KINGMAKER

For immediate release

KINGMAKER FOOTWEAR HOLDINGS LIMITED

Incurred an attributable loss amid weak retail and COVID-19 impacts
Declared a special dividend of HK2 cents on healthy financial position

Financial highlights:

- Turnover decreased by 4.6% yoy to HK$1,050 million.
- Incurred a net loss of HK$51 million.
- Special final dividend of HK2.0 cents; total yearly dividend of HK4 cents.
- Cash and cash equivalent of HK$444 million as at 31 March 2020.

Hong Kong, 24 June 2020 – Leading premium casual and children's footwear manufacturer Kingmaker Footwear Holdings Limited (01170.HK) today announced that during the year ended 31 March 2020, a net loss of HK$51 million (2019: profit of HK$36 million) was incurred. Loss per share attributable to equity holders of the Company was HK7.5 cents (2019: earnings per share of HK5.1 cents). As the Company was able to maintain a healthy financial position, a special dividend of HK2.0 cents (2019: HK2.0 cents) was declared, aggregating to a total dividend for the year of HK4.0 cents (2019: HK6.0 cents).

During the year, turnover decreased by 4.6% year on year to HK$1,050 million (2019: HK$1,101 million) on a 3.3% decline in business volume (pairs) and a 2.0% drop in the average selling price ("ASP").

The declines were due to the conservative procurement approach of the branded customers as purchasing power remained weak across their target markets, bringing about reduced order batch sizes and delays in the placement of certain orders. Owing to the marketing efforts expended, orders in the third quarter of the fiscal year saw an upturn. Although the rebound was not sufficient to reverse the sales decline during the first half of 2019/20, the Group managed to achieve a reasonable level of full-year sales with only a mild decrease.

The further decrease in turnover has undermined the cost advantages derived from economies of scale, and continuously rising costs have remained a major pressure on the gross margin. The gross profit margin dropped to 7.1% (2019: 10.6%) as a result of the above factors. The net loss was incurred as a result of (a) the decrease in the gross profit; (b) impairment losses on certain property, plant and equipment and accounts receivable; and (c) an increase in share of losses from associates.

The Group currently operates two core manufacturing bases in southern Vietnam and Cambodia, which are equipped with research and development facilities. A supplementary R&D center is in operation in Zhuhai, the PRC. In addition, the Group holds a 40% interest in a joint-venture factory in central Vietnam.

Volatility and further economic slowdown will most likely be the overriding theme for the year ending 31 March 2021. Across all the markets where the Group's products are shipped, none will have immunity from a growth rate dip as they brace for heightened uncertainties. Further declines in apparel, footwear and outdoor sales are expected, owing to weak retail sentiments and COVID-19 impacts. It will take time for branded customers to digest inventories before order placements can pick up again for the Group. It therefore expects its business to remain slow until at least the end of 2020.

Kingmaker Footwear Chairman Mdm. HUANG Hsiu Duan, Helen, said: "The pandemic has compelled us to think beyond ordinary emergency response mechanisms. As a manufacturer operating a multi-country platform, our best defense is to step up working capital and risk management. We foresee that as the crisis unfolds further, liquidity will be the critical issue for businesses to stay afloat. In this connection, the Group is well placed with a sound financial position, and we have deep confidence in our long-term sustainable development."

During this challenging time, the Group continues to pledge that there will not be layoffs due to the pandemic. The Group's chairman has opted to forego remuneration, while other executive directors and the senior management team have accepted a 20% compensation reduction, for eight months commencing May 2020. For the production centers, the Group has started to streamline the work forces in anticipation of slower business for the remainder of the financial year. Other cost control measures will include a budgeted decrease in overheads for every operating unit during 2020/21. Capital expenditure projects will be postponed to after 2020/21.

As at the year-end date, the Group had a combined production scale of 39 processing lines, mostly under the concept-line set-up. They contributed an annual capacity of around 9.4 million pairs, and was 71.0% utilized (2019: 68.9%).

Manufacturing activity in the Zhuhai plant has continuously been scaled down in line with the Group's strategy to move production from mainland China to lower-cost locations in Southeast Asia. Save for an R&D center that is being retained, all production lines have ceased to operate in February 2020 and part of the premises has remained idle since then. In May 2020, the Group entered into a lease agreement with an independent third party to lease out the unutilized part of the Zhuhai plant.

The lessee is engaged in property investment, development and operation. It has plans to transform the premises from a production site to an industrial/commercial project, particularly for new and emerging industries, at its own expense. Consideration was given to the development of the Greater Bay Area, as well as further potential value gain from the change of use of the site, approval of which is expected to be obtained in around two to three years. This arrangement 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.

In terms of output, the Southeast Asian production base contributed 89.8% of total production (2019: 85.2%) in pairs of footwear, while mainland China's share was reduced to 10.2% (2019: 14.8%) of total output.

The geographical distribution of markets continued to be demand-driven, while the Group supports its clients' efforts to develop markets with good prospects. European markets' contribution dropped to 28.4% (2019: 31.6%), whereas turnover from the US increased to 14.7% (2019: 11.8%). Shipments to other markets, including Asia and other areas, accounted for 56.9% (2019: 56.6%).

Premium casual footwear remained the major product category, accounting for 42.7% (2019: 54.3%) of turnover. The rugged shoes category contributed 34.8% (2019: 22.2%) of the Group's turnover during the year, as this product line is regaining popularity in the market. Contribution of babies' and children's footwear increased to 20.9% (2019: 18.8%), while the performance of the athleisure product category continued to be lackluster with its share dropping to 1.6% (2019: 4.7%).

Major customers for the year included Asics, Clarks, Quiksilver, Skechers and Wolverine, these in aggregate contributed 91.9% (2019: 92.2%) of total turnover.

Cash and cash equivalents were maintained at a favorable level of approximately HK$444 million (2019: HK$610 million) as at 31 March 2020. The current and quick ratios were 2.9 and 2.3 respectively (2019: 2.7 and 2.3 respectively).

The Group holds a 40% interest in an associated company jointly owned with Evervan Group ("Evervan") in central Vietnam. Evervan is a leading international footwear manufacturer. This associated company continued to show steady revenue growth, delivering a 70.8% increase in turnover to HK$328 million (2019: HK$192 million). An increase in loss was incurred as the operation has not yet reached economies of scale. The Group has noted the consistent business growth trend of the associated company. However, in view of its loss-making position and taking a conservative approach, the Group has resolved to suspend any further financial assistance to the associates during the financial year 2020/21.

Financial Highlights

	For the year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
CONTINUING OPERATIONS		
Revenue	**1,050,064**	1,100,649
Gross profit	**74,315**	116,255
Gross profit margin	**7.1%**	10.6%
Profit/(Loss) attributable to equity holders of the Company	**(51,386)**	35,593
Basic earnings/(loss) per share	**HK(7.50) cents**	HK5.14 cents
Interim dividend per share	**-**	HK2.8 cents
Special interim dividend per share	**HK2.0 cents**	HK1.2 cents
Final dividend per share	**-**	-
Special final dividend per share	**HK2.0 cents**	HK2.0 cents
Full-year dividend per share	**HK4.0 cents**	HK6.0 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 centers and R&D facilities in Vietnam and Cambodia, as well as a supplementary R&D center in mainland China, with a staff of approximately 9,600. It holds a 40% interest in an associated footwear operation in Central Vietnam.

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