines had to be reorganized frequently to cater to new products, and thus workers' efficiency was affected as they needed to re-adapt to new processes.

Material usage and labor input therefore did not decrease in line with the turnover drop. The higher proportional material cost to turnover was also attributable to the use of more leather material required for the taking up of more premium products.

To serve its customers' sourcing plan adjustments, the Group shifted the manufacturing of certain products between its centers. Additional costs were incurred and associated with the relocation of production lines during the Period.

The gross profit margin was also under additional pressure from increased minimum wages in Vietnam and Cambodia, as well as salary raises amid keen competition for labor in these two manufacturing hubs. In light of ongoing labor shortages in southern Vietnam, the Group opted to maintain a relatively stable pool of skilled workers in spite of the short-term volatility in sales orders. This has resulted in lower utilization and thus higher unit labor costs.

During the Period, wages and salaries, including allowances and other benefits, remained relatively stable at approximately HK$189 million (2018: approximately HK$201 million). This cost item's proportion to turnover increased 3.7 percentage points to 34.8% (2018: 31.1%).

To sustain its long-term competitiveness, the Group continued to invest in process automation and lean manufacturing, thereby incurring costs in the short term.

As a result, the gross profit margin declined to approximately 6.9% (2018: approximately 11.7%) during the Period.

Net Loss

The Group recorded a net loss attributable to equity holders of the Company of approximately HK$32 million, compared to an attributable net profit of approximately HK$38 million during the six months ended 30 September 2018.

The loss was mainly attributable to:

(a) the further decrease in turnover recorded by the core business of manufacturing and sales of footwear products, thereby reducing the cost benefits from scale economies. The turnover drop was mainly attributable to:

  (i) weak retail conditions, and

  (ii) the Group's more selective sales strategy adopted with an aim in shifting its focus to products with higher value and margins;

(b) cost increases which were partly caused by expenses incurred on and associated with the relocation of production lines between manufacturing centers upon clients' requests. Subcontracting expenses increased, as a result of the production lines relocation, by 68.5% to approximately HK$9.1 million (2018: approximately HK$5.4 million);

(c) a fair value loss on revaluation of investment properties of approximately HK$10.3 million (2018: a gain of approximately HK$15.3 million);

(d) an impairment of interior furnishings of the plant in Zhuhai, as well as a provision on compensation for employees in this manufacturing center, totaling approximately HK$10.3 million (2018: HK$Nil); and

(e) a share of losses from associates of approximately HK$17.5 million (2018: approximately HK$1.7 million) incurred by the Group's affiliated companies operating in Central Vietnam.

The loss impact was partly reduced by the reversal of a tax provision in the amount of approximately HK$13.5 million (2018: approximately HK$16.3 million) due to an overprovision in prior years' income taxes.

Loss per share for the Period was approximately HK4.70 cents, compared with earnings per share of HK5.52 cents for the comparative period.

Key Financial Ratios

The Group maintained healthy financial ratios during the Period:

- Debtors' turnover increased from 35 days for the six months ended 30 September 2018 to 43 days for the Period;

- Creditors' turnover decreased from 71 days to 58 days;

- Stock turnover was 87 days (2018: 81 days) owing to a temporary holding of stock on customers' requests;

- Strong liquidity with net cash in hand of approximately HK$529 million as at 30 September 2019 (31 March 2019: approximately HK$610 million); and

- Current and quick ratios were improved to 2.7 and 2.3 respectively (2018: 2.5 and 2.1 respectively).

Interim and Special Dividends

In anticipation of ongoing steady 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 has resolved to declare a special dividend of HK2.0 cents (2018: HK1.2 cents) per ordinary share. No interim dividend in respect of the Period was recommended by the Board (2018: HK2.8 cents).

OPERATIONAL PERFORMANCE

Macro Environment

The retail sector in major economies continued to undergo disruption from global trade and geopolitical tension, and weaker consumer sentiments. The soft spring performance of footwear brands and retailers was also attributed to the cold weather across North America and parts of Europe. Sales and promotional activity with record levels of discounting, amid store closures, remained a feature of the sector in major retail markets.

The ongoing trade frictions between the US and China have also added uncertainty to the business plans of footwear brands, driving clients to tighten their procurements. Although a majority portion of the Group's production is now based outside China, the Board is alert to the broad-based impact of the trade conflicts on global economies.

Apart from the escalation in the Sino-US tariff war, the uncertainty surrounding Brexit has also damaged the UK's investment and GDP growth. A number of other countries suffering from contraction, including the Middle-Eastern economy which has slowed to a decade-long low, had negative repercussions for the world economy. Locally, the social unrest has dampened retail sentiments in Hong Kong.

In view of the generally weak market conditions, the Group has taken a more conservative approach in capacity planning. More stringent cost and risk management was also adopted to guard against heightened uncertainty in the operating landscape.

Manufacturing Business

The Group currently operates two core manufacturing bases in southern Vietnam and Cambodia, with a small-scale production center in Zhuhai, the People's Republic of China (the "PRC"). Our production platform also incorporates R&D centers in these three locations, and two outsole factories in southern Vietnam and Cambodia. In addition, the Group holds a 40% interest in a joint-venture factory in central Vietnam.

The Group's multi-year diversification program has gradually geared its production activity away from the PRC to the Southeast Asian sites. As at the Period-end date, 94.7% of the total production lines were based in Vietnam and Cambodia, with 5.3% being retained in Mainland China.

As at the Period-end date, the Group had a combined production scale of 38 concept and traditional processing lines, aggregating to an annual capacity of around 9.7 million pairs of shoes, which were 90.4% utilized (2018: 83.0%).

In southern Vietnam, there were 22 concept lines and 4 traditional lines in operation, while in Cambodia the Group had 10 concept lines. The conversion of traditional lines to concept lines has been ongoing to accommodate the trend of small batch sizes and flexible order placements by clients.

In terms of output, the Southeast Asian production base contributed 86.3% of total production (2018: 84.4%) in pairs of footwear, while Mainland China's share was decreased to 13.7% (2018: 15.6%) of total output. With a robust, multi-location production base, the Group has been able to provide not only the capacity, but also the flexibility to fulfill clients' needs in respect of country of manufacture.

The geographical distribution of markets, on the other hand, continued to be demand-led. European markets' contribution dropped to 31.1% (2018: 36.8%) whereas turnover from the US increased to 15.8% (2018: 13.2%). Shipments to other markets, including Asia and other areas, accounted for 53.1% (2018: 50.0%).

Premium casual footwear remained the major product category, accounting for 41.6% (2018: 52.9%) of turnover during the Period. The rugged shoes category contributed 32.4% (2018: 22.9%) of Group turnover, as this product line is regaining popularity in the market. Contribution of infant and children's footwear increased to 24.1% (2018: 18.6%), while the athleisure and athletic product category had a share of 1.9% (2018: 5.6%).

Major customers for the Period included Asics, Clarks, Quiksilver, Skechers and Wolverine; these in aggregate contributed 92.5% (2018: 92.6%) of total turnover.

Key developments in the Group's production centers are summarized below:

Southern Vietnam

Southern Vietnam remained the core manufacturing site for the Group, contributing 74.6% (2018: 64.4%) of total volume output.

As the Phase I factory reached higher utilization, the Group made advance capacity planning by building new premises on an adjacent site. This new plant will prepare the Group for ramping up production capacity within a short lead time. The plan is to fully utilize the capacity of the Phase I facilities before making moves to install machinery and equipment for the new premises.

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

With a production center in operation, new premises ready to house additional manufacturing within a short lead time, and a plot of land set aside for long-term expansion, the Group is well covered in fulfilling existing demand and capturing future growth opportunities.

Cambodia

As some clients opted to move their procurement to Cambodia, one concept line was added to this manufacturing site which contributed 11.7% (2018: 20.0%) of output in pairs during the Period.

The Group will seek to further improve the operational efficiency of the Cambodian factory in view of its growing importance in fulfilling future orders. It is planned that this center will be expanded to 12 production lines in the current financial year.

Mainland China

The Group's manufacturing activity in Mainland China is based in Zhuhai in southern China. In light of the rising costs in the country and the ongoing Sino-US trade clashes, proportional output (pairs) from this center has been further reduced to 13.7% (2018: 15.6%).

The Zhuhai facilities are currently retained as an alternative source of manufacturing for clients, as well as an R&D center. A lean labor force has therefore been maintained. The Group will continue to review the value of the site in terms of its strategic function as an alternative R&D and manufacturing center, against its asset value or potential for gaining rental returns. The Board expects that these production facilities will be further scaled down during the current financial year, and a provision on its furnishings and compensation for workers has therefore been made.

Investment in associates

The Group holds a 40% interest in an affiliated company jointly owned with Evervan Group ("Evervan") in central Vietnam. Evervan is a leading international athletic footwear manufacturer.

During the period under review, the associates expanded its capability from 3 production lines to 19. More workers have also been employed to cope with the expansion.

Turnover from the associates increased by 327.5% to approximately HK$165.0 million (2018: approximately HK$38.6 million) during the Period. However, during the initial stage of ramping up, efforts have to be placed on worker training and adaptation, with optimal efficiency yet to be achieved. Additional costs such as airfreight and subcontracting fee were also incurred as the associates sought to improve and refine the products to deliver high quality standards. As a result, the share of losses of associates increased to approximately HK$17.5 million (2018: approximately HK$1.7 million).

Given the strong background and expertise of Evervan, the Board believes that as the business scales up further to achieve better cost effectiveness, and with the skill sets of its workers maturing on the learning curve and processes further refined, the efficiency of this operation will improve in the future. However, the factory has yet to achieve economies of scale to generate a profit despite an increase in orders. The Board will closely monitor the performance of the associates.

Asset Enhancement

In line with the Group's business and capacity planning, some self-owned factory and office properties may not be fully utilized at times. The Board will from time to time review and contemplate the potential of these assets for sale or leasing. This long-term asset enhancement program aims to create additional returns for shareholders.

During the Period, the Group continued to lease out its self-owned property in Hong Kong and PRC to independent third parties.

As for the Zhuhai site, the Board will continue to evaluate its potential and value. 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.

Talent Development and Leadership Succession

The Group nurtures and retains a diverse and talented team of people who are committed to making customers successful and to growing a world-class company that can share in that success. A robust second-generation management team is in place to continue the succession of managerial roles.

As the production centers in Vietnam and Cambodia continue to grow and mature, the Group is training local staff members to take up management functions in these facilities. Localization will be an important step to strengthen the long-term development of these manufacturing locations.

In addition to offering competitive compensation packages, the Company also operates a share option scheme and a share award scheme to provide further incentives and rewards to eligible participants who contribute to the success of the Group's operations.

FUTURE PLANS AND PROSPECTS

The Group will continue to face challenges on multiple fronts, including an overall weak retail environment, and consequently volatile and conservative procurement patterns of customers, against rising manufacturing costs.

In the US, retail sales began to decelerate in the third quarter of 2019 with consumer confidence recording consecutive drops, reinforcing an ongoing concern that the country's slowdown in the manufacturing sector could spread to the broader economy. Economic and political instability in major economies and developing markets will also remain a threat to global growth. On a brighter note, the global trend towards more active lifestyles will likely continue, stimulating demand for athletic and casual footwear. The Group believes it can drive long-term growth in this arena.

As a long-term production partner for global footwear brands, the Group remains committed to helping clients cope with new retail realities. To this end, the Group will continue to convert its traditional lines into concept lines, which are designed to cater to small orders, quick turnaround time and frequent assembly line rearrangements. Despite higher worker training and development costs incurred on maintaining the concept lines in the initial stage, the Group is confident that the efficiency of the lines will improve as sales orders rebound and stabilize.

Higher levels of automation and digitalization are also underway to drive efficiency and quality enhancements. We foresee that labor shortage and cost inflation will increasingly be a challenge for manufacturers, and will therefore explore and apply innovative technologies in the workplace, including the furtherance of lean manufacturing and semi-automation processes. Digital transformation of the facilities also enables real-time monitoring and prompt reaction to operational incidents.

The Group has a robust production platform based in Vietnam and Cambodia to meet both short- and long-term growth requirements. Plans are also being contemplated for the possible transition of the Zhuhai site into an R&D hub. The Group is exploring options for the subsequently unutilized portion of the premises in Zhuhai, including transforming it for rental purposes.

It is the Group's long-term mission to maintain steady business progress, financial stability and strong governance. In future, the Group will continue to adopt a conservative management approach to achieve sustainable development.

The Board maintains a cautiously optimistic outlook for the current financial year, while we will work hard to enhance the efficiency and thus performance of the various facilities. Equipped with a strong production platform and a core competence in premium footwear manufacturing, the Group is well positioned to maintain its competitiveness in a challenging operating landscape.

Appreciation

I take the opportunity to thank my fellow directors, senior management and all staff members for their dedicated service. My sincere appreciation also goes to our business partners, clients and shareholders for their support and confidence in the Group. We will remain prudent while taking steadfast steps forward towards our corporate and business goals.

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 2019, the Group's cash and cash equivalents were approximately HK$529 million (as at 31 March 2019: approximately HK$610 million).

The Group is substantially debt-free. As at 30 September 2019, the Group had banking facilities amounted to an aggregate sum of approximately HK$79 million (as at 31 March 2019: approximately HK$79 million) with various banks. Out of the trade and overdraft banking facilities of approximately HK$79 million (as at 31 March 2019: approximately HK$79 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 2019 (as at 31 March 2019: nil).

As at 30 September 2019, the current ratio was approximately 2.7 (as at 31 March 2019: approximately 2.7) based on current assets of approximately HK$893 million and current liabilities of approximately HK$331 million and the quick ratio was approximately 2.3 (as at 31 March 2019: approximately 2.3).

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$1,101 million as at 30 September 2019 (as at 31 March 2019: approximately HK$1,118 million). As at 30 September 2019, the Group did not have any interest-bearing bank borrowings (as at 31 March 2019: nil), resulting nil% (as at 31 March 2019: nil%) of the shareholders equity.

INTERIM AND SPECIAL DIVIDENDS

On 27 November 2019, the Board has resolved to declare the payment of a special dividend of HK2.0 cents per ordinary share in respect of the six months ended 30 September 2019 to shareholders registered on the register of members on 6 January 2020, resulting in an appropriation of approximately HK$13.7 million. No interim dividend in respect of the Period was recommended by the Board. The special dividend will be payable on or about 20 January 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 2 January 2020 to Monday, 6 January 2020, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the special dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 31 December 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2019, the Company repurchased 4,326,000 of its ordinary shares of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$5,120,000 excluding transaction cost and 4,326,000 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*
August 2019	1,058,000	1.19	1.16	1,250
September 2019	3,268,000	1.20	1.17	3,870
Total	4,326,000			5,120

The premium paid on the repurchased and cancelled shares of approximately HK$4,687,000 has been debited to the share premium account during the six months ended 30 September 2019. 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 9,400 as at 30 September 2019 (30 September 2018: approximately 9,900). 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 2019, in compliance with the code provisions as set out in the Corporate Governance 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 interim condensed consolidated financial information for the six months ended 30 September 2019 has been reviewed by the Committee, which was of the opinion that the preparation of such financial information 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 2019.

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, 27 November 2019

As of the date of this announcement, the Board consists of three executive Directors, namely, Mdm. HUANG Hsiu-duan, Helen, Mr. WONG Hei-chiu and Mr. CHEN Yi-wu, Ares; 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.