

# KNT

**KNT HOLDINGS LIMITED**

**嘉藝控股有限公司\***

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1025

INTERIM REPORT  
**2020**



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## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Chong Sik (*Chairman and  
Chief Executive Officer*)

Chong Pun  
Lam Chi Yuen

#### **Independent Non-executive Directors**

Leung Martin Oh Man  
Lau Koong Yep  
Yuen King Sum  
Lau Kwok Fan

#### **AUDIT COMMITTEE**

Leung Martin Oh Man (*Chairman*)  
Lau Koong Yep  
Yuen King Sum  
Lau Kwok Fan

#### **REMUNERATION COMMITTEE**

Lau Koong Yep (*Chairman*)  
Leung Martin Oh Man  
Yuen King Sum  
Lau Kwok Fan

#### **NOMINATION COMMITTEE**

Chong Sik (*Chairman*)  
Leung Martin Oh Man  
Lau Koong Yep  
Yuen King Sum  
Lau Kwok Fan

#### **COMPANY SECRETARY**

Chan Nga Chun

#### **AUTHORISED REPRESENTATIVES**

Chong Sik  
Chan Nga Chun

#### **AUDITOR**

Deloitte Touche Tohmatsu  
*Registered Public Interest Entity Auditors*

### **LEGAL ADVISER AS TO HONG KONG LAW**

Robertsons

#### **REGISTERED OFFICE**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

30th Floor  
EW International Tower  
No. 120 Texaco Road  
Tsuen Wan  
New Territories  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Investor Services Limited  
Level 54 Hopewell Centre  
183 Queen's Road East  
Hong Kong

#### **PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking  
Corporation Limited  
DBS Bank (Hong Kong) Limited

#### **STOCK CODE**

01025

#### **COMPANY WEBSITE**

[www.kntholdings.com](http://www.kntholdings.com)

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses. The Group principally sells its products to brand apparel companies based in the United States. Over the years, the Group has built reputation and gained customers' recognition from its dedication to provide its customers with one-stop solutions and consistently high quality products, which has increased its customers' reliance on it and in turn enabled it to maintain its market position as one of the leading bridesmaid dresses manufacturers in the PRC. The Group is the sole supplier of certain largest customers for bridesmaid dresses whom had maintained long years of relationship with the Group. In addition to manufacturing apparels for its customers, the Group strives to become an integral part of its customers' business operations by offering a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management.

The Group recorded revenue of approximately HK\$41.1 million for the six months ended 30 September 2020, representing a decrease of approximately 55.6% as compared to that of approximately HK\$92.6 million for the six months ended 30 September 2019. Revenue from the United States accounted for approximately 90.5% and 79.6% of the total revenue of the Group for the six months ended 30 September 2019 and 2020 respectively. The gross profit margin decreased from 10.6% for the six months ended 30 September 2019 to 10.0% for the six months ended 30 September 2020. Loss for the period amounted to approximately HK\$16.5 million for the six months ended 30 September 2020, representing an increase in loss of approximately 10.0% as compared to loss of approximately HK\$15.0 million for the six months ended 30 September 2019.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

During the six months ended 30 September 2020, the Group experienced challenging operating environment in view of prolonged trade disputes between the United States and China, tariff imposed, political tensions and continuing uncertainties in global economy. Since the Group's revenue was mostly derived from customers based in the United States, these factors in aggregate led to a certain extent of impact on the overall business performance of the Group. As a result, the revenue and gross profit margin of the Group decreased for the six months ended 30 September 2020 compared to the six months ended 30 September 2019.

In addition, due to the outbreak of the novel coronavirus disease (COVID-19) since the beginning of 2020, it has brought significant disruption to the global economy and caused more adverse impact to the business environment of the Group. The Group made impairment loss net of reversal on trade receivables of approximately HK\$7.5 million, mainly related to one of the major customers who has filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. All these factors contributed to the increase in the loss for the six months ended 30 September 2020.

## **PROSPECT**

In light of the prolonged trade disputes between the US and China and the resulting unprecedented negative business outlook from COVID-19 crisis, the Group expects that the business environment and outlook for the coming financial year will remain highly challenging and uncertain. The Group will continue to review its existing business from time to time and take appropriate measures to tackle any possible impacts. In view of the unprecedented business environment, the management is actively exploring new business opportunities with a view to diversifying the income stream of the Group and mitigating risks. The Group is also taking cost-control measures since April 2020 so as to cope with the lingering business downturn. With the Group's proven track record, experienced management team and reputation in the market, the Group is well-positioned and well equipped to sustain its development and grasp the opportunities to enhance the long-term potential growth in future for safeguard the interest of the shareholders.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Revenue

Revenue represents revenue from the sale of bridesmaid dresses, bridal gowns, special occasion dresses and fabrics and accessories.

Revenue decreased by approximately HK\$51.5 million or approximately 55.6% from approximately HK\$92.6 million for the six months ended 30 September 2019 to approximately HK\$41.1 million for the six months ended 30 September 2020. The overall decrease in revenue was primarily attributable to the decrease in revenue generated from the sale of special occasion dresses of approximately HK\$39.8 million and sale of bridesmaid dresses of approximately HK\$15.7 million.

The decrease in revenue generated from the sale of special occasion dresses from approximately HK\$47.3 million for the six months ended 30 September 2019 to approximately HK\$7.5 million for the six months ended 30 September 2020 was primarily as a result of the decrease in sales quantity from 336.4 thousand units for the six months ended 30 September 2019 to 40.6 thousand units for the six months ended 30 September 2020.

The decrease in revenue generated from the sale of bridesmaid dresses from approximately HK\$43.5 million for the six months ended 30 September 2019 to approximately HK\$27.8 million for the six months ended 30 September 2020 was primarily as a result of aggregate effect of the decrease in sales quantity from 144.0 thousand units for the six months ended 30 September 2019 to 96.8 thousand units for the six months ended 30 September 2020 and the decrease in average selling prices of bridesmaid dresses from HK\$302 for the six months ended 30 September 2019 to HK\$288 for the six months ended 30 September 2020.

The significant decrease in sales quantity of special occasion dresses was attributable to the suspension of sale to the major customer of special occasion dresses upon its filing for bankruptcy protection. The decrease in sales quantity of bridesmaid dresses was attributable to fewer orders from customers with the escalation of trade tensions between China and the United States. The decrease in average selling price of bridesmaid dresses were attributable to the adoption of a competitive pricing strategy against the major customers by the Group so as to maintain its market share in the industry in such challenging operating environment.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Cost of sales**

Cost of sales primarily consists of raw material costs, subcontracting charges, labour costs, overhead costs and others.

Cost of sales decreased by approximately HK\$45.8 million or approximately 55.3% from approximately HK\$82.8 million for the six months ended 30 September 2019 to approximately HK\$37.0 million for the six months ended 30 September 2020. The decrease was in line with the decrease in revenue for the six months ended 30 September 2020.

### **Gross profit and gross profit margin**

Gross profit decreased by approximately HK\$5.7 million or approximately 58.2% from approximately HK\$9.8 million for the six months ended 30 September 2019 to approximately HK\$4.1 million for the six months ended 30 September 2020. Gross profit margin decreased from 10.6% for the six months ended 30 September 2019 to 10.0% for the six months ended 30 September 2020. The decrease was attributable to the decrease in revenue as a result of decrease in both sales quantity and average selling prices.

### **Other income**

Other income remained stable at approximately HK\$0.6 million for the six months ended 30 September 2020 and 2019. For the six months ended 30 September 2020, the amount mainly represented government grants of approximately HK\$0.4 million in respect of COVID-19-related subsidies from Employment Support Scheme provided by the Hong Kong government.

### **Other gains and losses**

Other gains and losses increased by approximately HK\$0.5 million or approximately 166.7% from approximately HK\$0.3 million for the six months ended 30 September 2019 to approximately HK\$0.8 million for the six months ended 30 September 2020. The increase was mainly attributable to exchange gain from transactions denominated in Renminbi which depreciated during the six months ended 30 September 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Administrative expenses

Administrative expenses decreased by approximately HK\$11.2 million or approximately 45.0% from approximately HK\$24.9 million for the six months ended 30 September 2019 to approximately HK\$13.7 million for the six months ended 30 September 2020. The decrease was mainly attributable to (i) the decrease in total staff costs upon the implementation of cost control measures during this period and the decrease in bonus which was an one-off expense upon listing of shares in 2019 and (ii) the decrease in travelling expenses due to travel restrictions as a result of COVID-19.

### Finance costs

Finance costs increased by approximately HK\$0.2 million or approximately 25.0% from approximately HK\$0.8 million for the six months ended 30 September 2019 to approximately HK\$1.0 million for the six months ended 30 September 2020. The increase was mainly attributable to the increase in the average bank borrowings during the six months ended 30 September 2020.

### Income tax credit (expense)

Income tax credit for the six months ended 30 September 2020 represented release of deferred tax liabilities on tax depreciation.

### Loss for the period

Loss for the six months ended 30 September 2020 amounted to approximately HK\$16.5 million. The loss was mainly attributable to the decrease in revenue and gross profit and the increase in impairment loss net of reversal on trade receivables mainly related to one of the major customers who has filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

### Interim dividend

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: nil).



## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Capital structure**

The capital structure of the Company comprises of issued share capital and reserves. As at the date of this report, the issued share capital of the Company was HK\$5.2 million and the number of issued ordinary shares was 520,000,000 of HK\$0.01 each.

### **Liquidity and financial resources**

The Group generally finances its operation by internal cash generated from operations and bank borrowings. As at 30 September 2020, the Group had cash and cash equivalents of approximately HK\$22.7 million (31 March 2020: approximately HK\$32.7 million) and had net current assets of approximately HK\$16.9 million (31 March 2020: approximately HK\$50.9 million).

The current ratio of the Group was approximately 1.3 times as at 30 September 2020, compared to that of approximately 1.7 times as at 31 March 2020. The current ratio decreased was mainly attributable to (i) the decrease in cash and cash equivalents and (ii) increase in bank borrowings.

The gearing ratio of the Group, which is calculated by dividing the total bank borrowings by the total equity and then multiplied by 100%, was 75.0% as at 30 September 2020 (31 March 2020: 82.8%). The gearing ratio decreased was mainly attributable to net effect of the increase in bank borrowings as at 30 September 2020 offset by the increase in total equity upon the revaluation of certain properties.

### **Pledge of assets**

As at 30 September 2020, the Group pledged leasehold land and buildings with carrying value of approximately HK\$51.0 million (31 March 2020: approximately HK\$4.3 million) and bank deposit of approximately HK\$2.0 million (31 March 2020: HK\$9.5 million) to secure certain banking facilities granted to the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Foreign exchange risk**

Certain transactions of the Group are denominated in foreign currencies which are different from United States Dollar, the functional currency of the Group, and therefore the Group is exposed to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### **Material acquisitions and disposals of subsidiaries and associated companies**

During the six months ended 30 September 2020, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

### **Significant investments held**

As at 30 September 2020, the Group had no significant investments held (31 March 2020: nil).

### **Future plans for material investments and capital assets**

Save as disclosed in the prospectus of the Company dated 15 February 2019 (the "Prospectus") and in this interim report, the Group currently did not have other plans for material investments and capital assets.

### **Events after the reporting period**

No significant events affecting the Group occurred since 1 October 2020 and up to the date of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Employees and remuneration policy**

As at 30 September 2020, the Group had 331 employees (31 March 2020: 377 employees). The total staff costs, including directors' emoluments, of the Group for the six months ended 30 September 2020 were approximately HK\$13.2 million (six months ended 30 September 2019: approximately HK\$28.8 million).

Remuneration is determined with reference to market norms and the performance, qualification and experience of individual employee. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. The remuneration package generally includes basic salaries, discretionary bonuses and contributions to retirement benefits scheme. The Group provides trainings for its employees so that new employees can master the basic skills required to perform their functions and existing employees can upgrade or improve their production skills.

### **Capital commitment**

As at 30 September 2020, the Group did not have any material capital commitment (31 March 2020: nil).

### **Contingent liabilities**

As at 30 September 2020, the Group did not have any material contingent liabilities (31 March 2020: nil).

### **Use of net proceeds from the Listing**

The net proceeds from the Listing, after deducting underwriting fees and commissions and other expenses relating to the Listing, were approximately HK\$56.9 million.

As at 30 September 2020, the Group has utilised approximately HK\$41.5 million, representing approximately 72.9%, of the net proceeds from the Listing.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumptions of future market conditions made by the Group at the time of preparing the Prospectus. The Group will continuously evaluate the business objectives and will change or modify the plans against the changing market conditions for meeting the business growth and long term interest of the Group.

As disclosed in the announcement of the Company dated 4 June 2020, the Board resolved to change the use of the unutilised net proceeds. Set out below is the revised allocation of the unutilised net proceeds as disclosed in such announcement.

| Intended use of net proceeds  | Approximate percentage of net proceeds<br>% | Actual amount of net proceeds<br>HK\$ million | Actual amount utilised as at 30 September 2020<br>HK\$ million | Unutilised amount as at 30 September 2020<br>HK\$ million |
|---|---|---|--|---|
| Acquire certain properties and facilities in Hong Kong as logistics center to compliment and coordinate the Group's existing business and production as well as that in Vietnam | 38.9  | 22.1  | 21.5   | 0.6   |
| Increase production capacity by investing or setting up production facilities in Vietnam  | 19.5  | 11.1  | –  | 11.1  |
| Set up a sales office in the U.S.   | 6.5   | 3.7   | –  | 3.7   |
| Repayment of bank borrowings  | 10.0  | 5.7   | 5.7  | –   |
| Working capital and general corporate purposes  | 25.1  | 14.3  | 14.3   | –   |
|   | <u>100.0</u>                                | <u>56.9</u>                                   | <u>41.5</u>  | <u>15.4</u>   |

As at 30 September 2020, the unutilised net proceeds were placed in licensed banks in Hong Kong.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

As disclosed in the announcement of the Company dated 29 October 2020 (the “Announcement”), the Board resolved to further change the use of the unutilised net proceeds. Set out below is the revised allocation of the unutilised net proceeds as disclosed in the Announcement.

| Intended use of net proceeds  | Approximate percentage of net proceeds as stated in the announcement dated 4 June 2020 % | Revised approximate percentage of net proceeds % | Unutilised amount of net proceeds up to the date of the Announcement before re-allocation HK\$ million | Revised allocation of unutilised net proceeds after re-allocation HK\$ million | Unutilised amount as at the date of this report HK\$ million | Expected timeline for the intended use |
|---|--|--|--|--|--|--|
| Acquire certain properties and facilities in Hong Kong as logistics center to compliment and coordinate the Group's existing business and production as well as that in Vietnam | 38.9   | 38.9   | 0.6  | 0.6  | 0.6  | End of 2020                            |
| Increase production capacity by investing or setting up production facilities in Vietnam  | 19.5   | 19.5   | 11.1   | 11.1   | 11.1   | End of 2021                            |
| Set up a sales office in the U.S.   | 6.5  | –  | 3.7  | –  | –  | –                                      |
| Repayment of bank borrowings  | 10.0   | 10.0   | –  | –  | –  | –                                      |
| Development of online business platform   | –  | 6.5  | –  | 3.7  | 3.7  | End of 2021                            |
| Working capital and general corporate purposes  | 25.1   | 25.1   | –  | –  | –  | –                                      |
|   | 100.0  | 100.0  | 15.4   | 15.4   | 15.4   |  |

For details of the change in use of proceeds, please refer to the Announcement.

Due to the on-going trade war between the U.S. and China which is likely to continue and remain uncertain and the outbreak of the COVID-19 since early 2020, the global economy and the business of the Group have been adversely affected. As the Group delivers a substantial amount of products to its customers in the U.S., the demand for the Group's products had been adversely affected and the set up of a sales office in the U.S., which was originally expected to be completed by the first half of the year ended 31 March 2020 and deferred to the end of 2021, did not have immediate pressing need.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2020, the interests and short positions of the directors (the "Directors") and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

#### Long position in the Shares

| Name of Directors | Capacity/Nature of Interest                    | Number of Shares Held | Percentage of Shares in Issue<br>(Note 1) |
|-------------------|--|-----------------------|---|
| Mr. Chong Sik     | Interest in controlled corporation<br>(Note 2) | 235,950,000           | 45.375%                                   |
| Mr. Chong Pun     | Interest in controlled corporation<br>(Note 3) | 154,050,000           | 29.625%                                   |

Notes:

1. The percentage is calculated based on the total number of 520,000,000 shares in issue as at 30 September 2020.
2. These shares were held by Strategic Elite Limited ("Strategic Elite"), a company in which beneficially and wholly-owned by Mr. Chong Sik. Mr. Chong Sik was deemed to be interested in all the shares held by Strategic Elite by virtue of the SFO.
3. These shares were held by Total Clarity Investments Limited ("Total Clarity"), a company in which beneficially and wholly-owned by Mr. Chong Pun. Mr. Chong Pun was deemed to be interested in all the shares held by Total Clarity by virtue of the SFO.

**OTHER INFORMATION (continued)**

Save for those disclosed above, as at 30 September 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

As at 30 September 2020, so far as known to the Directors or the chief executive of the Company, the following corporations or individuals (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or which were recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified to the Company and the Stock Exchange:

**Long position in the Shares**

| <b>Name of Substantial Shareholders</b> | <b>Capacity/Nature of Interest</b> | <b>Number of Shares Held</b> | <b>Percentage of Shares in Issue</b><br>(Note 1) |
|---|------------------------------------|------------------------------|--|
| Strategic Elite                         | Beneficial owner                   | 235,950,000                  | 45.375%  |
| Ms. Lok Pui Yee, Fanny                  | Interest of spouse (Note 2)        | 235,950,000                  | 45.375%  |
| Total Clarity                           | Beneficial owner                   | 154,050,000                  | 29.625%  |
| Ms. Tsang Kit Fong                      | Interest of spouse (Note 3)        | 154,050,000                  | 29.625%  |

Notes:

- The percentage is calculated based on the total number of 520,000,000 shares in issue as at 30 September 2020.
- Ms. Lok Pui Yee, Fanny is the spouse of Mr. Chong Sik and is deemed to be interested in all the shares indirectly held or interested in by Mr. Chong Sik through Strategic Elite pursuant to the SFO.
- Ms. Tsang Kit Fong is the spouse of Mr. Chong Pun and is deemed to be interested in all the shares indirectly held or interested in by Mr. Chong Pun through Total Clarity pursuant to the SFO.

## **OTHER INFORMATION (continued)**

Save as disclosed above, as at 30 September 2020, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## **SHARE OPTION SCHEME**

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a written resolution of the shareholders passed on 31 January 2019. A summary of the principal terms of the Share Option Scheme is set out as follows:

### **(1) Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to enable the Board to grant options to eligible persons (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high caliber eligible persons and attract human resources that are valuable to the Group.

### **(2) Participants of the Share Option Scheme**

The participants of the Share Option Scheme shall be:

- (i) any employee or proposed employee (whether full time or part time, including any director) of any member of the Group or invested entity; and
- (ii) any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholders or other participants who contributes to the development and growth of the Group or any invested entity.



## OTHER INFORMATION (continued)

### (3) Total number of shares available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of this interim report

- (i) The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time.
- (ii) The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 52,000,000 shares (representing 10% of the issued shares as at the date of this interim report), being 10% of the total number of shares in issue on the Listing Date (the "Scheme Limit") unless approved by the shareholders pursuant to paragraph (iv) below. Options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company shall not be counted for the purpose of calculating the Scheme Limit.
- (iii) The Company may seek separate approval of the shareholders in general meeting for refreshing the Scheme Limit provided that such limit as refreshed shall not exceed 10% of the total number of shares (assuming no options are granted under the Share Option Scheme) in issue as at the date of the approval of the shareholders on the refreshment of the Scheme Limit. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of the Company or exercised) will not be counted for the purpose of calculating the limit as refreshed.

For the purpose of seeking the approval of Shareholders, a circular containing the information as required under the Listing Rules shall be sent by the Company to the shareholders.

## **OTHER INFORMATION (continued)**

- (iv) The Company may seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Limit provided that the Options in excess of the Scheme Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought and that the proposed grantee(s) and his close associates (or his associates if the proposed grantee is a connected person) shall abstain from voting in the general meeting. For the purpose of seeking the approval of the shareholders, the Company shall send a circular to the shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and any other information as required under the Listing Rules.
- (v) The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time. No options under any schemes may be granted if this will result in the 30% limit being exceeded.

### **(4) Maximum entitlement of each participant**

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Company to each participant of the Share Option Scheme in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue.

### **(5) Period within which the shares must be taken up under an option**

The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be longer than 10 years from the relevant date of grant.

## **OTHER INFORMATION (continued)**

### **(6) Minimum period for which an option must be held before it can be exercised**

There is no minimum period in which an option must be held before the exercise of any option save as otherwise imposed by the Board in the relevant offer of options.

### **(7) Payment on acceptance of option offer**

A consideration of HK\$1 is payable on acceptance of the offer of grant of an option where the grantee should accept or decline the offer of grant of an option within the date as specified in the offer letter issued by the Company, being a date not later than 21 days inclusive of, and from the date upon which it is made.

### **(8) Basis of determining the subscription price**

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as determined by the Board, and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant.

### **(9) Remaining life of the Share Option Scheme**

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 31 January 2019.

During the six months ended 30 September 2020, no options had been granted, exercised or cancelled or lapsed under the Share Option Scheme. There was no outstanding option under the Share Option Scheme as at 30 September 2020.

## **OTHER INFORMATION (continued)**

### **PERMITTED INDEMNITY PROVISION**

Pursuant to the Articles of Association, subject to the applicable laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has arranged for appropriate insurance for the Directors and officers of the Group in respect of legal actions against them arising from corporate activities of the Group.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information publicly available to the Company and within the best knowledge of the Directors, during the six months ended 30 September 2020 and up to the date of this interim report, the Company has maintained the prescribed public float under the Listing Rules.

### **NON-COMPETITION UNDERTAKING**

In accordance with the non-competition undertakings set out in the deed of non-competition dated 31 January 2019 (the “Deed of Non-competition”) executed by the controlling shareholders of the Company (the “Controlling Shareholders”) in favour of the Company (for itself and as trustee for its subsidiaries), save and except the exceptional circumstances, the Controlling Shareholders have undertaken to the Company that they shall not carry on any business which is in competition with the business of the Group in Hong Kong, Macau and any other country or jurisdiction, the principal terms of which are set out in the section headed “Relationship with Controlling Shareholders” of the prospectus of the Company.

The Company has received an annual declaration from each of the Controlling Shareholders confirming that they complied with the undertakings for the year ended 31 March 2020. The Controlling Shareholders also confirmed in the said annual declaration that none of them had any interest in a business, other than business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group during the year ended 31 March 2020.

## **OTHER INFORMATION (continued)**

The following corporate governance measures have been adopted to monitor the compliance of the Deed of Non-competition during the six months ended 30 September 2020:

- (i) The Controlling Shareholders had procured the independent non-executive Directors to review, on an annual basis, the compliance with the non-competition undertakings by the Controlling Shareholders under the Deed of Non-competition.
- (ii) The Controlling Shareholders had promptly provided all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition.
- (iii) The Controlling Shareholders had provided to the Company a written confirmation relating to the compliance of the Deed of Non-competition and declared that they had complied with the Deed of Non-competition during the six months ended 30 September 2020.
- (iv) The independent non-executive Directors, having reviewed the relevant information and the written confirmation provided by the Controlling Shareholders, decided that the undertakings in respect of the Deed of Non-competition had been duly enforced and complied with by the Controlling Shareholders during the six months ended 30 September 2020.

## OTHER INFORMATION (continued)

### LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

- (1) On 28 April 2020, KNT Limited (“KNT”), a wholly-owned subsidiary of the Company, as borrower, accepted a revised facility letter (the “Facility Letter A”) issued by a bank (the “Bank A”) offering for the grant of trade finance and a revolving loan facility of an aggregate amount HK\$28,000,000 and a 16-month term loan of approximately HK\$1,300,000 (the “Facility A”), which is subject to review by the Bank A from time to time.

Pursuant to the Facility Letter A, amongst other things, the Company had undertaken to the Bank A that the Controlling Shareholders shall at any time, directly or indirectly, maintain not less than 50% of the issued share capital of the Company and remain as the executive directors of the Company and shall notify the Bank A for the change of their directorship or if the aggregate beneficial interest of the Controlling Shareholders is dropped to less than 50%.

- (2) On 27 May 2020, KNT, a wholly-owned subsidiary of the Company, as borrower, accepted a facility letter (the “Facility Letter B”) issued by a bank (the “Bank B”) offering for the grant of a 36 months non-revolving term loan facility of HK\$4,000,000 (the “Facility B”).

Pursuant to the Facility Letter B, amongst other things, the Controlling Shareholders, shall provide irrevocable and unconditional personal guarantee to the Facility B and that the Controlling Shareholders, shall at any time during the term of the Facility B, directly or indirectly, maintain at least 70% of the issued share capital of the Company.

## OTHER INFORMATION (continued)

- (3) Subsequent to 30 September 2020, on 28 October 2020, KNT, a wholly-owned subsidiary of the Company, as borrower, accepted an extended facility issued by the Bank B that the non-revolving term loan facility has been increased from HK\$4,000,000 to HK\$5,000,000 (the “Facility C”).

Pursuant to the Facility C, amongst other things, the Controlling Shareholders, shall provide irrevocable and unconditional personal guarantee to the Facility C and that the Controlling Shareholders, shall at any time during the term of the Facility C, directly or indirectly, maintain at least 50% of the issued share capital of the Company.

As at the date of this report, the aggregate beneficial interest of the Controlling Shareholders in the Company is 75%.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined by the management of the Group with reference to the qualifications, experience and performances of the employees. The emoluments of the Directors and senior management of the Company are recommended by the Remuneration Committee and approved by the Board having regard to the Company’s operating results, individual performance and comparable market statistics.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

## **OTHER INFORMATION (continued)**

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that throughout the six months ended 30 September 2020, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are held by Mr. Chong Sik who is one of the co-founders of the Group and has extensive experience in the industry.

The Board believes that Mr. Chong Sik can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that given that Mr. Chong Sik had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.



## **OTHER INFORMATION (continued)**

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has devised its own Code of Ethics and Securities Transactions (the "Code of Ethics") regarding dealings in the Company's securities by Directors and the relevant employees who are likely to be in possession of inside information of the Company on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Code of Ethics during the six months ended 30 September 2020.

No incident of non-compliance of the Code of Ethics by the employees was noted by the Company.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the six months ended 30 September 2020.

### **AUDIT COMMITTEE**

The Company has established an audit committee (the "Audit Committee") on 31 January 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee comprises four members, namely Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan, all being independent non-executive Directors. Mr. Leung Martin Oh Man is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group and the interim report for the six months ended 30 September 2020, including the accounting principles and practices adopted by the Group.

**OTHER INFORMATION (continued)****CHANGES IN INFORMATION OF DIRECTORS**

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2020 annual report of the Company are as follows:

| <b>Name of Director</b> | <b>Details of Change</b>  |
|-------------------------|---|
| Mr. Chong Sik           | <ul style="list-style-type: none"><li>– Appointed as a director of KNT MyStyle Limited, a member of the Group, on 2 July 2020</li><li>– Appointed as a director of KNT Global Trading Limited, a member of the Group, on 27 August 2020</li></ul> |
| Mr. Chong Pun           | <ul style="list-style-type: none"><li>– Appointed as a director of KNT MyStyle Limited, a member of the Group, on 2 July 2020</li><li>– Appointed as a director of KNT Global Trading Limited, a member of the Group, on 27 August 2020</li></ul> |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

For the six months ended 30 September 2020

|  |       | <b>Six months ended<br/>30 September</b> |                                 |
|--|-------|--|---------------------------------|
|  | Notes | <b>2020<br/>HK\$'000<br/>(unaudited)</b> | 2019<br>HK\$'000<br>(unaudited) |
| Revenue  | 4     | <b>41,104</b>                            | 92,647                          |
| Cost of sales  |       | <b>(36,960)</b>                          | (82,843)                        |
| Gross profit   |       | <b>4,144</b>                             | 9,804                           |
| Other income   |       | <b>623</b>                               | 619                             |
| Other gains and losses                                   |       | <b>834</b>                               | 332                             |
| Administrative expenses                                  |       | <b>(13,698)</b>                          | (24,921)                        |
| Impairment loss on trade receivables,<br>net of reversal |       | <b>(7,524)</b>                           | –                               |
| Finance costs  | 5     | <b>(1,007)</b>                           | (770)                           |
| Loss before taxation                                     |       | <b>(16,628)</b>                          | (14,936)                        |
| Income tax credit (expense)                              | 6     | <b>139</b>                               | (85)                            |
| Loss for the period                                      | 7     | <b>(16,489)</b>                          | (15,021)                        |
| Loss per share   | 9     |  |                                 |
| Basic (HK cents)   |       | <b>(3.2)</b>                             | (2.9)                           |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

|  | <b>Six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                              | 2019        |
|  | <b>HK\$'000</b>                          | HK\$'000    |
|  | <b>(unaudited)</b>                       | (unaudited) |
| Loss for the period  | <b>(16,489)</b>                          | (15,021)    |
| Other comprehensive income (expense) for the period              |  |             |
| Item that may be reclassified subsequently to profit or loss:    |  |             |
| Exchange differences arising on translation of foreign operation | <b>584</b>                               | (2,076)     |
| Item that will not be reclassified to profit or loss:            |  |             |
| Revaluation of leasehold land and buildings                      | <b>26,028</b>                            | –           |
| Total comprehensive income (expense) for the period              | <b>10,123</b>                            | (17,097)    |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 September 2020

|   | Notes | As at<br>30 September<br>2020<br>HK\$'000<br>(unaudited) | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|---|-------|--|--|
| Non-current assets                            |       |  |  |
| Property, plant and equipment                 | 10    | 51,475   | 4,305  |
| Right-of-use assets                           |       | 841  | 945  |
| Intangible asset                              |       | 117  | 130  |
| Deposits and prepayment                       |       | 945  | 4,245  |
|   |       | <b>53,378</b>  | 9,625  |
| Current assets                                |       |  |  |
| Inventories                                   |       | 29,801   | 38,726   |
| Trade receivables                             | 11    | 3,842  | 20,809   |
| Prepayment, deposits and<br>other receivables |       | 1,080  | 1,856  |
| Amount due from a related company             |       | 3,477  | 1,802  |
| Income tax recoverable                        |       | 465  | 460  |
| Pledged bank deposit                          |       | 2,000  | 9,500  |
| Bank balances and cash                        |       | 36,538   | 48,669   |
|   |       | <b>77,203</b>  | 121,822  |
| Current liabilities                           |       |  |  |
| Trade payables                                | 12    | 1,851  | 9,295  |
| Other payables and accruals                   |       | 3,549  | 5,864  |
| Contract liabilities                          |       | 1,310  | 4,002  |
| Lease liabilities                             |       | 1,433  | 2,520  |
| Bank borrowings                               | 13    | 52,191   | 49,235   |
|   |       | <b>60,334</b>  | 70,916   |
| Net current assets                            |       | <b>16,869</b>  | 50,906   |
| Total assets less current liabilities         |       | <b>70,247</b>  | 60,531   |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 September 2020

|                          | Note | As at<br>30 September<br>2020<br>HK\$'000<br>(unaudited) | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|--------------------------|------|--|--|
| Non-current liabilities  |      |  |  |
| Lease liabilities        |      | 643  | 755  |
| Deferred tax liabilities |      | –  | 295  |
|                          |      | <b>643</b>   | 1,050  |
| Net assets               |      | <b>69,604</b>  | 59,481   |
| Capital and reserves     |      |  |  |
| Share capital            | 14   | 5,200  | 5,200  |
| Reserves                 |      | 64,404   | 54,281   |
| Total equity             |      | <b>69,604</b>  | 59,481   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

|   | Share capital<br>HK\$'000 | Share premium<br>HK\$'000 | Other reserve<br>HK\$'000<br>(Note (a)) | Revaluation reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | Shareholders<br>distribution reserve<br>HK\$'000<br>(Note (c)) | Statutory reserve<br>HK\$'000<br>(Note (b)) | Retained profits<br>(accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------|---------------------------|---|---------------------------------|---------------------------------|--|---|--|-------------------|
| At 1 April 2019   | 5,200                     | 81,871                    | 19,520                                  | -                               | 2,699                           | (1,419)  | 2,538                                       | 17,882   | 128,291           |
| Loss for the period   | -                         | -                         | -                                       | -                               | -                               | -  | -   | (15,021)   | (15,021)          |
| Exchange differences arising on<br>the translation of foreign operation | -                         | -                         | -                                       | -                               | (2,076)                         | -  | -   | -  | (2,076)           |
| Total comprehensive expense for the period                              | -                         | -                         | -                                       | -                               | (2,076)                         | -  | -   | (15,021)   | (17,097)          |
| Dividends recognised as distribution (note 8)                           | -                         | (19,760)                  | -                                       | -                               | -                               | -  | -   | -  | (19,760)          |
| At 30 September 2019  | 5,200                     | 62,111                    | 19,520                                  | -                               | 623                             | (1,419)  | 2,538                                       | 2,861  | 91,434            |
| At 1 April 2020   | 5,200                     | 62,111                    | 19,520                                  | -                               | 694                             | (1,419)  | 2,538                                       | (29,163)   | 59,481            |
| Loss for the period   | -                         | -                         | -                                       | -                               | -                               | -  | -   | (16,489)   | (16,489)          |
| Exchange differences arising on<br>the translation of foreign operation | -                         | -                         | -                                       | -                               | 584                             | -  | -   | -  | 584               |
| Revaluation of leasehold land and buildings                             | -                         | -                         | -                                       | 26,028                          | -                               | -  | -   | -  | 26,028            |
| Total comprehensive income (expense)<br>for the period                  | -                         | -                         | -                                       | 26,028                          | 584                             | -  | -   | (16,489)   | 10,123            |
| At 30 September 2020  | 5,200                     | 62,111                    | 19,520                                  | 26,028                          | 1,278                           | (1,419)  | 2,538                                       | (45,652)   | 69,604            |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 September 2020

Notes:

- (a) Other reserve represents (i) the transfer of HK\$16,500,000 as a result of the transfer of the entire shareholding in Dongguan HYG Garment Company Limited (“HYG”), one of the operating subsidiaries established in the People’s Republic of China (the “PRC”), from Mr. Chong Sik (“Mr. S Chong”) and Mr. Chong Pun (“Mr. P Chong”), the directors of the Company, in the previous year to KNT International Holdings Limited (“KNT Int’l”), a company incorporated in Hong Kong and wholly-owned by Mr. S Chong and Mr. P Chong, at nil consideration. HYG is then wholly-owned by KNT Int’l since the completion of transfer; and (ii) the transfer of HK\$3,020,000 as a result of the transfer of the entire shareholding in KNT Int’l and KNT, one of the operating subsidiaries incorporated in Hong Kong, from Mr. S Chong and Mr. P Chong in the previous year.
- (b) As stipulated by the relevant PRC laws and regulations, the subsidiary established in the PRC shall set aside 10% of its net profit to the statutory reserve. The statutory reserve can only be used upon approval by the board of directors of the relevant subsidiary and by the relevant authority, to offset previous year’s losses or convert into additional capital of the PRC subsidiary.
- (c) The shareholders distribution reserve represents the share issue cost of the shares to be offered for sale by the shareholders of the Company, which was borne by the Group and deemed as shareholders’ distribution.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

|   | Six months ended<br>30 September |                                 |
|---|----------------------------------|---------------------------------|
|   | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES     | <b>(2,184)</b>                   | (41,989)                        |
| INVESTING ACTIVITIES                      |                                  |                                 |
| Purchase of property, plant and equipment | <b>(18,236)</b>                  | (622)                           |
| Placement of pledged bank deposit         | <b>(2,000)</b>                   | (9,559)                         |
| Withdrawal of pledged bank deposit        | <b>9,500</b>                     | –                               |
| Bank interest received                    | <b>46</b>                        | 592                             |
| NET CASH USED IN INVESTING ACTIVITIES     | <b>(10,690)</b>                  | (9,589)                         |
| FINANCING ACTIVITIES                      |                                  |                                 |
| New bank borrowings raised                | <b>29,403</b>                    | 32,990                          |
| Repayments of bank borrowings             | <b>(24,318)</b>                  | (13,728)                        |
| Repayment of lease liabilities            | <b>(1,300)</b>                   | (1,126)                         |
| Interest paid                             | <b>(970)</b>                     | (689)                           |
| NET CASH FROM FINANCING ACTIVITIES        | <b>2,815</b>                     | 17,447                          |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

For the six months ended 30 September 2020

|   | <b>Six months ended<br/>30 September</b> |             |
|---|--|-------------|
|   | <b>2020</b>                              | 2019        |
|   | <b>HK\$'000</b>                          | HK\$'000    |
|   | <b>(unaudited)</b>                       | (unaudited) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                   | <b>(10,059)</b>                          | (34,131)    |
| CASH AND CASH EQUIVALENTS<br>AT THE BEGINNING OF THE PERIOD | <b>32,715</b>                            | 97,235      |
| Effect of foreign exchange rate changes                     | <b>57</b>                                | (71)        |
| CASH AND CASH EQUIVALENTS<br>AT THE END OF THE PERIOD       | <b>22,713</b>                            | 63,033      |
| Represented by:   |  |             |
| Bank balances and cash                                      | <b>36,538</b>                            | 71,734      |
| Bank overdraft  | <b>(13,825)</b>                          | (8,701)     |
|   | <b>22,713</b>                            | 63,033      |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

### 1. GENERAL

KNT Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 February 2019. The addresses of the Company’s registered office and principal place of business are disclosed in this interim report.

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) is manufacturing and trading garment.

The condensed consolidated financial statements are presented in Hong Kong dollar (“HK\$”), whereas the functional currency of the Company is United States Dollar (“US\$”). The management of the Group considered that selecting HK\$ as its presentation currency is more beneficial for the users of the condensed consolidated financial statements as the Company’s shares are listed on the Stock Exchange.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 September 2020 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for leasehold land and buildings and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and change in accounting policies as disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 March 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### 3.1 *Application of amendments to HKFRSs*

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

|   |                                |
|---|--------------------------------|
| Amendments to HKAS 1<br>and HKAS 8            | Definition of Material         |
| Amendments to HKFRS 3                         | Definition of a Business       |
| Amendments to HKFRS 9,<br>HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

#### 3.2 *Change in accounting policies – Revaluation of leasehold land and buildings*

The Group re-assessed its accounting policies for property, plant and equipment with respect to measurement of leasehold land and buildings after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition, the asset was carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The Group elected to change the method of accounting for leasehold land and buildings classified as property, plant and equipment from using cost model to revaluation model, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. In addition, available valuation techniques provide reliable estimates of the leasehold land and buildings' fair value. The Group applied the revaluation model prospectively.

After initial recognition, leasehold land and buildings are measured at their revalued amounts, being fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold by the Group, net of discounts.

The following is an analysis of the Group's revenue:

|  | <b>Six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                              | 2019        |
|  | <b>HK\$'000</b>                          | HK\$'000    |
|  | <b>(unaudited)</b>                       | (unaudited) |
| <b>Sales of garment products recognised at a point in time</b> |  |             |
| Bridesmaid dresses   | <b>27,834</b>                            | 43,535      |
| Bridal gowns   | <b>3,250</b>                             | 1,382       |
| Special occasion dresses                                       | <b>7,533</b>                             | 47,287      |
| Others (Note)  | <b>2,487</b>                             | 443         |
|  | <hr/>                                    | <hr/>       |
| Total  | <b>41,104</b>                            | 92,647      |
|  | <hr/>                                    | <hr/>       |

Note: Others include sales of fabrics and accessories.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 4. REVENUE AND SEGMENT INFORMATION (continued)

|                             | Six months ended<br>30 September |                                 |
|-----------------------------|----------------------------------|---------------------------------|
|                             | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| <b>Geographical markets</b> |                                  |                                 |
| United States of America    | <b>32,682</b>                    | 83,810                          |
| Europe                      | <b>3,490</b>                     | 7,385                           |
| Australia                   | <b>900</b>                       | 1,232                           |
| Others                      | <b>4,032</b>                     | 220                             |
|                             | <hr/>                            | <hr/>                           |
| Total                       | <b>41,104</b>                    | 92,647                          |
|                             | <hr/>                            | <hr/>                           |

#### *Segment information*

The Group's operation is solely derived from manufacturing and trading of garment products during the period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the executive directors of the Company) reviews overall results and financial position of the Group as a whole based on same accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of this single segment information is presented.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 4. REVENUE AND SEGMENT INFORMATION (continued)

#### *Segment information (continued)*

#### *Geographical information*

The Group's operations are mainly located in Hong Kong and the PRC.

Non-current assets by geographical location of assets are detailed below:

|           | <b>As at<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|-----------|---|--|
| Hong Kong | 53,351  | 9,625  |
| PRC       | 27  | –  |
|           | <b>53,378</b>   | <b>9,625</b>                                       |

The Group's revenue from external customers based on the location of customers are disclosed above in this note.

#### *Information about major customers*

Revenue from customers individually contributing over 10% of the Group's revenue during the period are as follows:

|            | <b>Six months ended<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | 2019<br>HK\$'000<br>(unaudited) |
|------------|--|---------------------------------|
| Customer A | 16,024   | 24,816                          |
| Customer B | 6,286  | 42,214                          |
| Customer C | 6,603  | N/A*                            |

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 5. FINANCE COSTS

|                               | Six months ended<br>30 September |                                 |
|-------------------------------|----------------------------------|---------------------------------|
|                               | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Interest on bank borrowings   | 970                              | 689                             |
| Interest on lease liabilities | 37                               | 81                              |
|                               | 1,007                            | 770                             |

### 6. INCOME TAX (CREDIT) EXPENSE

|                                 | Six months ended<br>30 September |                                 |
|---------------------------------|----------------------------------|---------------------------------|
|                                 | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Current tax:                    |                                  |                                 |
| – PRC Enterprise Income Tax     | –                                | 93                              |
| Under provisions in prior years |                                  |                                 |
| – PRC Enterprise Income Tax     | 156                              | –                               |
|                                 | 156                              | 93                              |
| Deferred tax credit             | (295)                            | (8)                             |
|                                 | (139)                            | 85                              |



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 7. LOSS FOR THE PERIOD

|  | Six months ended<br>30 September |                                 |
|--|----------------------------------|---------------------------------|
|  | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Loss before taxation has been arrived at after charging (crediting):   |                                  |                                 |
| Depreciation of right-of-use assets  | 104                              | 1,124                           |
| Depreciation of property, plant and equipment  | 594                              | 531                             |
| Less: Amount capitalised in inventories  | (2)                              | (209)                           |
|  | 592                              | 322                             |
| Amortisation of intangible asset   | 13                               | 13                              |
| Cost of inventories recognised as cost of sales (including write down of inventories of HK\$199,000 (2019: HK\$709,000)) | 36,960                           | 82,843                          |
| Bank interest income   | (46)                             | (592)                           |
| Net exchange gain  | (834)                            | (332)                           |
|  | (234)                            | (234)                           |

### 8. DIVIDENDS

During the six months ended 30 September 2019, the Company declared dividends of HK3.8 cents per ordinary share, in an aggregate amount of HK\$19,760,000. The dividends were paid on 8 October 2019.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 9. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

#### *Loss*

|  | <b>Six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                              | 2019        |
|  | <b>HK\$'000</b>                          | HK\$'000    |
|  | <b>(unaudited)</b>                       | (unaudited) |
| Loss for the purpose of basic loss per share | <b>(16,489)</b>                          | (15,021)    |

#### *Number of shares*

|  | <b>Six months ended<br/>30 September</b> |             |
|--|--|-------------|
|  | <b>2020</b>                              | 2019        |
|  | <b>'000</b>                              | '000        |
|  | <b>(unaudited)</b>                       | (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <b>520,000</b>                           | 520,000     |

No diluted loss per share was presented for the six months ended 30 September 2020 and 2019 as there were no potential ordinary shares in issue during the six months ended 30 September 2020 and 2019.

### 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group acquired certain property, plant and equipment with an aggregate carrying value of approximately HK\$21,736,000 (six months ended 30 September 2019: approximately HK\$622,000).

In addition, during the six months ended 30 September 2020, the Group has changed the method of accounting for leasehold land and buildings from using cost model to revaluation model. As a result, a revaluation reserve of approximately HK\$26,028,000 (2019: nil) was recognised in the condensed consolidated statement of changes in equity.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 11. TRADE RECEIVABLES

|                      | <b>As at<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|----------------------|---|--|
| Trade receivables    | <b>18,417</b>   | 27,859   |
| Less: loss allowance | <b>(14,575)</b>   | (7,050)  |
|                      | <b>3,842</b>  | 20,809   |

The credit terms normally granted by the Group to customers upon delivery of goods range from 0 to 90 days. For a major customer of the Group, a credit term up to 135 days from the invoice date would be allowed.

The following is an ageing analysis of trade receivables (net of allowance) of the Group presented based on the invoice dates, which approximates to the dates of delivery of goods on which revenue was recognised, at the end of the reporting period:

|                | <b>As at<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|----------------|---|--|
| Within 30 days | <b>1,214</b>  | 11,543   |
| 31 – 60 days   | <b>1,375</b>  | 164  |
| 61 – 90 days   | <b>544</b>  | 6,351  |
| 91 – 180 days  | <b>30</b>   | 1,822  |
| 181 – 365 days | <b>6</b>  | 16   |
| Over 365 days  | <b>673</b>  | 913  |
|                | <b>3,842</b>  | 20,809   |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 11. TRADE RECEIVABLES (continued)

No interest is charged on the trade receivables.

The Group applies simplified approach to provide for ECL of trade receivables prescribed by HKFRS 9. To measure the ECL, trade receivables have been assessed individually.

As at 30 September 2020, out of the past due balances, HK\$679,000 (31 March 2020: HK\$929,000) has been past due 90 days or more and is not considered as in default since the directors of the Company are of the opinion that the balances are still considered recoverable due to the management's historical experience on the settlement pattern or record from these debtors.

### 12. TRADE PAYABLES

The credit period on purchase of goods ranged from 0 to 60 days. The ageing analysis of the trade payables of the Group presented based on the invoice dates at the end of the reporting period is as follows:

|                | <b>As at<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | <b>As at<br/>31 March<br/>2020<br/>HK\$'000<br/>(audited)</b> |
|----------------|---|---|
| Within 30 days | <b>1,255</b>  | 7,780   |
| 31 – 60 days   | <b>251</b>  | 858   |
| 61 – 90 days   | <b>48</b>   | 401   |
| 91 – 180 days  | <b>266</b>  | 233   |
| 181 – 365 days | <b>3</b>  | –   |
| Over 365 days  | <b>28</b>   | 23  |
|                | <b>1,851</b>  | 9,295   |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 13. BANK BORROWINGS

|   | <b>As at<br/>30 September<br/>2020<br/>HK\$'000<br/>(unaudited)</b> | As at<br>31 March<br>2020<br>HK\$'000<br>(audited) |
|---|---|--|
| Unsecured and guaranteed:   |   |  |
| Bank overdrafts   | –   | 7,996  |
| Bank loans  | <b>4,000</b>  | 16,239   |
|   | <b>4,000</b>  | 24,235   |
| Secured and guaranteed:   |   |  |
| Bank overdrafts   | <b>13,825</b>   | 7,958  |
| Bank loans  | <b>34,366</b>   | 17,042   |
|   | <b>48,191</b>   | 25,000   |
| Total   | <b>52,191</b>   | 49,235   |
| Carrying amounts of bank overdrafts and bank loans which based on scheduled repayment dates set out in the loan agreements and classified as current due to repayment on demand clause: |   |  |
| Within one year   | <b>43,660</b>   | 44,260   |
| More than one year, but not more than two years   | <b>2,551</b>  | 1,217  |
| More than two years, but not more than five years   | <b>4,734</b>  | 2,512  |
| More than five years  | <b>1,246</b>  | 1,246  |
| Amounts shown under current liabilities   | <b>52,191</b>   | 49,235   |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 13. BANK BORROWINGS (continued)

The variable-rate bank borrowings of HK\$52,191,000 (31 March 2020: HK\$49,235,000) bear interest ranged from Hong Kong Prime Rate minus 2.5% to Hong Kong Prime Rate per annum.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

|                               | <b>As at<br/>30 September<br/>2020</b> | As at<br>31 March<br>2020 |
|-------------------------------|--|---------------------------|
| Effective interest rate:      |  |                           |
| Variable-rate bank loans      | <b>1.98% – 3.86%</b>                   | 2.25% – 5.34%             |
| Variable-rate bank overdrafts | <b>5.13% – 5.38%</b>                   | 5.13% – 5.38%             |

The Group entered into several banking facilities with banks in Hong Kong. The banking facilities are secured by assets held by the Group and/or guaranteed by related parties, details of which is set out as follow:

- (a) Corporate guarantee from the Company as at 30 September 2020 and 31 March 2020;
- (b) Leasehold land and buildings of the Group as at 30 September 2020 and 31 March 2020;
- (c) Pledged bank deposit as at 30 September 2020 and 31 March 2020; and
- (d) Personal guarantee from Mr. Chong Sik and Mr. Chong Pun as at 30 September 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2020

### 14. SHARE CAPITAL

|  | Number of<br>shares | HK\$'000 |
|--|---------------------|----------|
| Ordinary shares of HK\$0.01 each   |                     |          |
| <i>Authorised:</i>   |                     |          |
| At 1 April 2019, 30 September 2019, 31 March 2020<br>and 30 September 2020 | 10,000,000,000      | 100,000  |
| <i>Issued and fully paid:</i>  |                     |          |
| At 1 April 2019, 30 September 2019, 31 March 2020<br>and 30 September 2020 | 520,000,000         | 5,200    |

### 15. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following transactions with related parties:

| Name of related party       | Nature of transaction                           | Six months ended<br>30 September |                                 |
|-----------------------------|---|----------------------------------|---------------------------------|
|                             |   | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Veromia Limited             | Sales of garment products                       | 1,675                            | 2,658                           |
| Mr. S Chong and Mr. P Chong | Rental expenses                                 | N/A                              | N/A                             |
|                             | Interest expense on<br>lease liabilities (Note) | 37                               | 84                              |

Note: As at 1 April 2019, certain lease contracts were entered into with Mr. S Chong and Mr. P Chong for the use of factory premises and staff dormitories.