



# KINGMAKER FOOTWEAR HOLDINGS LIMITED



# 2001

INTERIM REPORT

# Kingmaker Footwear Holdings Limited

## INTERIM RESULTS

The Board of Directors (the "Board") of Kingmaker Footwear Holdings Limited (the "Company") takes the pleasure to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th September 2001 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>For the six months ended 30th September</b>	
		<b>2001</b>	2000
	<i>Notes</i>	<b>(Unaudited) (HK\$'000)</b>	(Unaudited) (HK\$'000)
Turnover	2	<b>629,958</b>	582,190
Cost of Sales		<b>(505,923)</b>	(447,775)
Gross Profit		<b>124,035</b>	134,415
Other Revenue		<b>8,474</b>	13,146
Distribution and Selling Expenses		<b>(14,483)</b>	(16,598)
Administrative Expenses		<b>(33,989)</b>	(38,742)
Profit from Operating Activities		<b>84,037</b>	92,221
Finance Costs	3	<b>(3,498)</b>	(2,851)
Profit Before Tax	4	<b>80,539</b>	89,370
Tax	5	<b>(5,434)</b>	(6,988)
Net Profit Attributable to Shareholders		<b>75,105</b>	82,382
Dividend per Share		<b>3.5 Cents</b>	3.5 Cents
Earnings per Share	6		
– Basic		<b>11.84 Cents</b>	13.01 Cents
– Diluted		<b>11.68 Cents</b>	12.95 Cents

# Kingmaker Footwear Holdings Limited

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30th September 2001 (Unaudited) (HK\$'000)</b>	31st March 2001 (Restated) (HK\$'000)
	<i>Notes</i>		
Fixed Assets	7	<b>283,506</b>	232,608
Investment in Securities		<b>388</b>	388
		<b>283,894</b>	232,996
Current Assets			
Inventories		<b>118,372</b>	101,620
Accounts and Bills Receivable	8	<b>145,762</b>	73,784
Tax Recoverable		–	1,949
Prepayment, Deposits and Other Receivables		<b>933</b>	3,377
Cash at Banks and in Hand		<b>321,462</b>	419,112
		<b>586,529</b>	599,842
Current Liabilities			
Accounts Payable	9	<b>97,021</b>	93,801
Trust Receipt Loans		<b>3,652</b>	3,904
Accruals and Other Payables		<b>109,351</b>	105,015
Tax Payable		<b>66,633</b>	65,047
Bank Loan, unsecured	10	<b>19,500</b>	19,500
		<b>296,157</b>	287,267
Net Current Assets		<b>290,372</b>	312,575
Total Assets less Current Liabilities		<b>574,266</b>	545,571
Non-current Liability			
Bank Loan, unsecured	10	<b>9,750</b>	19,500
		<b>564,516</b>	526,071
Capital and Reserves			
Issued Capital	11	<b>63,839</b>	57,416
Reserves	12	<b>500,677</b>	468,655
		<b>564,516</b>	526,071

# Kingmaker Footwear Holdings Limited

## **CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

*For the six months ended 30th September*

	<b>2001</b> <b>(Unaudited)</b> <b>(HK\$'000)</b>	2000 (Unaudited) (HK\$'000)
Exchange differences arising on translation of financial statements of overseas operations	<b>(1,123)</b>	(254)
Net profit for the period	<b>75,105</b>	82,382
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Total recognized gains	<b>73,982</b>	82,128
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## **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30th September*

	<b>2001</b> <b>(Unaudited)</b> <b>(HK\$'000)</b>	2000 (Unaudited) (HK\$'000)
Net cash inflow from operating activities	<b>6,236</b>	21,006
Net cash outflow from return on investment and servicing of finance	<b>(35,811)</b>	(21,927)
Tax paid	<b>(1,899)</b>	(2,385)
Net cash outflow from investing activities	<b>(60,139)</b>	(41,490)
	<hr/>	<hr/>
Net cash (outflow) before financing activities	<b>(91,613)</b>	(44,796)
Net cash (outflow)/inflow from financing activities	<b>(4,662)</b>	19,500
	<hr/>	<hr/>
(Decrease) in cash and cash equivalents	<b>(96,275)</b>	(25,296)
Cash and cash equivalents at beginning of the period	<b>415,209</b>	444,500
Effect of exchange rate changes, net	<b>(1,123)</b>	(254)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>317,811</b>	418,950
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# Kingmaker Footwear Holdings Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of Preparation

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The condensed interim financial statements have been prepared under the historical cost convention. The accounting policies and basis of preparation of the interim report are consistent with those used in the annual financial statements for the year ended 31st March 2001 except that the Group has adopted the following new revised SSAP, issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001.

SSAP No. 9 (revised): Events after the balance sheet date. In accordance with SSAP No. 9 (revised), the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

### 2. Segmental Information

The turnover and contributions to profit before tax of the Group for the six months ended 30th September 2001, analyzed by geographical market segments and by business segments, are as follows:

#### *Geographical Market Segments*

	Turnover		Contribution to profit before tax	
	For the six months ended 30th September		For the six months ended 30th September	
	2001	2000	2001	2000
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
USA	471,085	435,536	53,750	64,480
Europe	117,211	95,072	22,929	20,368
Others	41,662	51,582	3,860	4,522
	<u>629,958</u>	<u>582,190</u>		
Profit before tax			<u>80,539</u>	<u>89,370</u>

#### *Business Segments*

Manufacturing	617,052	575,877	81,079	90,610
Distribution	12,906	6,313	(540)	(1,240)
	<u>629,958</u>	<u>582,190</u>	<u>80,539</u>	<u>89,370</u>

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## 3. Finance costs

Finance costs were mainly interest on bank loans wholly repayable within five years.

## 4. Profit before tax

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

	For the six months ended 30th September	
	2001 (HK\$'000)	2000 (HK\$'000)
Depreciation	9,241	3,087
Operating leases rentals on land and buildings	1,770	1,409
Interest on bank loans	3,498	2,851
Provision for diminution in values of listed investments	–	258
Interest income	<u>(8,312)</u>	<u>(13,146)</u>

## 5. Tax

	For the six months ended 30th September	
	2001 (HK\$'000)	2000 (HK\$'000)
Hong Kong	133	228
Overseas	<u>5,301</u>	<u>6,760</u>
	<u>5,434</u>	<u>6,988</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates.

Deferred tax has not been provided (2000: Nil), as there are no significant timing differences at the balance sheet date.

## 6. Earnings per shares ("EPS")

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

	<b>For the six months ended 30th September</b>	
	<b>2001</b> (HK\$'000)	2000 (HK\$'000)
Earnings for basic and diluted EPS	<u><b>75,105</b></u>	<u>82,382</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the basic EPS	<u><b>634,557,072</b></u>	633,058,525
Effect of dilutive share options	<u><b>8,270,907</b></u>	<u>3,067,903</u>
Weighted average number of ordinary shares for the diluted EPS	<u><b>642,827,979</b></u>	<u>636,126,428</u>

The weighted average number of ordinary shares for the purpose of basic EPS has been adjusted for the bonus issue of shares in the Company in September 2001. The comparative earnings per share for the corresponding period in 2000 have been adjusted retrospectively.

## 7. Fixed Assets

During the period, the Group has incurred approximately HK\$38 million on acquisition of a piece of land (the "Zhongshan Land") in Zhongshan, the People's Republic of China (the "PRC") and the construction for the factory premises erected on the Zhongshan Land. In addition, approximately HK\$15 million has been spent on the leasehold improvements, machinery, fixtures and equipment in the PRC and Vietnam factory.

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## 8. Accounts and Bills Receivables

The majority of the Group's Sales are on Letter of Credit and open accounts credit with varying credit terms of 30 to 90 days. The ageing analysis of trade receivables is as follows:

	0-30 days HK\$'M	31-90 days HK\$'M	Over 90 days HK\$'M	Total HK\$'M
<b>As at 30th September 2001</b>	<b><u>110</u></b>	<b><u>33</u></b>	<b><u>3</u></b>	<b><u>146</u></b>
As at 31st March 2001	<u>52</u>	<u>20</u>	<u>2</u>	<u>74</u>

## 9. Accounts Payable

The ageing analysis of trade payables is as follows:

	0-30 days HK\$'M	31-90 days HK\$'M	Over 90 days HK\$'M	Total HK\$'M
<b>As at 30th September 2001</b>	<b><u>56</u></b>	<b><u>33</u></b>	<b><u>8</u></b>	<b><u>97</u></b>
As at 31st March 2001	<u>54</u>	<u>38</u>	<u>2</u>	<u>94</u>

## 10. Bank Loan, Unsecured

	30th September 2001 (HK\$'000)	31st March 2001 (HK\$'000)
Bank Loans repayable:		
Within one year	19,500	19,500
In the second year	<u>9,750</u>	<u>19,500</u>
	29,250	39,500
Portion classified as current liabilities	<u>(19,500)</u>	<u>(19,500)</u>
Long term portion	<u>9,750</u>	<u>19,500</u>



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## 11. Share Capital

	Number of ordinary shares		(HK\$'000)	
	30th September 2001	31st March 2001	30th September 2001	31st March 2001
<i>Authorized:</i>				
Ordinary shares of HK\$0.10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period/year	574,163,750	460,406,200	57,416	46,041
Issue of shares –				
Exercised options	6,187,500	–	618	–
Bonus shares	58,035,125	115,101,550	5,804	11,510
Shares repurchased and cancelled	–	(1,344,000)	–	(135)
	<u>638,386,375</u>	<u>574,163,750</u>	<u>63,838</u>	<u>57,416</u>

During the period, 5,987,500 and 200,000 share options were exercised at exercise prices of HK\$1.6 cents and HK\$1.01 respectively. The premium of HK\$4,469,050 received on the exercise of the 6,187,500 share options was credited directly to the share premium account during the period.

Pursuant to the resolution passed at the annual general meeting of the company held on 15th August 2001, 58,035,125 ordinary shares of HK\$0.10 each were issued as bonus shares and were credited as fully paid at par to the holders of shares on the register of members at the close of business on 15th August 2001, by way of the capitalization of the sum HK\$5,803,513 standing to the credit of the share premium account and capital redemption reserve of the Company. These bonus shares issued rank pari passu with the existing shares in all respects.

## 12. Reserves

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At beginning of period	60,636	135	(2,096)	409,980	468,655
Exercise of share options	4,469	–	–	–	4,469
Bonus shares issued	(5,669)	(135)	–	–	(5,804)
Exchange reserve arising on consolidation of subsidiaries	–	–	(1,123)	–	(1,123)
Net profit for the period	–	–	–	75,105	75,105
Dividends paid in the period	–	–	–	(40,625)	(40,625)
At 30th September 2001	<u>59,436</u>	<u>–</u>	<u>(3,219)</u>	<u>444,460</u>	<u>500,677</u>

## 13. Contingent liabilities and Commitments

As at 30th September 2001, the Group had no significant contingent liabilities (2000: Nil). The commitment were as follows:

	<b>30th September 2001 (HK\$'000)</b>	31st March 2001 (HK\$'000)
Commitments contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and machinery	55,667	65
Investment in subsidiary companies	<u>47,807</u>	<u>52,441</u>
	<u><b>103,474</b></u>	<u><b>52,506</b></u>

### **INTERIM DIVIDENDS**

The Board of Directors resolved to declare an interim dividend of HK3.5 cents per ordinary share (2000: HK3.5 cents) for the six months ended 30th September 2001 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on 25th January 2002. The dividend is expected to be paid on 8th February 2002.

After taking into account of the bonus issue during the period, interim dividend is increased by 10% compared with same period of last year.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday 22nd January 2002 to Friday 25th January 2002, both days inclusive, during which period no transfers of shares shall be effected. To qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Registrar, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong no later than 4:00 p.m. on Friday 21st January 2002.

## **REVIEW OF OPERATIONS**

### **Company Results and Review**

#### *The Results*

For the six months ended 30th September 2001, the Group attained the turnover and profit attributable to shareholders of HK\$629,958,000 and HK\$75,105,000, representing an increase of 8.2% and decrease of 8.8% respectively from the same period last year.

The Group takes pride to announce that it was selected one of the “Best 200 Small Companies in the World” by Forbes Magazine. The recognition came as an encouragement to management and provided an impetus to the Group’s continued advancement in the footwear industry during a tough operating environment.

The first half of this year saw an erosion of global demand for consumables, having a negative impact on almost all industries across the board. The footwear industry was further affected by such exceptional events as the outbreak of mad-cow disease in Europe and the September 11 attacks in America.

The period also witnessed a significant growth in popularity of the more casual looking and less costly “athleisure” footwear. With an increased production capacity, The Group was able to quickly adapt to this market change.

The baby-shoes program remained a strong engine of growth for the Group. During the period, sales of children’s footwear increased 32% compared with the previous period.

The new plant in Vietnam commenced operation in February 2001, with the capacity of 5 production lines to meet customers’ orders. With management’s sustained efforts to enhance the operational system and efficiency of this new plant, the Vietnam operation was able to contribute to the Group’s profitability in the past few months. Although the performance of the European market fell slightly below management’s expectations due to the weak Euro, management still maintains an optimistic view of the future profitability of the Vietnam operation, especially after the significant reduction of tariff on exports from Vietnam to the US.

## **REVIEW OF OPERATIONS** (Cont'd)

The performance of the newly established wholesale and retail operation in the PRC continued to measure up to management's business targets. The sales network in the PRC comprises about 200 points, and to keep pace with future developments, an additional office was established in Shanghai in November 2001. The overall retail environment in the PRC was healthy but competition continued to be keen. Management is confident of the development of the wholesale and retail business and targets to achieve breakeven within this financial year.

The Group currently has a total workforce of 10,000 on 25 production lines, 17 of which are in the PRC, 3 in Macau and 5 in Vietnam. The 5 largest branded customers during the last six months were Skechers, Timberland, Stride Rite, Caterpillars and Clarks, with other major customers including Bates, Merrell, Paul Smith, Sperry, Sperry Topsider, Stride and Tommy Hilfiger.

### *Future Plans and Prospects*

To sustain the Group's competitive advantages, a faster pace was adopted in the expansion of the manufacturing facilities. 5 production lines have already been put into operation in Vietnam currently with utilization rate of 50-60%. The plant is now undergoing an efficiency enhancement program with a view to further increasing its capacity. There is also a plan to phase in the establishment of new lines in Vietnam to keep the Group ahead of the anticipated demand growth in the European markets, and to help it capture the new market potential following the reduction in tariff on exports to the US. The phased expansion of the Vietnam plant envisages a total of 12 production lines in 3 to 4 years.

The production base in the PRC will continue to be strengthened, with the construction of the Zhongshan Factory close to completion. The first phase of the project will involve the setting up of 6 production lines, which are scheduled to become operational by April 2002. Upon full operation, the Zhongshan Factory will house 12 production lines.

In addition to expanding capacity, the Group also works hard to improve efficiency in order to maintain its profit margin. The deployment of information technology throughout the production and operational process has been ongoing for the past few years, and investments will continue to be made in the future to strengthen the Group's edge.

## **REVIEW OF OPERATIONS** (Cont'd)

The Group will continue to proceed cautiously with its footwear distribution business in the PRC. It now operates a network of about 200 points of sale through two offices in Guangzhou and Shanghai. Management believes that the PRC is a market that cannot be missed, and is confident of its long-term growth and profitability after the country's accession to the World Trade Organization.

As noted previously, management expects the worldwide trend for footwear customers to consolidate their supply sources to continue during an economic downturn. This consolidation will help them better manage their supply chains, and is expected to benefit the well established suppliers like the Group. The Group has made the necessary moves and investments in the past few years, and is now on the right track to a sustainable development.

The Directors continue to have cautiously optimistic view of its prospects for the coming years.

## **FINANCIAL POSITION**

As at 30th September 2001, the Group maintains a strong cash position of HK\$322 million (2000: HK\$424 million). The Directors are of the opinion that the current cash position and available banking facilities of approximately HK\$278 million (2000: HK\$231 million) will provide sufficient working capital to facilitate its planned expansion and investments. Nevertheless, in order to better the return to shareholders in the prevailing low interest rate environment and further strengthen the cash position, further loan may be considered or negotiated in favorable terms for the next 3-5 years expansion.

As at 30th September 2001, the Group has the total indebtedness amounted to approximately HK\$29 million (2000: approximately HK\$19 million), representing approximately 5.2% (2000: approximately 4.2%) to the shareholders equity.

## DIRECTORS INTERESTS IN SECURITIES

### Shares

At 30th September 2001, the interest of the directors in the shares of the Company and the shares of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as set out below:

	Number of Shares held		
	Personal interest	Corporate interest*	Total
Chen Ming Hsiung	5,706,250	357,082,950	362,789,200
Chen Cheng Hsiung	5,362,500	357,082,950	362,445,450
Huang Hsiu Duan	12,465,750	357,082,950	369,548,700
Lee Kung	–	357,082,950	357,082,950
Chan Ho Man	3,918,750	–	3,918,750
Kimmel Phillip Brian	1,443,750	–	1,443,750

- \* These shares represents a 55.9% equity interest in the Company and are owned by King Strike Limited. The issued share capital of King Strike Limited is beneficially owned by Chen Ming Hsiung as to 57.25%, Chen Cheng Hsiung as to 24.47%, Huang Hsiu Duan as to 16.67% and Lee Kung as to 1.61%.

## *DIRECTORS INTERESTS IN SECURITIES (Cont'd)*

### Share options

At 30th September 2001, the directors had personal interests in share options to subscribe for shares in the Company as follows:

Name of director	Movement in Number of share options during the period				
	At 1.4.2001	Granted	Exercised	At 30.9.2001*	Exercise Price
Chen Ming Hsiung	1,687,500	–	(1,687,500)	–	0.816
	2,000,000	–	–	2,200,000	0.918*
Cheng Cheng Hsiung	1,625,000	–	(1,625,000)	–	0.816
	1,200,000	–	–	1,320,000	0.918*
Huang Hsiu Duan	1,237,500	–	(1,237,500)	–	0.816
	1,000,000	–	–	1,100,000	0.918*
Chan Ho Man	562,500	–	(562,500)	–	0.816
	550,000	–	–	605,000	0.918*
Lee Kung	506,250	–	–	556,875	0.742*
	350,000	–	–	385,000	0.918*
Kimmel Phillip Brian	500,000	–	(500,000)	–	0.816
	400,000	–	–	440,000	0.918*
	<u>11,618,751</u>	<u>–</u>	<u>(5,612,500)</u>	<u>6,606,875</u>	

\* Number of share options and the exercise price adjusted on 4th September 2001 pursuant to the 1 bonus share issued for every 10 shares.

## ***DIRECTORS INTERESTS IN SECURITIES (Cont'd)***

The share options are exercisable at any time from date of grant to 2 September 2004.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations, as defined in the SDI Ordinance. And at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## ***SUBSTANTIAL SHAREHOLDERS***

Apart from the interests of King Strike Limited as disclosed in the "Directors' Interest in Securities" section above, the Company has not been notified of any other interests representing ten percent or more of the issued share capital of the Company as at 30th September 2001 pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance.

## ***PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES***

During the six months ended 30th September 2001, neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the Company's listed securities.

## ***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 30th September 2001 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock of Exchange of Hong Kong Limited except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to the retirement and rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.



**AUDIT COMMITTEE**

The Audit Committee (“Committee”) has reviewed with management, the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including a review of the unaudited interim results for the period.

The members of the Committee included the two independent non-executive directors of the Company.

On behalf of the Board  
**Chen Ming Hsiung, Mickey**  
*Chairman*

Hong Kong, 18th December 2001