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 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2020	2019	Change
	HK$'000	*HK$'000*	
Revenue	**391,565**	541,184	-27.6%
Gross profit	**21,056**	37,592	-44.0%
Gross profit margin	**5.4%**	6.9%	-1.5 points
Profit/(loss) for the period attributable to equity holders of the Company	**65,564**	(32,382)	N/A
	(HK cents)	*(HK cents)*	
Basic earnings/(loss) per share	**9.70**	(4.70)	N/A
Proposed interim and special dividends			
Interim dividend per share	**1.5**	–	
Special dividend per share	**0.7**	2.0	
Total dividends per share for the period	**2.2**	2.0	+10%

- Cash and cash equivalents of approximately HK$418 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 2020, together with the comparative figures for the corresponding period in 2019 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 2020

		For the six months ended 30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**391,565**	541,184
Cost of sales		**(370,509)**	(503,592)
Gross profit		**21,056**	37,592
Other income and gains, net		**125,587**	3,503
Distribution and selling expenses		**(8,533)**	(12,007)
Administrative expenses		**(56,430)**	(60,491)
Finance costs	*3*	**(27)**	(73)
Share of profits/(losses) of associates		**6,460**	(17,500)
PROFIT/(LOSS) BEFORE TAX	*4*	**88,113**	(48,976)
Income tax credit/(expense)	*5*	**(29,975)**	15,501
PROFIT/(LOSS) FOR THE PERIOD		**58,138**	(33,475)
ATTRIBUTABLE TO:			
Equity holders of the Company		**65,564**	(32,382)
Non-controlling interests		**(7,426)**	(1,093)
		58,138	(33,475)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 September 2020

		For the six months ended 30 September	
		2020	2019
	Notes	**(Unaudited)**	(Unaudited)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	*6*		
Basic		**HK9.70 cents**	(HK4.70 cents)
Diluted		**HK9.70 cents**	(HK4.70 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 2020

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**58,138**	(33,475)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**24,682**	(14,066)
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 FOR THE PERIOD	**24,682**	34,347
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**82,820**	872
ATTRIBUTABLE TO:		
Equity holders of the Company	**90,246**	1,965
Non-controlling interests	**(7,426)**	(1,093)
	82,820	872

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at	
		30 September	31 March
		2020	2020
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**193,566**	208,531
Right-of-use assets		**72,079**	73,356
Investment properties		**535,034**	398,711
Investments in associates		**24,277**	17,817
Investments in club memberships		**1,905**	1,924
Total non-current assets		**826,861**	700,339
CURRENT ASSETS			
Inventories		**134,675**	166,539
Accounts receivable	*8*	**144,199**	137,407
Prepayments, deposits and other receivables		**9,819**	9,668
Due from an associate		**69,073**	69,073
Tax recoverable		**259**	619
Cash and cash equivalents		**417,913**	443,946
Total current assets		**775,938**	827,252

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2020

	Notes	As at 30 September 2020 (Unaudited) HK$'000	31 March 2020 (Audited) HK$'000
CURRENT LIABILITIES			
Accounts payable	9	**70,163**	93,966
Accrued liabilities, other payables and contract liabilities		**77,633**	80,784
Lease liabilities		**683**	872
Tax payable		**107,957**	113,807
Total current liabilities		**256,436**	289,429
NET CURRENT ASSETS		**519,502**	537,823
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,346,363**	1,238,162
NON-CURRENT LIABILITIES			
Lease liabilities		**455**	448
Deposits received		**4,671**	1,211
Deferred tax liabilities		**93,692**	57,866
Total non-current liabilities		**98,818**	59,525
Net assets		**1,247,545**	1,178,637
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**68,443**	68,443
Reserves		**1,167,517**	1,091,183
		1,235,960	1,159,626
Non-controlling interests		**11,585**	19,011
Total equity		**1,247,545**	1,178,637

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial information for the six months ended 30 September 2020 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 2020.

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 2020, except for adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 April 2020.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

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

2. OPERATING SEGMENT INFORMATION

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, non-lease related 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 2020 and 2019.

	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**	
	2020	2019	**2020**	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**391,565**	541,184	**–**	–	**391,565**	541,184
Rental income	**–**	–	**6,976**	6,706	**6,976**	6,706

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	
	2020	2019	**2020**	2019	**2020**	2019
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment results	**(31,383)**	(42,887)	**119,884**	(4,409)	**88,501**	(47,296)
Unallocated income and gains/(loss), net					**852**	(4,036)
Interest income					**3,028**	7,196
Unallocated expenses					**(4,267)**	(4,832)
Finance costs (Other than interest on lease liabilities)					**(1)**	(8)
Profit/(loss) before tax					**88,113**	(48,976)
Income tax credit/(expense)					**(29,975)**	15,501
Profit/(loss) for the period					**58,138**	(33,475)

	Manufacturing and sale of footwear products		Property investment		Consolidated	
	30 September 2020	31 March 2020	**30 September 2020**	31 March 2020	**30 September 2020**	31 March 2020
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**645,746**	681,557	**535,034**	398,711	**1,180,780**	1,080,268
Unallocated assets					**422,019**	447,323
Total assets					**1,602,799**	1,527,591
Segment liabilities	**141,198**	112,135	**101,849**	59,616	**243,047**	171,751
Unallocated liabilities					**112,207**	177,203
Total liabilities					**355,254**	348,954

3. FINANCE COSTS

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1**	8
Interest on lease liabilities	**26**	65
	27	73

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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**225,833**	295,553
Depreciation of property, plant and equipment	**14,727**	16,430
Depreciation of right-of-use assets	**1,647**	1,776
Amortisation of club memberships	**19**	21
Impairment of items of property, plant and equipment	**7,209**	1,277
Impairment allowance of accounts receivable	**472**	–
Provision for employees' compensation	**7,680**	9,000
Fair value loss/(gains) on revaluation of investment properties	**(114,112)**	10,321
Bank interest income	**(2,983)**	(7,057)
Interest income from accounts receivable	**(45)**	(139)

5. INCOME TAX

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
– Elsewhere	**(5,850)**	(13,523)
Deferred	**35,825**	(1,978)
Total tax expense/(credit)	**29,975**	(15,501)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 profit per share (six months ended 30 September 2019: basic loss per share) amount is based on the profit for the period attributable to equity holders of the Company of HK$65,564,000 (six months ended 30 September 2019: loss of HK$32,382,000), and the weighted average number of ordinary shares of 675,883,000 (six months ended 30 September 2019: 688,244,000) in issue during the period, as adjusted to reflect the number of shares of 8,546,000 (six months ended 30 September 2019: Nil) held under the share award scheme of the Company.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 September 2020 in respect of a dilution as the impact of the share options outstanding during the period had no dilutive effect on the basic earnings per share amount presented.

No adjustment had been made to the basic loss per share amount presented for the six months ended 30 September 2019 in respect of the potentially dilutive ordinary shares in issue during the period as the impact had an anti-dilutive effect on the basis loss per share amount presented.

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

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) to equity holders of the Company	**65,564**	(32,382)
	'000	*'000*
Shares		
Weighted average number of ordinary shares used in calculating the basic earnings/(loss) per share	**675,883**	688,244
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
Weighted average number of ordinary shares used in calculating the diluted earnings/(loss) per share	**675,883**	689,061

7. DIVIDENDS

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends paid during the period		
Special in respect of the financial year ended 31 March 2020		
– HK2.0 cents (2019: HK2.0 cents) per ordinary share	**13,518**	13,754
Proposed interim and special dividends		
Interim – HK1.5 cents (2019: Nil) per ordinary share	**10,266**	–
Special – HK0.7 cent (2019: HK2.0 cents) per ordinary share	**4,791**	13,689
	15,057	13,689

The interim and special dividends were declared after the period ended 30 September 2020, and therefore have 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 11 January 2021.

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.

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	31 March
	2020	2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**143,161**	134,432
Between 91 and 180 days	**797**	2,383
Between 181 and 365 days	**241**	592
	144,199	137,407

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 2020	31 March 2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**58,720**	87,659
Between 91 and 180 days	**2,007**	3,110
Between 181 and 365 days	**8,114**	1,609
Over 365 days	**1,322**	1,588
	70,163	93,966

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The six-month period ended 30 September 2020 (the "Period") started amid the heights of the 2019 novel coronavirus ("COVID-19") pandemic across major eurozone markets and the United States. The impact of the public health crisis on the footwear business around the world was significantly felt in the April-to-June quarter. Despite many brands posting sequential sales growth in the quarter that followed, overall footwear and clothing retail sales were still below pre-pandemic levels.

To cope with extreme unpredictability and weak consumer sentiment, resulting in conservative procurement planning of branded customers, the Group has tightened cost control, postponed capital expenditures and taken steps to produce stable streams of rental income from unutilized offices and manufacturing premises.

Although a safe and reliable COVID-19 vaccine appears to be in final stages of government approval within a short time, world economic recovery will still be a slow and tenuous process. In spite of a long recovery path, the Board is confident that the Group is well equipped with manufacturing and financial strengths to capture the sales rebound as the health crisis stabilizes.

Turnover

Pandemic-related uncertainty and risks contributed to an even more conservative outlook and sourcing planning for branded customers. The Group thus recorded a 27.6% period-to-period decrease in turnover attributable to footwear manufacturing and sales, to approximately HK$392 million (2019: approximately HK$541 million) during the Period.

The decline was mainly accounted for by the 31.9% drop in business volume (pairs). Our sales strategy to maintain focus on higher-value products and growth brands has helped yield a 10.9% improvement in average selling price ("ASP").

Gross Profit

The further decrease in turnover continued to undermine the Group's economies of scale. Despite the adoption of the new concept-line system which caters to smaller order batches, efficiency of the production lines was impaired owing to the lack of repeat orders and short turnaround time.

Frequent line rearrangements have also incurred additional labor training and material costs. This, coupled with increased usage of leather material for higher-value footwear items, caused material and labor costs to go up.

As a result, the gross profit margin declined to approximately 5.4% (2019: approximately 6.9%) during the Period.

Net Profit

The Group posted a net profit attributable to equity holders of the Company of approximately HK$66 million for the Period (2019: net loss of approximately HK$32 million). The profit took into account:

(i) reduced loss (excluding impairment losses) incurred by the business of footwear manufacturing and sale;

(ii) a fair value gain of approximately HK$143 million arising from the revaluation of the property at the Zhuhai plant that the Group leased out pursuant to the lease agreement entered into with an independent third party in May 2020; and

(iii) share of profit from associates of approximately HK$6.5 million (2019: share of losses of approximately HK$17.5 million) generated by the Group's associates operating in Central Vietnam;

which were partially offset by:

(i) the fair value losses on revaluation of the Group's other investment properties in Hong Kong and elsewhere in the People's Republic of China (the "PRC"); and

(ii) provision for impairment losses on certain items of assets and severance payments in respect of the planned cessation of manufacturing activity of a loss-making subsidiary operating in Cambodia.

Key Financial Ratios

The Group maintained healthy financial ratios during the Period:

- Debtors' turnover increased from 43 days for the six months ended 30 September 2019 to 65 days for the Period;
- Creditors' turnover increased from 58 days to 76 days;
- Stock turnover was 120 days (2019: 87 days) owing to a temporary holding of stock on customers' requests;
- Strong liquidity with net cash in hand of approximately HK$418 million as at 30 September 2020 (31 March 2020: approximately HK$444 million); and
- Current and quick ratios were improved to 3.0 and 2.5 respectively (2019: 2.7 and 2.3 respectively).

Interim and Special Dividends

With dedicated efforts on working capital management and plans to postpone all capital expenditure projects, the Company was able to maintain a healthy financial position. In view of this and to share results with shareholders, the Board has resolved to declare an interim dividend of HK1.5 cents per share (2019: Nil) and a special dividend of HK0.7 cent per share (2019: HK2.0 cents).

OPERATIONAL PERFORMANCE

Macro Environment

Impact of the COVID-19 Pandemic

With the spread of COVID-19 globally, the Group continued to navigate a highly unpredictable operating environment amid a contracting global economy during the Period.

In the midst of social restrictions and shutdowns, footwear retailing was and continues to be adversely affected. For this reason, both back to school and holiday sales were extremely weak when compared to previous years. Weak consumer sentiment deepened a number of pre-existing sourcing trends for brands as they work to revitalize and turn around their businesses. This has led to even smaller order sizes, shorter production lead time and longer credit terms, adding operating pressure for manufacturers.

There will continue to be a lot of uncertainty around the COVID-19 pandemic. To cope with the situation, the Group has taken all necessary measures to control costs, and to enhance working capital and cash flow to maintain resilience.

Manufacturing Business

The Group currently operates two core manufacturing bases in southern Vietnam and Cambodia, which are both equipped with research and development ("R&D") facilities. A supplementary R&D center is in operation in Zhuhai, the PRC. In addition, the Group holds a 40% interest in an associate company in central Vietnam.

As at the Period-end date, the Group had a combined production scale of 24 active processing lines, mostly under the concept-line set-up. They contributed an annual capacity of around 6.3 million pairs of shoes, and were 83.8% utilized (2019: 90.4%).

In southern Vietnam, there were 14 concept lines and 4 traditional lines in operation, while in Cambodia the Group had 6 concept lines. This robust, multi-location production platform enables the Group to provide capacity with flexibility, in order to cater to clients' sourcing plans in terms of country of manufacture.

The geographical distribution of markets continued to be demand-led. European markets' contribution increased to 33.6% (2019: 31.1%) whereas turnover from the US decreased to 12.9% (2019: 15.8%). Shipments to other markets, including Asia and other areas, accounted for 53.5% (2019: 53.1%).

Premium casual footwear remained a major product category, accounting for 34.7% (2019: 41.6%) of turnover during the Period. The rugged shoes category contributed 46.3% (2019: 32.4%) of Group turnover, as this product line is regaining popularity in the market. The contribution of infant and children's footwear decreased to 13.8% (2019: 24.1%), while the athleisure and athletic product category had a share of 5.2% (2019: 1.9%).

Major customers for the Period included Asics, Clarks, Timberland, Dr. Martens and Wolverine; these in aggregate contributed 93.3% (2019: 92.5%) of total turnover.

The Board wishes to bring shareholders' attention to a recent corporate development at one of the Group's branded customers, C&J Clark Limited ("Clarks"). The Board noted that, on 4 November 2020, Clarks announced an investment from LionRock Capital Partners. L.P. to acquire a majority stake in the company. Clarks contributed approximately 10.9% of the Group's turnover during the Period. The Board will closely monitor the situation and update the shareholders as and when appropriate.

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

Southern Vietnam

Southern Vietnam remained the core manufacturing site for the Group, contributing 74.3% (2019: 74.6%) of total volume output.

This manufacturing site holds a portfolio of facilities in operation, premises ready for equipment installation, and land for future expansion, which will enable the Group to fulfill existing demand and ready it to capture future growth opportunities.

Cambodia

During the Period, the Cambodia site contributed 25.7% (2019: 11.7%) of output in pairs.

The Group will seek to further improve the operational efficiency of this center, in order to provide an alternative for clients to meet their global sourcing needs.

The Group also operates an outsole factory in the country. The Board is assessing the loss-making situation of this subsidiary, and will cease its manufacturing activity in order to contain the loss. Accordingly, the Company made a provision of approximately HK$6.7 million on impairment losses on certain items of assets and severance payments during the Period.

Mainland China

In light of the rising costs in mainland China, and as most branded customers redrew their global sourcing maps, the Group has relocated its manufacturing activity to other Southeast Asian sites. The production center in Zhuhai discontinued operation in February 2020.

At the request of clients, an R&D center was maintained in Zhuhai with the support of a lean workforce. The Group will continue to monitor its utilization to make plan adjustments as deemed appropriate.

Investment in Associates

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

With 20 production lines, the associated company is mainly engaged in production for a world-leading casual footwear brand. In light of the weak market conditions, it has adjusted its short-term marketing strategy to go for volume business in a bid to seize market share and to achieve higher facilities utilization.

The associated company has demonstrated steady revenue growth and during the Period, turnover from associates increased by approximately 29.1% to approximately HK$213 million (2019: approximately HK$165 million).

With an enlarged scale and enhanced workforce efficiency, the associated company contributed to the Group a share of profit from associates of approximately HK$6.5 million (2019: share of losses of approximately HK$17.5 million).

Asset Enhancement

Depending on the Group's business needs and capacity planning, some self-owned factories and office properties may not be fully utilized at times. The Board has in place a long-term asset enhancement program to consider the properties' sale or leasing options and potential in order to create returns on these assets.

For the Zhuhai plant, save for an R&D center that is being retained, all production lines ceased operation in February 2020. The unutilized part of the Zhuhai plant was subsequently leased out pursuant to a lease agreement entered into with an independent third party in May 2020.

The Board considered that there would be potential for capital appreciation of the plant in future in view of the development of the Greater Bay Area. The lessee is engaged in property investment, development, and operation. In line with the local government's policy to encourage the development of new and emerging industries, the lessee has plans to transform the production premises to industrial/commercial purposes, at its own expense. Upon government approval and completion of transformation in about two to three years, the leased premises will house workshops, offices and apartments for rental purposes. Renovation design and planning are currently underway.

The asset enhancement program will help the Group make good use of idle properties, realize the investment value of its assets, and generate additional stable income to enhance working capital.

Talent Development and Leadership Succession

The Group nurtures and retains a team of people with diverse talents. They are committed to making customers successful and to growing a world-class company that can share in that success. A highly capable 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 sites.

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 impact of COVID-19 and its associated uncertainty has brought unprecedented challenges to the retail environment on a global scale. While economic activity was rekindled in major economies in the July-September quarter of 2020, ongoing growth momentum will likely be limited as social restrictions are set to tighten again in the final quarter.

With the pandemic continuing to spread and even escalating in places, the world economy's ascent back to pre-crisis levels will be long and difficult. Retail outlook, in particular for footwear products, will likely remain subdued. The Group therefore expects continued impacts from the health crisis on its business performance for the remainder of 2020 and into 2021.

While the trade conflicts have driven brands to redraw their global sourcing maps over the past couple of years, the pandemic has also accelerated some pre-existing procurement trends. Order forecasts from branded customers have become even more conservative, providing very low visibility for the Group to make capacity planning.

Faced with soft retail sentiment and inventory pile-ups, branded customers are inclined to further reduce order sizes and shorten production lead time. This certainly adds to the pressure faced by manufacturers, on top of the cost implications of the frequent production line rearrangements and staff training.

On a brighter note, as a manufacturer operating a robust and multi-country platform, the Group is well prepared to accommodate the branded customers' need to diversify supplier portfolios amid trade tensions and political unrest. While the Group is downsizing its labor forces in line with slower business, it will continue to harness its production capability in preparation for a future economic and sales rebound.

We also consider it our best defense to step up working capital and risk management. We foresee that liquidity will be the critical issue for businesses to stay afloat. In this connection, the Group is well placed with a sound financial position.

How we respond to the pandemic will define our long-term resilience. The Group is committed to standing the business in good stead, and emerging even stronger from the current crisis.

Appreciation

I take the opportunity to thank my fellow directors, senior management and all staff members for their hard work and dedication. The support we have from our business partners, clients and shareholders is also much appreciated. 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 cash flow 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 2020, the Group's cash and cash equivalents were approximately HK$418 million (as at 31 March 2020: approximately HK$444 million).

The Group is substantially debt-free. As at 30 September 2020, the Group had banking facilities amounted to an aggregate sum of approximately HK$79 million (as at 31 March 2020: approximately HK$79 million) with various banks. Out of the trade and overdraft banking facilities of approximately HK$79 million (as at 31 March 2020: 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 2020 (as at 31 March 2020: nil).

As at 30 September 2020, the current ratio was approximately 3.0 (as at 31 March 2020: approximately 2.9) based on current assets of approximately HK$776 million and current liabilities of approximately HK$256 million and the quick ratio was approximately 2.5 (as at 31 March 2020: 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 those in 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 hedge the foreign currency exposures through natural hedges, forward contracts and options, if consider necessary. The management of currency risk is centralised in the headquarters of the Group in Hong Kong.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$1,236 million as at 30 September 2020 (as at 31 March 2020: approximately HK$1,160 million). As at 30 September 2020, the Group did not have any interest-bearing bank borrowings (as at 31 March 2020: nil), representing nil% (as at 31 March 2020: nil%) of the shareholders equity.

INTERIM AND SPECIAL DIVIDENDS

On 27 November 2020, the Board has resolved to declare the payment of an interim dividend of HK1.5 cents per ordinary share and a special dividend of HK0.7 cent per ordinary share in respect of the six months ended 30 September 2020 to shareholders registered on the register of members on 11 January 2021, resulting in an appropriation of approximately HK$15.1 million. The interim and special dividends will be payable on or about 25 January 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7 January 2021 to Monday, 11 January 2021, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the interim and special dividends, 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 Wednesday, 6 January 2021.

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 6,800 as at 30 September 2020 (30 September 2019: approximately 9,400). 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.

During the Period, the trustee of the Company's share award scheme adopted on 26 June 2019 (the "Share Award Scheme") purchased a total number of 860,000 shares on the market at a total consideration of approximately HK$645,000. No shares have been awarded under the Share Award Scheme for the Period. As at 30 September 2020, the trustee of the Share Award Scheme held a total of 8,546,000 shares of the Company and no shares have been awarded to any selected participants pursuant to the Share Award Scheme.

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 2020, 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 2020 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 2020.

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
Mdm. HUANG Hsiu-duan, Helen
Chairman

Hong Kong, 27 November 2020

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 Dr. 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.