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## **King's Flair International (Holdings) Limited**

**科勁國際(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6822)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

#### **FINANCIAL HIGHLIGHTS**

	<b>For the six months ended 30 June</b>		
	<b>2016</b>	<b>2015</b>	<b>Change</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	
Revenue	<b>601,343</b>	683,592	(12.0%)
Gross profit	<b>141,813</b>	153,537	(7.6%)
Profit from operations	<b>83,752</b>	96,591	(13.3%)
Profit attributable to equity shareholders	<b>70,392</b>	79,627	(11.6%)
Basic and diluted earnings per share (HK cents)	<b>10.1</b>	11.6	
Gross profit margin	<b>23.6%</b>	22.5%	
Operating profit margin	<b>13.9%</b>	14.1%	
Net profit margin	<b>11.7%</b>	11.5%	

The board of directors resolved to declare an interim dividend of HK6.0 cents per ordinary share of the Company.

## INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of King’s Flair International (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated result of the Company and its subsidiaries (collectively refer to as the “Group”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

### Condensed consolidated statement of comprehensive income

		Six months ended 30 June	
		2016	2015
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	601,343	683,592
Cost of sales		(459,530)	(530,055)
<b>Gross profit</b>		<b>141,813</b>	153,537
Other income	6	2,253	3,351
Distribution expenses		(13,499)	(11,323)
Administrative expenses		(46,815)	(48,974)
Operating profit		83,752	96,591
Finance costs	8	(144)	(137)
<b>Profit before income tax</b>	7	<b>83,608</b>	96,454
Income tax expenses	9	(13,131)	(17,708)
<b>Profit for the period</b>		<b>70,477</b>	78,746
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of available-for-sale financial assets		(2,100)	8,547
Exchange difference arising on translation of foreign operations		329	121
<b>Other comprehensive income for the period</b>		<b>(1,771)</b>	8,668
<b>Total comprehensive income for the period</b>		<b>68,706</b>	87,414

		<b>Six months ended 30 June</b>	
		<b>2016</b>	2015
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Profit for the period attributable to:</b>			
Owners of the Company		<b>70,392</b>	79,627
Non-controlling interests		<b>85</b>	(881)
		<hr/> <b>70,477</b>	<hr/> 78,746
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>68,479</b>	88,226
Non-controlling interests		<b>227</b>	(812)
		<hr/> <b>68,706</b>	<hr/> 87,414
<b>Earnings per share:</b>			
	<i>10</i>	<b>HK cents</b>	HK cents
– Basic		<b>10.1</b>	11.6
– Diluted		<b>10.1</b>	11.6
		<hr/> <b>10.1</b>	<hr/> 11.6

## Condensed consolidated statement of financial position

		As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		44,790	46,875
Prepaid land lease payments		1,810	1,874
Other asset		172	172
Interest in an associate		–	–
Intangible asset		12,016	14,419
Deferred tax assets		4	4
		<u>58,792</u>	<u>63,344</u>
<b>Current assets</b>			
Inventories	12	24,285	10,064
Trade and bills receivables	13	167,084	127,689
Prepayments, deposits and other receivables		49,102	51,738
Available-for-sale financial assets		31,721	33,821
Amount due from an associate		260	187
Prepaid tax		205	321
Pledged bank deposits		29,699	28,904
Cash and bank balances		482,015	406,922
		<u>784,371</u>	<u>659,646</u>
<b>Current liabilities</b>			
Trade and bills payables	14	90,411	66,752
Deposits received, other payables and accruals		56,665	57,986
Bank borrowings		17,076	480
Loans from non-controlling interests		9,259	9,448
Provision for tax		20,353	6,718
		<u>193,764</u>	<u>141,384</u>
<b>Net current assets</b>		<u>590,607</u>	<u>518,262</u>
<b>Total assets less current liabilities</b>		<u>649,399</u>	<u>581,606</u>
<b>Non-current liabilities</b>			
Loans from non-controlling interests		16,265	16,557
Deferred tax liabilities		7,695	8,316
		<u>23,960</u>	<u>24,873</u>
<b>Net assets</b>		<u>625,439</u>	<u>556,733</u>

		As at <b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2015 <i>HK\$'000</i> <b>(Audited)</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>15</i>	<b>7,000</b>	7,000
Reserves		<b>618,684</b>	550,205
		<b>625,684</b>	557,205
Non-controlling interests		<b>(245)</b>	(472)
<b>Total equity</b>		<b>625,439</b>	556,733

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

King's Flair International (Holdings) Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and domiciled in Hong Kong. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is 12/F, Yardley Commercial Building, 3 Connaught Road West, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are trading, retail, wholesale and distribution of kitchenware and household products and trading of raw materials. There were no significant changes in the Group's operations during the period. In the opinion of the directors, the Company's ultimate holding company is City Concord Limited, a company incorporated in the British Virgin Islands.

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial statements has been prepared in accordance with the applicable disclosure requirement of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and with Hong Kong Accounting Standard ("HKAS") 34 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the interim condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The condensed consolidated interim financial statements contain selected explanatory notes which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the consolidated financial statements for the year ended 31 December 2015 (the "2015 Annual report"). The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and should be read in conjunction with the Group's 2015 Annual report.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for those financial assets that are measured at fair values. The condensed consolidated interim financial statements are unaudited but has been reviewed by the Company's audit committee.

This condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK\$'000") unless otherwise indicated.

### 3. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following amendments issued by the HKICPA:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS1	Disclosure Initiative

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated interim financial statements and/or disclosures set out in the interim financial statements.

The Group has not early adopted any new or revised HKFRSs that have been issued but are not yet effective in the condensed consolidated interim financial statements.

### 4. SEGMENT INFORMATION

#### (i) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial statements reported to the Company's executive directors for their decisions about resources allocation to the Group's business component and review of the component's performance. There are two business components in the internal reporting to the executive directors, which is the trading of kitchenware and household products and trading of raw materials. The segment of trading of raw materials was established during the six months ended 30 June 2016.

#### (ii) Business segment information

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Segment revenue</b>						
Revenue from external customers	<u>564,429</u>	<u>683,592</u>	<u>36,914</u>	<u>–</u>	<u>601,343</u>	<u>683,592</u>
<b>Segment results</b>	<u>78,772</u>	<u>99,304</u>	<u>6,292</u>	<u>–</u>	<u>85,064</u>	<u>99,304</u>
<b>Unallocated income</b>					253	475
<b>Unallocated expenses</b>					<u>(1,709)</u>	<u>(3,325)</u>
<b>Profit before income tax</b>					<u>83,608</u>	<u>96,454</u>

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Segment assets	563,450	519,702	32,760	–	596,210	519,702
Unallocated corporate assets					246,953	203,288
Total assets					843,163	722,990
Segment liabilities	216,533	165,991	1,168	–	217,701	165,991
Unallocated corporate liabilities					23	266
Total liabilities					217,724	166,257

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Other segment information:</b>						
Interest income	281	26	–	–	281	26
Interest expenses	(144)	(137)	–	–	(144)	(137)
Depreciation of property, plant and equipment	(2,534)	(2,403)	–	–	(2,534)	(2,403)
Amortisation of intangible asset	(2,403)	(2,403)	–	–	(2,403)	(2,403)

**(iii) Geographical segment information**

The management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal place of operations. The Group's revenue from external customers is divided into the following geographical areas:

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2016</b>	<b>2015</b>
		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
United States		<b>476,058</b>	597,785
Europe	<i>(a)</i>	<b>37,797</b>	31,842
Asia	<i>(b)</i>	<b>71,696</b>	33,393
Canada		<b>10,916</b>	13,828
Other locations	<i>(c)</i>	<b>4,876</b>	6,744
		<b>601,343</b>	<b>683,592</b>

*Notes:*

- (a) Principally included United Kingdom, Switzerland, France and Germany
- (b) Principally included Hong Kong, Japan and the People's Republic of China (the "PRC")
- (c) Principally included Australia, Mexico, Turkey and Egypt

The geographical location of customers is based on the location of customers. For intangible asset, the geographical location is based on the entities' areas of operation. The geographical location of other non-current assets is based on the physical location of the assets. As at 30 June 2016, over 90% (31 December 2015: over 90%) of the Group's non-current assets (other than financial instruments and deferred tax assets) are located in Hong Kong.

**(iv) Information about major customers**

For the six months ended 30 June 2016, revenues from two (2015: two) customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two major customers as shown below accounted for HK\$347,885,000 (2015: HK\$435,760,000) of the Group's revenue for the six months ended 30 June 2016.

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Company A	<b>274,737</b>	359,729
Company B	<b>73,148</b>	76,031

## 5. REVENUE

The Group is principally engaged in trading of kitchenware and household products and raw materials. Revenue represents invoiced value of goods sold, after allowances for returns and discounts (net of value added tax). Revenue recognised during the period is as follows:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of kitchenware and household products	564,429	683,592
Sales of raw materials	36,914	–
	<b>601,343</b>	<b>683,592</b>

## 6. OTHER INCOME

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Bank interest income	534	501
Dividend income from listed equity securities	273	–
Management and handling services	73	142
Recharge from customers	1,353	2,599
Gain on disposal of property, plant and equipment	–	65
Others	20	44
	<b>2,253</b>	<b>3,351</b>

## 7. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expenses	459,530	530,055
Depreciation of property, plant and equipment	2,534	2,297
Amortisation of intangible asset	2,403	2,403
Amortisation of prepaid land lease payments	27	29
Employee benefit expenses (including directors' remuneration)		
Wages, salaries and other benefits	20,218	18,404
Discretionary bonuses	5,041	10,179
Contributions to defined contribution schemes	796	747
	<b>26,055</b>	<b>29,330</b>

## 8. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest charges on financial liabilities at amortised cost:		
Bank loans	4	13
Bank overdrafts and other borrowings	140	124
	<u>144</u>	<u>137</u>

## 9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current tax – Hong Kong – Current period	13,752	18,153
Deferred tax – Credit for the period	<u>(621)</u>	<u>(445)</u>
Income tax expenses	<u>13,131</u>	<u>17,708</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Hong Kong profits tax has been provided at the estimated annual effective tax rate of 16.5% (2015: 16.5%) on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2016.

Enterprise income tax (“EIT”) for the period was calculated at the estimated annual effective tax rate of 25% (2015: 25%) of the estimated assessable profits arising from the PRC. No PRC EIT tax has been provided for Group’s PRC subsidiaries as they did not derive any assessable profits during the six months ended 30 June 2016 (2015: Nil).

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

## 10. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the period of HK\$70,392,000 (2015: HK\$79,627,000) and the weighted average of 700,000,000 ordinary shares (2015: 685,497,000 ordinary shares) in issue during the interim period.

### Diluted earnings per share

There were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2016 and 2015, and hence the diluted earnings per share is the same as basic earnings per share.

## 11. DIVIDENDS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interim dividend declared and payable after the interim period of HK6.0 cents per share (six months ended 30 June 2015: HK4.5 cents per share)	42,000	31,500
Special dividend declared and payable after the interim period of Nil per share (six months ended 30 June 2015: HK5.5 cents per share)	—	38,500
	<u>42,000</u>	<u>70,000</u>

The interim dividend has not been recognised as a liability at the end of the reporting period.

## 12. INVENTORIES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
	Merchandises, at cost	13,112
Raw materials	11,173	—
	<u>24,285</u>	<u>10,064</u>

### 13. TRADE AND BILLS RECEIVABLES

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Trade receivables	167,084	127,139
Bills receivables	–	550
	<hr/>	<hr/>
Trade and bills receivables, net	<b>167,084</b>	<b>127,689</b>

The Group's trading terms with customers are mainly on credit. The credit terms are generally 7 to 90 days from the invoice date. All trade and bills receivables are interest-free.

An ageing analysis of the Group's trade and bills receivables, as at the reporting date, based on the invoices dates, is as follows:

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
0–30 days	125,980	97,688
31–60 days	31,271	22,735
61–90 days	4,200	2,371
Over 90 days	5,633	4,895
	<hr/>	<hr/>
	<b>167,084</b>	<b>127,689</b>

### 14. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest bearing and normally have a credit period of 0 to 90 days from the invoice date.

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Trade payables	75,816	63,752
Bills payables	14,595	3,000
	<hr/>	<hr/>
	<b>90,411</b>	<b>66,752</b>

An ageing analysis of the Group's trade and bills payables as at the reporting date, based on the invoices dates is as follows:

	<b>As at 30 June 2016 HK\$'000 (Unaudited)</b>	As at 31 December 2015 HK\$'000 (Audited)
0–90 days	<b>86,391</b>	65,077
91–180 days	<b>3,626</b>	1,273
Over 365 days	<b>394</b>	402
	<b><u>90,411</u></b>	<u>66,752</u>

## 15. SHARE CAPITAL

	<b>As at 30 June 2016</b>		As at 31 December 2015	
	<b>Number of shares ( '000) (Unaudited)</b>	<b>HK\$'000 (Unaudited)</b>	Number of shares ( '000) (Audited)	HK\$'000 (Audited)
Authorised:				
Shares of HK\$0.01 each				
At 1 January 2016/1 January 2015	<b><u>10,000,000</u></b>	<b><u>100,000</u></b>	<u>10,000,000</u>	<u>100,000</u>
At 30 June 2016/31 December 2015	<b><u>10,000,000</u></b>	<b><u>100,000</u></b>	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Shares of HK\$0.01 each				
At 1 January 2016/1 January 2015	<b>700,000</b>	<b>7,000</b>	10	–
Capitalisation issue ( <i>note a</i> )	–	–	524,990	5,250
Allotment of shares ( <i>note b</i> )	–	–	<u>175,000</u>	<u>1,750</u>
At 30 June 2016/31 December 2015	<b><u>700,000</u></b>	<b><u>7,000</u></b>	<u>700,000</u>	<u>7,000</u>

*Note:*

- (a) On 15 January 2015, 524,990,000 ordinary shares of HK\$0.01 each were issued at par to the shareholders of the Company by way of capitalisation of HK\$5,249,900 from the Company's share premium account.
- (b) On 15 January 2015, an aggregate of 17,500,000 ordinary shares and 157,500,000 ordinary shares were issued and offered for subscription by way of public offer and placing, respectively at a price of HK\$1.38 per share. The Group raised approximately HK\$241,500,000 before any related listing expenses arising from the public offer and placing, resulting in an increase in the issued share capital of the Company by HK\$1,750,000 and the share premium of the Company by HK\$239,750,000.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group is an integrated one-stop kitchenware and household product solution provider to internationally renowned kitchenware and household product brands. Headquartered in Hong Kong, the Group provides differentiating and customised services from market research, concept creation, product design and development to raw material sourcing, production engineering as well as quality assurance, order tracking and logistics. This comprehensive and bespoke service platform has successfully differentiated the Group among kitchenware and household product solution providers in the industry and gained us the trust from high-end kitchenware and household product brand owners in North America, Europe and Asia.

Core products of the Group include kitchen tools and gadgets, drinkware, bakeware and accessories and food preparation and storage products and accessories.

### **OPERATIONAL REVIEW**

#### **Differentiated services is the key to enhance customer loyalty**

With a strong commitment in providing differentiated services and reinforcing its competitive advantages, the Group continued to strengthen its product design, development and engineering capabilities in 2016. During the six months ended 30 June 2016, the Group had established an additional design team with 7 members in Taiwan which are professional in focusing on market research, data analysis, product designs and development, helping our clients in monitoring consumer demands and setting the latest trends in kitchenware and household product. These capabilities differentiated us among our peers and fortified our strategic partnership with our customers.

With strong background in industrial designs as well as experiences in manufacturing, our 8 engineers form the Group's product engineering team providing innovative raw material ideas and cost-effective solutions to streamline the overall manufacturing process. As at 30 June 2016, the Group has engaged a team of over 90 quality assurance professionals stationed at or near the production factories in the PRC. No major quality control issues or complaints were reported in the six months ended 30 June 2016.

#### **International clientele**

The Group has an extensive sales network and international clientele. In the six months ended 30 June 2016, clients from the United States of America (US) contributed over 79.2% of overall revenue. Asia, Europe and Canada contributed 11.9%, 6.3% and 1.8%, respectively, and the Group received orders from over 100 customers.

In addition to maintaining solid partnership with its existing customers, the Group also endeavored to explore new business opportunities. During the six months ended 30 June 2016, the Group exhibited in several trade fairs including the Hong Kong Houseware Fair in Hong Kong and the trade fair in Ambiente Frankfurt, one of the most important homeware and gift trade shows in Europe. Via such platforms, the Group has showcased its product design and development capabilities and has reached merchandisers from around the globe while also closely tracked the latest innovation and design trends in the industry.

## **FUTURE STRATEGY**

The Group has set strong foot-holds in the global kitchenware and household product industry, especially in the high-end market. Leveraging on its success and foundation, the Group will continue to seek growth in our existing overseas market while pursuing breakthrough in the PRC market. In the second half of 2016, the Group plans to continue to recruit more talents in both design and engineering level, aiming to enhance our capability in product innovation and better cater for the demand of our customers. Mid-tier and high-end kitchenware and household product markets will continue to be the Group's focus and the Group will continue to participate in major trade shows to further broaden our customer base in these markets. Through these trade shows and by working with local importers and trade agents, the Group will also actively explore business opportunities in emerging markets namely Eastern Europe, Africa and South America. In view of the increase in discretionary income and the fast growing middleclass, the Group believes the consumption demand in these markets for mid to high-end kitchenware and household product with chic designs will be gradually unleashed.

Closer to home, the Group will focus on developing the retail kitchenware and household product chain and further penetrating the PRC market. The Group believes that the large population of middle-class consumers in the PRC is still craving for quality products in pursuit of high standards of living. Therefore, the Group continues to dedicate resources on expanding its market share in the PRC market. On top of the physical channels, the Group will continue to nurture its e-commerce platform with an aim to enlarge its market shares in the PRC. During the six months ended 30 June 2016, we have recorded a remarkable increase in revenue from the PRC to a record high.

The Group also pursues a diversification strategy to increase revenue source. During the six months ended 30 June 2016, the Group commenced a new line of business in trading of raw materials. The Group will continue to explore more potential commodities suppliers with high reliability around the world for enriching the raw material intelligence and increasing the varieties of raw materials to enjoy the benefit of economies of scale and improving efficiency.

In 2015, the PRC government introduced the two-child policy which allows couples to have two children. It is expected that the policy will bring a baby boom and the demand for toddler and children products will increase. The Group will grasp the opportunity brought by this new policy by introducing products to capture the mother and toddler's market. The Group plans to launch such products to the PRC market in 2017.

## **FINANCIAL REVIEW**

### **Revenue**

Benefiting from the mild recovery of the US economy, customers have increased their purchase orders and built a higher inventory level in 2015, which resulted in their taking additional time to digest their inventory. Thus, customers reduced the pace of placing orders with our Group during the six months ended 30 June 2016. On the other hand, in order to improve the efficiency of resource utilization of the Group, the Group has refined the revenue portfolio by streamlining sales orders through eliminating some very low margin orders. Hence, during the six months ended 30 June 2016, our total revenue was approximately HK\$601.3 million, representing a decrease of approximately 12.0% as compared to approximately HK\$683.6 million for the same period in 2015.

Facing the challenge, the Group has continued to adhere to the differentiation strategy with our strong design and engineering skills to provide tailor-made services to our customers to increase order levels from existing customers as well as attract new customers. The Group is also actively diversifying and expanding our customer base with the aim to sustain the growth of our revenue.

On the other hand, with an aim to diversify the source of the Group's revenue, the Group has established a new business segment of trading of raw materials during the six months ended 30 June 2016. The revenue contributed by this segment was approximately HK\$36.9 million which amounted to approximately 6.1% of the Group's total revenue for the six months ended 30 June 2016.

### **Cost of sales**

During the six months ended 30 June 2016, cost of sales of the Group decreased by approximately 13.3% to approximately HK\$459.5 million as compared to approximately HK\$530.1 million for the same period of 2015. Cost of sales as a percentage of revenue decreased to 76.4% for the six months ended 30 June 2016 as compared to 77.5% for the same period in 2015. The lower cost of sales of the Group was mainly due to the same reasons for the drop in revenue as mentioned in the paragraph headed "Revenue" above.

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

The Group's gross profit decreased by approximately 7.6% to approximately HK\$141.8 million for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$153.5 million) and the gross profit margin increased by approximately 1.1% to approximately 23.6% for the six months ended 30 June 2016 (six months ended 30 June 2015: 22.5%). The higher gross profit margin of the Group was mainly resulted from the refining of the Group's revenue portfolio in an attempt to improve the return of the Group and the efficiency of the use of resources. During the period, the Group had reviewed the business of the Group and identified orders with lower gross profit margin. The Group reallocated more resources to orders with higher gross profit margin and reduced or ceased orders with unsatisfactory gross profit margin. Thus, there was an improvement in the gross profit margin during this period.

### **Other income**

During the six months ended 30 June 2016, other income decreased by approximately 32.4% to approximately HK\$2.3 million (six months ended 30 June 2015: HK\$3.4 million) primarily due to the decrease in recharge from customers.

### **Distribution expenses**

Distribution expenses were primarily related to the PRC retail business. During the six months ended 30 June 2016, distribution expenses increased by 19.5% to approximately HK\$13.5 million (six months ended 30 June 2015: HK\$11.3 million). The increase was mainly due to the Group's dedication of more resources on retail business and the expenditure on marketing expenses, product approval test, cost of marketing staff and transportation cost thus increased.

## **Administrative expenses**

During the six months ended 30 June 2016, the administrative expenses decreased by approximately 4.5% to approximately HK\$46.8 million (six months ended 30 June 2015: HK\$49.0 million). The decrease was primarily due to the management's cost control effort.

## **Profit for the period**

During the six months ended 30 June 2016, profit for the period decreased by approximately 10.4% to approximately HK\$70.5 million (six months ended 30 June 2015: HK\$78.7 million). The decrease in revenue was the major factor that led to the decrease in profit for the period.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2016, the Group had 160 employees (30 June 2015: 144 employees). Total staff costs (including Directors' emoluments) were approximately HK\$26.1 million for the six months ended 30 June 2016, as compared to approximately HK\$29.3 million for the same period in 2015.

The Group remunerates its employees based on their qualifications, performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees including salaries, medical insurance, discretionary bonuses as well as mandatory provident fund schemes for employees in Hong Kong and state managed retirement benefit schemes for employees in the PRC.

The emoluments of the Directors are decided by the Remuneration Committee, based on the Group's operating results, individual performance and comparable market statistics.

## **SIGNIFICANT INVESTMENT HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS ON CAPITAL ASSETS**

Other than the available-for-sale financial assets as disclosed in the condensed consolidated statement of financial position, there were no significant investment held as at 30 June 2016 nor are there plans for material investments on capital assets as at the date of this announcement.

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

During the six months ended 30 June 2016, the Group had not made any material acquisition or disposal of subsidiaries and associated companies.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2016, the Group had cash and bank balances amounted to approximately HK\$482.0 million (31 December 2015: HK\$406.9 million) which were mainly denominated in United States dollars ("USD"), Renminbi ("RMB") and HKD. The Group's total bank borrowings amounted to approximately HK\$17.1 million (31 December 2015: HK\$0.5 million) which were all denominated in HKD. Interest is determined on the basis of Hong Kong Interbank Offering Rate or Prime Rate for HKD borrowings.

There was no change to the Group's capital structure since the listing of the Company's shares on the Main Board of Stock Exchange on 16 January 2015 (the "Listing") and up to the date of this result announcement. In light of the current financial position of the Group and provided there is no unforeseen circumstance, the management does not anticipate the need to change the capital structure. The annual interest rate of the bank borrowings during the six months ended 30 June 2016 was 2.5% (six months ended 30 June 2015: 2.5%).

For the six months ended 30 June 2016, the Group recorded a strong cash inflow from operating activities of HK\$59.2 million (six months ended 30 June 2015: HK\$45.1 million). Net cash used in investing activities of HK\$0.5 million (six months ended 30 June 2015: HK\$0.8 million) was due to the pledged bank deposit. There was a net cash outflow of HK\$0.5 million (six months ended 30 June 2015: net cash inflow HK\$221.9 million) from financing activities due to the proceeds from the Listing in the same period in 2015.

### **Gearing ratio**

The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings and loans from non-controlling interests, divided by total equity. The gearing ratio of the Group as at 30 June 2016 and 2015 were 6.8% and 7.6% respectively. The decrease of the gearing ratio was mainly due to the increase in equity balances arising from the Listing.

### **FOREIGN EXCHANGE EXPOSURE**

The Group mainly earns revenue in USD and incurs cost in HKD and RMB. The Group is exposed to foreign exchange risk with respect mainly to USD and RMB which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any hedging policy.

### **PLEDGE OF ASSETS**

As at 30 June 2016, the Group's leasehold land and buildings with an aggregate carrying amount of approximately HK\$20.1 million (31 December 2015: HK\$21.2 million) and pledged time deposit of HK\$29.7 million (31 December 2015: HK\$28.9 million) were pledged to secure general banking facilities granted to the Group.

### **USE OF PROCEEDS FROM THE SHARE OFFER**

The net proceeds from the Company's share offer in January 2015 amounted to approximately HK\$219.8 million (after deducting underwriting commissions and all related expenses). Such net proceeds are intended to be or have been applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 31 December 2014 (the "Prospectus"). As at 30 June 2016, approximately HK\$52.1 million of the proceeds raised has been utilised and the unused proceeds were deposited in licensed banks in Hong Kong. In the event that the Directors decided to use such net proceeds in a manner different from that stated in the Prospectus, the Company will issue further announcement in compliance with the Listing Rules.

## **CONTINGENT LIABILITIES**

As at 30 June 2016, the Group had no significant contingent liabilities (31 December 2015: Nil).

## **CAPITAL COMMITMENTS**

As at 30 June 2016, the Group has no significant outstanding capital commitment (31 December 2015: Nil).

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintaining high standards of corporate governance and has steered its development and protection of the interests of the shareholders of the Company (“Shareholders”) in an enlightened and open manner. The Board comprises three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“CG Code”) set out in Appendix 14 to the Listing Rules on the Stock Exchange. During the six months ended 30 June 2016, the Company has complied with the CG Code, except for the following deviations:

Code Provision A.2.1 provides that, among other things, the role of chairman of the board and the chief executive officer of a listed issuer shall be separate and shall not be performed by the same individual. Mr. Wong Siu Wah (“Mr. Wong”) is both the chief executive officer and the chairman of the Board of the Company which deviates from code provision A.2.1. The Board considers that vesting the role of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board composition and structure taking into account the background and experience of the Directors and the number of independent non-executive Directors on the Board.

The revised Code Provision C.3.3, which came into effect commencing from 1 January 2016, provides that the audit committee’s terms of reference should include at least, among other things, oversight of the issuer’s risk management system. The Company has on 30 March 2016 revised the terms of reference of the audit committee in line with Code Provision C.3.3.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company’s securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2016.

## **AUDIT COMMITTEE**

The Company has an audit committee (the “Audit Committee”) which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process, risk management and internal controls. The Audit Committee, comprising Ms. Leung Wai Ling, Wylie (Chairman), Dr. Lau Kin Tak and Mr. Anthony Graeme Michaels, has reviewed the Company’s unaudited condensed interim financial statements for the six months ended 30 June 2016 and the accounting principles and practices adopted, and discussed auditing, risk management, internal controls and financial reporting matters with our management and the Company’s external auditors.

## **INTERIM DIVIDEND**

The Board resolved to declare an interim dividend of HK6.0 cents (six months ended 30 June 2015: interim dividend HK4.5 cents and special dividend of HK5.5 cents per share) to Shareholders whose names appear on the register of members on 21 September 2016 representing a payout ratio of approximately 59.7% of profit attributable to shareholders for the six months ended 30 June 2016. The interim dividend will be paid on or around 30 September 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the entitlements to the interim dividend, the register of members will be closed from 20 September 2016 to 21 September 2016 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company’s share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 19 September 2016 for registration.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2016.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2016.

**PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This result announcement is published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.kingsflair.com.hk](http://www.kingsflair.com.hk). The interim report of the Company for the six months ended 30 June 2016 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board  
**King's Flair International (Holdings) Limited**  
**Wong Siu Wah**  
*Chairman and Executive Director*

Hong Kong, 26 August 2016

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Wong Siu Wah, Ms. Wong Fook Chi, and Mr. Wong Ying Wai Dennis; and three independent non-executive directors, namely Dr. Lau Kin Tak, Mr. Anthony Graeme Michaels and Ms. Leung Wai Ling, Wylie.*