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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 2017**

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2017	2016	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Revenue	614,763	601,343	2.2%
Gross profit	132,786	141,813	(6.4%)
Profit from operations	71,016	83,752	(15.2%)
Profit attributable to equity shareholders	55,928	70,392	(20.5%)
Basic and diluted earnings per share (HK cents)	8.0	10.1	
Gross profit margin	21.6%	23.6%	
Operating profit margin	11.6%	13.9%	
Net profit margin	9.5%	11.7%	

The board of directors resolved to declare an interim dividend of HK4.5 cents and a special dividend of HK1.5 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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

Condensed consolidated statement of comprehensive income

		Six months ended 30 June	
		2017	2016
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	614,763	601,343
Cost of sales		(481,977)	(459,530)
Gross profit		132,786	141,813
Other income and gain	6	2,912	2,253
Distribution expenses		(16,206)	(13,499)
Administrative expenses		(48,476)	(46,815)
Operating profit		71,016	83,752
Finance costs	8	(74)	(144)
Profit before income tax	7	70,942	83,608
Income tax expenses	9	(12,377)	(13,131)
Profit for the period		58,565	70,477
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		8,919	(2,100)
Exchange difference arising on translation of foreign operations		411	329
Other comprehensive income for the period		9,330	(1,771)
Total comprehensive income for the period		67,895	68,706

	Six months ended 30 June	
	2017	2016
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to:		
Owners of the Company	55,928	70,392
Non-controlling interests	2,637	85
	<hr/> 58,565	<hr/> 70,477
Total comprehensive income attributable to:		
Owners of the Company	65,143	68,479
Non-controlling interests	2,752	227
	<hr/> 67,895	<hr/> 68,706
	HK cents	HK cents
Earnings per share:	<i>10</i>	
– Basic	8.0	10.1
– Diluted	8.0	10.1
	<hr/> 8.0	<hr/> 10.1

Condensed consolidated statement of financial position

		As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		41,199	43,616
Prepaid land lease payments		1,708	1,692
Other asset		172	172
Loan receivable	12	12,993	–
Derivative financial instrument	12	2,567	–
Interest in an associate		–	–
Intangible asset		7,209	9,613
Deferred tax assets		4	4
		<u>65,852</u>	<u>55,097</u>
Current assets			
Inventories	13	34,499	21,354
Trade receivables	14	150,024	216,662
Prepayments, deposits and other receivables		31,427	36,023
Available-for-sale financial assets	15	48,862	32,163
Financial asset at fair value through profit or loss	16	8,301	–
Amount due from an associate		421	351
Prepaid tax		192	4,693
Pledged bank deposits		21,969	29,720
Cash and bank balances		501,682	383,984
		<u>797,377</u>	<u>724,950</u>
Current liabilities			
Trade and bills payables	17	85,068	89,974
Deposits received, other payables and accruals		53,019	57,145
Bank overdraft		15,912	–
Dividend payable	11	42,000	–
Loans from non-controlling interests		13,676	13,388
Provision for tax		10,725	2,485
		<u>220,400</u>	<u>162,992</u>
Net current assets		<u>576,977</u>	<u>561,958</u>
Total assets less current liabilities		<u>642,829</u>	<u>617,055</u>
Non-current liabilities			
Loans from non-controlling interests		11,213	10,938
Deferred tax liabilities		6,876	7,272
		<u>18,089</u>	<u>18,210</u>
Net assets		<u>624,740</u>	<u>598,845</u>

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
EQUITY		
Equity attributable to owners of the Company		
Share capital	7,000	7,000
Reserves	<u>618,579</u>	<u>595,436</u>
	625,579	602,436
Non-controlling interests	<u>(839)</u>	<u>(3,591)</u>
Total equity	<u>624,740</u>	<u>598,845</u>

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 "Interim Financial Reporting" 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 2016 (the "2016 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 2016 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:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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 condensed consolidated 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.

(ii) Business segment result

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Segment revenue						
Company and subsidiaries	<u>568,391</u>	<u>564,429</u>	<u>46,372</u>	<u>36,914</u>	<u>614,763</u>	<u>601,343</u>
Segment result	<u>68,642</u>	<u>78,772</u>	<u>5,011</u>	<u>6,292</u>	<u>73,653</u>	<u>85,064</u>
Unallocated income					<u>349</u>	<u>253</u>
Unallocated expenses					<u>(3,060)</u>	<u>(1,709)</u>
Profits before income tax					<u>70,942</u>	<u>83,608</u>

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Segment assets	589,497	539,967	62,187	41,666	651,684	581,633
Prepaid tax					192	4,693
Deferred tax assets					4	4
Unallocated corporate assets [#]					211,349	193,717
Consolidated total assets					863,229	780,047
Segment liabilities	175,656	170,784	3,152	55	178,808	170,839
Provision for tax					10,725	2,485
Deferred tax liabilities					6,876	7,272
Unallocated corporate liabilities					42,080	606
Consolidated total liabilities					238,489	181,202

Unallocated corporate assets mainly represented cash and bank balances which held as general working capital of the Group which are not directly attributable to any operating segment.

	Trading of kitchenware and household products		Trading of raw materials		Consolidated	
	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Other segment information						
Interest income	760	281	1	–	761	281
Interest expenses	(74)	(144)	–	–	(74)	(144)
Depreciation of property, plant and equipment	(2,596)	(2,534)	–	–	(2,596)	(2,534)
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:

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
United States		468,051	476,058
Europe	(a)	29,109	37,797
Asia	(b)	103,439	71,696
Canada		13,847	10,916
Other locations	(c)	317	4,876
		<u>614,763</u>	<u>601,343</u>

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

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 2017, over 90% (31 December 2016: 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 2017, revenues from two (2016: 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\$369,369,000 (2016: HK\$347,885,000) of the Group's revenue for the six months ended 30 June 2017.

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Company A	305,329	274,737
Company B (Note a)	64,040	54,228
Company C (Note b)	60,193	73,148
	<u>614,763</u>	<u>601,343</u>

Notes:

- a. Revenue amounted to approximately HK\$54,228,000 from transactions with Company B does not exceed 10% of the Group's revenue for the six months ended 30 June 2016 and is disclosed for illustrative purposes only.
- b. Revenue amounted to approximately HK\$60,193,000 from transactions with Company C does not exceed 10% of the Group's revenue for the six months ended 30 June 2017 and is disclosed for illustrative purposes only.

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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Sales of kitchenware and household products	568,391	564,429
Sales of raw materials	46,372	36,914
	614,763	601,343

6. OTHER INCOME AND GAIN

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Bank interest income	1,110	534
Dividend income from listed equity securities	–	273
Fair value gain on financial assets at fair value through profit or loss	443	–
Management and handling services	70	73
Recharge from customers	606	1,353
Others	683	20
	2,912	2,253

7. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expenses	481,977	459,530
Depreciation of property, plant and equipment	2,626	2,534
Amortisation of intangible asset	2,403	2,403
Amortisation of prepaid land lease payments	26	27
Exchange loss, net	1,636	867
Employee benefit expenses (including directors' remuneration)		
Wages, salaries and other benefits	20,397	20,218
Discretionary bonuses	5,242	5,041
Contributions to defined contribution schemes	877	796
	26,516	26,055

8. FINANCE COSTS

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Interest charges on financial liabilities at amortised cost:		
Bank loans	–	4
Bank overdrafts	74	140
	<u>74</u>	<u>144</u>

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax		
– Hong Kong	11,663	13,752
– the PRC	1,110	–
Deferred tax		
– Credit for the period	(396)	(621)
Income tax expenses	<u>12,377</u>	<u>13,131</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% (2016: 16.5%) on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2017.

Enterprise income tax (“EIT”) for the period was calculated at the estimated annual effective tax rate of 25% (2016: 25%) of the estimated assessable profits arising from the PRC.

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\$55,928,000 (2016: HK\$70,392,000) and the weighted average of 700,000,000 ordinary shares (2016: 700,000,000 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 2017 and 2016, and hence the diluted earnings per share is the same as basic earnings per share.

11. DIVIDENDS

(i) Dividends to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interim dividend declared and payable after the interim period of HK4.5 cents per share (six months ended 30 June 2016: HK6.0 cents per share)	31,500	42,000
Special dividend declared and payable after the interim period of HK1.5 cents per share (six months ended 30 June 2016: Nil)	10,500	–
	42,000	42,000

The interim and special dividends have not been recognised as a liability of the end of the reporting period.

(ii) Dividends to equity shareholders attributable to previous financial year, approved and payable/paid during the interim period:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and payable during the following interim period, of HK6.0 cents per share (six months ended 30 June 2016: approved and paid during the following interim period of HK6.5 cents per share)	42,000	45,500

12. LOAN RECEIVABLE

As at 30 June 2017, there was one (31 December 2016: Nil) loan receivable under a secured convertible note (“Note”) with gross principal amount of US\$2,000,000 equivalent to HK\$15,560,000 (31 December 2016: Nil) due from an independent third party. The loan is interest-bearing at rate of 4% per annum or 10% per annum under an event of default. The loan was repayable twenty-four months from purchase date and therefore were classified as non-current assets as at 30 June 2017. The term of the Note entitles the Group with the right to convert the outstanding loan amount and accrued interest to 51% of all shares outstanding post-conversion of the note issuer in the Group’s sole discretion. The conversion right is exercisable one year after the purchase date.

The loan receivable contains debt component and conversion option. The fair value of debt component and conversion option of the loan receivable is determined by the Directors with reference to the valuation performed by LCH (Asia-Pacific) Surveyors Limited.

The fair value of the conversion option of the Note on its date of issue (i.e. 15 June 2017) was estimated to be approximately HK\$2,567,000 and is recorded under non-current assets as derivative financial instrument. The remaining balance of approximately HK\$12,993,000, representing the difference between the cash consideration paid on the Note of approximately HK\$15,560,000 and the fair value of the conversion option of approximately HK\$2,567,000, was accounted for as debt component of the Note and is recorded under non-current assets as loan receivable.

The fair value of the conversion option of the Note is Level 3 recurring fair value measurement. There is no transfer under the fair value hierarchy classification during the six months ended 30 June 2017.

13. INVENTORIES

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Merchandises, at cost	13,461	12,311
Raw materials	21,038	9,043
	<u>34,499</u>	<u>21,354</u>

14. TRADE RECEIVABLES

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Trade receivables	<u>150,024</u>	<u>216,662</u>

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 receivables are interest-free.

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

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
0–30 days	113,081	147,857
31–60 days	23,563	47,235
61–90 days	6,196	2,990
Over 90 days	7,184	18,580
	<u>150,024</u>	<u>216,662</u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Listed investment, at fair value:		
– equity securities listed in Hong Kong	41,082	32,163
Unlisted investment, at fair value:		
– bond in Hong Kong	7,780	–
	<u>48,862</u>	<u>32,163</u>

During the six months ended 30 June 2017, the change in fair value in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to HK\$8,919,000 in surplus (2016: HK\$2,100,000 in deficit).

The fair value of the Group's investment in listed securities has been determined by reference to their quoted market prices at the reporting date.

The fair value of the Group's unlisted investment is determined based on the quoted price from relevant financial institution at the reporting date.

16. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OF LOSS

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Unlisted investment, held-for-trading		
– equity fund in Hong Kong	8,301	–

The fair value of the Group's unlisted investment is determined based on the quoted prices from relevant financial institution at the reporting date.

17. 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 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Trade payables	76,842	82,059
Bills payables	8,226	7,915
	<u>85,068</u>	<u>89,974</u>

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
0–90 days	79,067	85,476
91–180 days	5,617	631
181–365 days	–	765
Over 365 days	384	3,102
	85,068	89,974

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. The Group also engages in trading of raw materials.

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 invest in its product design, development and engineering capabilities in 2017. During the six months ended 30 June 2017, the Group had maintained a design and R&D team to a total of 12 members, which are professional in focusing on market research, data analysis, product design and development, helping our clients in monitoring consumer demands and setting the latest trends in kitchenware and household products, as well as collaborating with our customers to derive patentable solutions. 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, the Group's product engineering team, which currently has 5 engineers, provide innovative raw material ideas and cost-effective solutions to streamline the overall manufacturing process. As at 30 June 2017, the Group 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 2017.

International clientele

The Group has an extensive sales network and international clientele. During the six months ended 30 June 2017, clients from the United States of America (US) contributed over 76.1% of total revenue. Asia, Europe and Canada contributed 16.8%, 4.7% and 2.3%, 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 2017, the Group visited the trade fair in Ambiente Frankfurt, NY Now, International Home + Houseware Show, and Hong Kong Houseware Fair and Playtime Tokyo. Via such platforms, the Group was able to reach merchandisers from around the globe and closely track 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 mid-tier and high-end market. Leveraging on its success and foundation, the Group will continue to seek growth in its existing overseas markets while pursuing breakthrough in the PRC market. In the second half of 2017, the Group will continue to enhance its capability in product innovation and better cater for the demand of its 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 its customer base. Through these trade shows and by working with local importers and trade agents, the Group is expanding potential collaborations with well-known U.S. and Europe brand owners and retailers. For emerging markets such as Eastern Europe, Africa and South America, the Group will continue to explore business opportunities in these countries amidst their current economic conditions.

The Group will continue to focus on expanding the retail kitchenware and household product assortment and further penetrate the PRC market. The Group believes that the large population of middle-class consumers in the PRC, having achieved a higher standard of living, is still craving for quality and trendy products in pursuit of wellness living. With the introduction of the two-child policy by the PRC government in 2015 which allows couples to have two children, it is expected that the demand for toddler and children products will remain strong. The Group will grasp the opportunity brought by this policy by developing more products to capture the mother and toddler's market and continuing to dedicate resources on increasing its market share in the PRC market by expanding product assortment. In addition, the Group will continue to nurture its e-commerce platform and increase marketing and promotion activities with an aim to enlarge market shares in the PRC.

The Group also pursues a diversification strategy to increase its revenue source. For its raw materials trading business, 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.

FINANCIAL REVIEW

Revenue

The Group recorded a slight growth in revenue for the first half of year 2017 comparing to the same period in year 2016. During the six months ended 30 June 2017, the Group's total revenue was approximately HK\$614.8 million, representing an increase of approximately 2.2% as compared to approximately HK\$601.3 million for the same period in 2016.

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

Cost of sales

During the six months ended 30 June 2017, cost of sales of the Group increased by approximately 4.9% to approximately HK\$482.0 million as compared to approximately HK\$459.5 million for the same period of 2016. Cost of sales as a percentage of revenue increased to 78.4% for the six months ended 30 June 2017 as compared to 76.4% for the same period in 2016. The higher cost of sales of the Group was mainly due to the increase in the cost of raw materials consumed by the Group. The price of raw materials rose as the price of commodities increased during the recovery of global economy. The appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HKD") also increased the cost of sales of the Group.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 6.4% to approximately HK\$132.8 million for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$141.8 million) and the gross profit margin decreased by approximately 2.0% to approximately 21.6% for the six months ended 30 June 2017 (six months ended 30 June 2016: 23.6%). The lower gross profit and gross profit margin was mainly due to the increase of cost of raw materials as mentioned in the paragraph headed "Cost of sales" above.

Other income and gain

During the six months ended 30 June 2017, other income and gain increased by approximately 26.1% to approximately HK\$2.9 million (six months ended 30 June 2016: HK\$2.3 million) primarily due to the increase in interest income and the gain from the fair value change of a fund which was classified as financial asset at fair value through profit or loss.

Distribution expenses

Distribution expenses were primarily related to the PRC retail business. During the six months ended 30 June 2017, distribution expenses increased by 20.0% to approximately HK\$16.2 million (six months ended 30 June 2016: HK\$13.5 million) in the PRC. The increase was mainly due to the Group's dedication of more resources on the PRC retail business and the expenditure on marketing expenses and product approval tests.

Administrative expenses

During the six months ended 30 June 2017, the administrative expenses increased by approximately 3.6% to approximately HK\$48.5 million (six months ended 30 June 2016: HK\$46.8 million). The increase was primarily due to the increase in loss on exchange and staff cost.

Profit for the period

Profit for the six months ended 30 June 2017 decreased by approximately 16.9% to approximately HK\$58.6 million (six months ended 30 June 2016: HK\$70.5 million). The increase in cost of raw materials consumed was the major factor that led to the decrease in profit for the period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 146 employees (30 June 2016: 160 employees). Total staff costs (including Directors' emoluments) were approximately HK\$26.5 million for the six months ended 30 June 2017, as compared to approximately HK\$26.1 million for the same period in 2016.

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, loan receivable and financial asset at fair value through profit or loss as disclosed in the condensed consolidated statement of financial position, there were no significant investment held as at 30 June 2017 nor were 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 2017, 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 2017, the Group had cash and bank balances amounted to approximately HK\$501.7 million (31 December 2016: HK\$384.0 million) which were mainly denominated in United States dollars (“USD”), RMB and HKD. The Group’s total bank overdraft amounted to approximately HK\$15.9 million (31 December 2016: Nil) 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 the Stock Exchange of Hong Kong Limited on 16 January 2015 (the “Listing”) and up to the date of this announcement. In light of the current financial position of the Group and provided there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure. The annual interest rate of the bank overdraft as at 30 June 2017 was approximately 4% (31 December 2016: Nil).

For the six months ended 30 June 2017, the Group recorded a strong cash inflow from operating activities of HK\$123.5 million (six months ended 30 June 2016: HK\$59.2 million). Net cash used in investing activities of HK\$22.5 million (six months ended 30 June 2016: HK\$0.5 million) was due to the increase in the investment in equity fund and bond and the subscription of the Note. There was a net cash outflow of HK\$0.1 million (six months ended 30 June 2016: net cash inflow HK\$0.5 million) from financing activities.

Gearing ratio

The Group’s gearing ratio is calculated as total borrowings, which is the summation of bank overdraft and loans from non-controlling interests, divided by total equity. The gearing ratio of the Group as at 30 June 2017 and 31 December 2016 were 6.5% and 4.1% respectively. The increase of the gearing ratio was mainly due to the increase in bank overdraft.

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 2017, the Group's leasehold land and buildings with an aggregate carrying amount of approximately HK\$19.9 million (31 December 2016: HK\$20.4 million), bond classified as available-for-sales financial assets of approximately HK\$7.8 million (31 December 2016: Nil) and pledged time deposit of HK\$22.0 million (31 December 2016: HK\$29.7 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 2017, approximately HK\$70.3 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no significant contingent liabilities (31 December 2016: Nil).

CAPITAL COMMITMENTS

As at 30 June 2017, the Group had no significant outstanding capital commitment (31 December 2016: 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. During the year under review and up to the date of this announcement, the Company has complied with the CG Code, except for code provision A.2.1, which 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 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.

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 2017.

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 2017 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 AND SPECIAL DIVIDEND

The Board resolved to declare an interim dividend of HK4.5 cents per share (six months ended 30 June 2016: interim dividend HK6.0 cents per share) and a special dividend of HK1.5 cents per share (six months ended 30 June 2016: Nil) to Shareholders whose names appear on the register of members on 19 September 2017 representing a payout ratio of approximately 75.1% of profit attributable to shareholders for the six months ended 30 June 2017. The interim dividend and special dividend will be paid on or around 29 September 2017.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the interim dividend and special dividend, the register of members of the Company will be closed from 18 September 2017 to 19 September 2017 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend and special 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 for registration no later than 4:30 p.m. on 15 September 2017 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 2017.

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 2017.

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 and the Company's website at www.kingsflair.com.hk. The interim report of the Company for the six months ended 30 June 2017 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, 22 August 2017

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.