KINGMAKER

For immediate release

KINGMAKER FOOTWEAR HOLDINGS LIMITED

Announces final results for year to March 2019
Overcoming challenges and tapping into opportunities ahead

Financial highlights:

- Turnover from continuing operations decreased by 5.5% yoy to HK$1,101 million.
- Profit attributable to equity holders of the Company declined 86.2% yoy to HK$36 million.
- Recurring profit dropped 51.1% to HK$39 million.
- ASP up 4.6%.
- Special final dividend of HK2.0 cents; total yearly dividend of HK6.0 cents, representing a payout ratio of 116.7%.
- Cash and cash equivalent of HK$610 million as at 31 March 2019.

Hong Kong, 26 June 2019 – Leading premium casual and children's footwear manufacturer Kingmaker Footwear Holdings Limited (01170.HK) today announced its results for the year ended 31 March 2019. During the year, turnover decreased by 5.5% year on year to HK$1,101 million (2018: HK$1,165 million) on a 10.9% drop in business volume (pairs).

As footwear retail sales in major markets dropped significantly during the second half of the financial year, brand customers have become even more conservative in procurement. Reduced order sizes, combined with the Group's adoption of a more selective sales strategy, resulted in a decline in full-year business volume. The strategy to pitch for higher-value products and to enhance the business portfolio drove a 4.6% improvement in the average selling price ("ASP") of the Group's sales.

Continuous rising costs and changes of human rights regulations remained a major pressure on the gross margin. The gross profit decline also took into account additional staff training and product development costs incurred from the conversion of traditional production lines into concept lines. Some efficiency loss was incurred due to the moving of production lines between centers as some clients opted to shift manufacturing locations to meet their business and operational needs. The gross profit margin was also adversely affected by increased minimum wages in Vietnam and Cambodia, as well as salary raises owing to inflation and competition for labor. The gross profit margin dropped to 10.6% (2018: 15.7%).

The Group recorded an approximately 86.2% year-on-year decrease in profit attributable to equity holders of the Company to approximately HK$36 million (2018: approximately HK$257 million). The decline in net profit was principally attributable to: (a) the absence of the non-recurring profit of approximately HK$174 million from the net gain on disposal of Kingmaker Footwear (Zhong Shan) Co., Ltd. as recognized for the year ended 31 March 2018, the effect of which had already been shown in the interim results of the Group for the six months ended 30 September 2018; and (b) the approximately 51.1% year-on-year decrease in recurring profit.

Earnings per share attributable to equity holders of the Company for the year decreased by 86.0% year on year to approximately HK5.14 cents (2018: approximately HK36.82 cents). The Group declared a special final dividend of HK2.0 cents per share. Total yearly dividend amounted to HK6.0 cents per share, representing a payout ratio of 116.7%.

Kingmaker Footwear Chairman Mr. Chan Ho Man said: "We have overcome many challenges over the past decades and look forward to tapping into opportunities ahead. The trend of footwear brand customers moving their sourcing locations from China to other manufacturing hubs will likely continue. Planning well in advance, we now command a strong platform comprising two main and scalable production hubs in Vietnam and Cambodia, with a supportive center in Mainland China. Our strong manufacturing competence has placed us well to meet future customer needs despite the current short-term business volume decline."

The Group holds a 40% interest in an affiliated company jointly owned with Evervan Group ("Evervan") in central Vietnam. Evervan is a leading international footwear manufacturer. The performance of this affiliated company improved, and the share of losses from associates narrowed to approximately HK$7.4 million (2018: approximately HK$11.6 million). Upon receipt of solid procurement plans from a customer, the company has proceeded to install machinery and equipment. To fund the affiliate's business plan, the Group has advanced a shareholder's loan of approximately US$800,000 (equivalent to HK$6,240,000) in the second half of the financial year. Considering the customers' orders, the Board is confident of the business growth of the affiliate in the coming year.

The uncertainty in the global economy and soft retail environment have driven footwear brand owners to turn to a more conservative procurement strategy, while testing market acceptance with the introduction of more product designs, resulting in generally smaller order batch sizes. In order to help our clients cope with the market challenges, the Group has designed a concept-line system which is equipped with a leaner workforce with the work process revamped to cater to small orders, quick turnaround time and frequent assembly line rearrangements.

Despite higher costs on material usage and staff adaptation at the initial stage of transition to concept lines, the Group believes this change is the right approach to tackle the market trend shift. The unit material and staff costs can be brought down as efficiency gradually increases and the production scale rebounds. The transition from the traditional production line setup to concept lines will continue in this coming year.

As at the year-end date, the Group had a combined production scale of 39 concept and traditional processing lines, aggregating to an annual capacity of around 11.1 million pairs, which were 68.9% utilized (2018: 70.0%).

In terms of output, the Southeast Asian production base contributed 85.2% of total production (2018: 82.2%) in pairs of footwear, while Mainland China's share was reduced to 14.8% (2018: 17.8%) of total output.

The geographical distribution of markets shifted in accordance with the change in product and clientele portfolios. European markets' contribution remained relatively stable at 31.6% (2018: 33.7%) whereas turnover from the US dropped to 11.8% (2018: 14.7%). Shipments to other markets, including Asia and other areas, accounted for 56.6% (2018: 51.6%).

Premium casual footwear remained the major product category, accounting for 54.3% (2018: 55.5%) of turnover. The rugged shoes category contributed 22.2% (2018: 15.5%) of Group turnover during the year, and management noted that this product line is regaining popularity in the market. Babies' and children's footwear's contribution remained stable at 18.8% (2018: 18.2%), while the performance of the athleisure product category was still lackluster with its share dropping to 4.7% (2018: 10.8%).

Major customers for the year included Asics, Clarks, Quiksilver, Skechers and Wolverine, with the top five customers' aggregate contribution remaining quite stable at 92.2% (2018: 93.7%) of total turnover.

Cash and cash equivalents were maintained at a favorable level of approximately HK$610 million (2018: HK$804 million) as at 31 March 2019. The current and quick ratios were 2.7 and 2.3 respectively (2018: 2.4 and 2.1 respectively).

Financial Highlights

	For the year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
CONTINUING OPERATIONS		
Turnover	**1,100,649**	1,164,873
Gross profit	**116,255**	182,621
Gross profit margin	**10.6%**	15.7%
Profit attributable to equity holders of the Company	**35,593**	257,260
Basic earnings per share		
- For profit for the year	**HK5.14 cents**	HK36.82 cents
- For profit for the year from continuing operations	**HK5.14 cents**	HK36.51 cents
Interim dividend per share	**HK2.8 cents**	HK3.8 cents
Special dividend per share	**HK1.2 cents**	HK11.2 cents
Final dividend per share	**-**	HK2.2 cents
Special dividend per share	**HK2.0 cents**	HK12.8 cents
Full-year dividend per share	**HK6.0 cents**	HK30.0 cents

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About Kingmaker Footwear Holdings

Kingmaker Footwear Holdings Limited (01170.HK) is a premium name-brand manufacturer of fashion casual and children's footwear. The Group operates production and research-and-development centers in Vietnam, Cambodia and China with a staff of approximately 9,100.

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