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KNT

KNT HOLDINGS LIMITED

嘉藝控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1025)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the “Board”) of KNT Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2019, together with the comparative figures for the six months ended 30 September 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	92,647	153,906
Cost of sales		(82,843)	(116,885)
Gross profit		9,804	37,021
Other income		619	95
Other gains and losses		332	(145)
Administrative expenses		(24,921)	(10,499)
Listing expense		–	(4,014)
Finance costs	5	(770)	(1,317)

		Six months ended	
		30 September	
	<i>Notes</i>	2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
(Loss) profit before taxation		(14,936)	21,141
Income tax expense	<i>6</i>	<u>(85)</u>	<u>(4,465)</u>
(Loss) profit for the period	<i>7</i>	<u>(15,021)</u>	<u>16,676</u>
(Loss) earnings per share	<i>9</i>		
Basic (<i>HK cents</i>)		<u>(2.9)</u>	<u>4.0</u>
Diluted (<i>HK cents</i>)		<u>(2.9)</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(Loss) profit for the period	<u>(15,021)</u>	<u>16,676</u>
Other comprehensive expense for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operation	<u>(2,076)</u>	<u>(2,998)</u>
Total comprehensive (expense) income for the period	<u>(17,097)</u>	<u>13,678</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	<i>Notes</i>	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	10	8,166	8,239
Right-of-use assets		3,280	–
Intangible asset		143	156
		<u>11,589</u>	<u>8,395</u>
Current assets			
Inventories		42,616	43,850
Trade receivables	11	40,452	19,300
Prepayment, deposits and other receivables		3,076	1,259
Amount due from a related company		1,962	911
Income tax recoverable		470	–
Pledged bank deposit		9,559	–
Bank balances and cash		71,734	97,235
		<u>169,869</u>	<u>162,555</u>
Current liabilities			
Trade payables	12	6,961	2,852
Other payables and accruals		4,074	8,693
Dividend payable		19,760	–
Contract liabilities		1,828	3,153
Lease liabilities		2,185	–
Income tax payable		–	1,872
Bank borrowings	13	53,635	25,672
		<u>88,443</u>	<u>42,242</u>
Net current assets		<u>81,426</u>	<u>120,313</u>
Total assets less current liabilities		<u>93,015</u>	<u>128,708</u>

		As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Non-current liabilities			
Lease liabilities		1,172	–
Deferred tax liabilities		<u>409</u>	<u>417</u>
		<u>1,581</u>	<u>417</u>
Net assets		<u>91,434</u>	<u>128,291</u>
Capital and reserves			
Share capital	14	5,200	5,200
Reserves		<u>86,234</u>	<u>123,091</u>
Total equity		<u>91,434</u>	<u>128,291</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 “Listing”). The addresses of the Company’s registered office and principal place of business is 30th Floor, EW International Tower, No. 120 Texaco Road, Tsuen Wan, New Territories, Hong Kong.

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 products.

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 2019 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 certain financial instruments, which are measured at fair values.

Other than those changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) as disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and 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 the condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations.

3.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item in the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option which is reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 April 2019, the Group recognised additional right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 4.0% per annum.

	As at 1 April 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 March 2019	971
Lease liabilities discounted at relevant incremental borrowing rates	960
Add: Termination option reasonably certain not to be exercised	3,683
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	4,643
Analysed as	
Current	2,180
Non-current	2,463
	4,643

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	4,643
By class of underlying assets:	
Leasehold land and buildings	4,643

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 March 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 as at 1 April 2019 <i>HK\$'000</i>
Non-current assets			
Right-of-use assets	–	4,643	4,643
Current liabilities			
Lease liabilities	–	2,180	2,180
Non-current liabilities			
Lease liabilities	–	2,463	2,463

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 September 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 April 2019 as disclosed above.

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:

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Sales of garment products recognised at a point in time		
Bridesmaid dresses	43,535	65,787
Bridal gowns	1,382	2,888
Special occasion dresses	47,287	81,549
Others (<i>Note</i>)	443	3,682
	<hr/>	<hr/>
Total	92,647	153,906
	<hr/> <hr/>	<hr/> <hr/>

Note: Others include sales of fabrics and accessories.

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Geographical markets		
United States of America	83,810	145,759
Europe	7,385	3,783
Australia	1,232	1,422
Others	220	2,942
	<hr/>	<hr/>
Total	92,647	153,906
	<hr/> <hr/>	<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.

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:

	As at	As at
	30 September	31 March
	2019	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Hong Kong	5,482	5,716
PRC	6,107	2,679
	<hr/>	<hr/>
	11,589	8,395
	<hr/> <hr/>	<hr/> <hr/>

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:

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Customer A	24,816	40,345
Customer B	42,214	79,960

5. FINANCE COSTS

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on bank borrowings	689	1,317
Interest on lease liabilities	81	–
	770	1,317

6. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current tax:		
– Hong Kong Profits Tax	–	3,096
– PRC Enterprise Income Tax	<u>93</u>	<u>1,376</u>
	93	4,472
Deferred tax credit	<u>(8)</u>	<u>(7)</u>
Income tax expense	<u><u>85</u></u>	<u><u>4,465</u></u>

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	531	569
<i>Less:</i> Amount capitalised in inventories	<u>(209)</u>	<u>(179)</u>
	322	390
Depreciation of right-of-use assets	1,124	N/A
Amortisation of intangible asset	13	13
Cost of inventories recognised as cost of sales (including allowance for inventories)	82,843	116,885
Allowance for inventories	709	–
Minimum lease payments under operating lease in respect of leasehold land and buildings	56	991
Bank interest income	(592)	(24)
Net exchange (gain) loss	<u>(332)</u>	<u>145</u>

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.

During the six months ended 30 September 2018, the Company declared dividends of HK\$9,000 per share, in aggregate of HK\$9,000,000 to the Controlling Shareholders.

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

(Loss) earnings

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	<u>(15,021)</u>	<u>16,676</u>

Number of shares

	Six months ended 30 September	
	2019	2018
	'000	'000
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>520,000</u>	<u>416,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 September 2018 has been determined on the assumption that the reorganisation and the capitalisation issue (as disclosed in note 14) had been effective on 1 April 2018.

No diluted loss/earnings per share was presented for the six months ended 30 September 2019 and 2018 as there were no potential ordinary shares in issue during the six months ended 30 September 2019 and 2018.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group acquired certain property, plant and equipment with an aggregate carrying value of approximately HK\$622,000 (six months ended 30 September 2018: approximately HK\$1,275,000).

11. TRADE RECEIVABLES

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Trade receivables	<u>40,452</u>	<u>19,300</u>

Credit terms of 0 to 90 days are granted by the Group to customers upon delivery of goods.

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

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Within 30 days	16,645	10,439
31 – 60 days	13,972	2,387
61 – 90 days	4,981	4,314
91 – 180 days	779	613
181 – 365 days	3,004	1,547
Over 365 days	<u>1,071</u>	<u>–</u>
	<u>40,452</u>	<u>19,300</u>

No interest is charged on the trade receivables.

Upon the application of HKFRS 9 on 1 April 2018, 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 2019, out of the past due balances, HK\$4,171,000 (31 March 2019: HK\$1,630,000) 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 fully 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:

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
0 – 30 days	6,032	2,365
31 – 60 days	590	455
61 – 90 days	232	–
91 – 180 days	77	–
181 – 365 days	2	4
Over 365 days	28	28
	<u>6,961</u>	<u>2,852</u>

13. BANK BORROWINGS

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Unsecured and guaranteed:		
Bank overdrafts	3,889	–
Bank loans	<u>24,671</u>	<u>13,901</u>
	<u>28,560</u>	<u>25,672</u>
Secured and guaranteed:		
Bank overdrafts	4,812	–
Bank loans	<u>20,263</u>	<u>11,771</u>
	<u>25,075</u>	<u>11,771</u>
Total	<u><u>53,635</u></u>	<u><u>25,672</u></u>
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	47,763	20,330
More than one year, but not more than two years	1,706	780
More than two years, but not more than five years	2,484	2,454
More five years	<u>1,682</u>	<u>2,108</u>
Amounts shown under current liabilities	<u><u>53,635</u></u>	<u><u>25,672</u></u>

The variable-rate bank borrowings of HK\$53,635,000 (31 March 2019: HK\$25,672,000) bear interest ranged from Hong Kong Prime Rate minus 3% 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:

	As at 30 September 2019	As at 31 March 2019
Effective interest rate:		
Variable-rate bank loans	2.38% – 5.80%	2.38% – 6.3%
Variable-rate bank overdrafts	5.125% – 5.375%	N/A

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 2019 and 31 March 2019;
- (b) Leasehold land and buildings of the Group as at 30 September 2019 and 31 March 2019; and
- (c) Bank deposit of the Group as at 30 September 2019.

14. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 April 2018 and 30 September 2018	38,000,000	380
Increase on 31 January 2019 (<i>Note (i)</i>)	<u>9,962,000,000</u>	<u>99,620</u>
At 31 March 2019 and 30 September 2019	<u><u>10,000,000,000</u></u>	<u><u>100,000</u></u>
<i>Issued and fully paid:</i>		
At 1 April 2018 and 30 September 2018	1,000	–*
Capitalisation issue (<i>Note (ii)</i>)	415,999,000	4,160
Issue of new shares upon the Listing (<i>Note (iii)</i>)	<u>104,000,000</u>	<u>1,040</u>
At 31 March 2019 and 30 September 2019	<u><u>520,000,000</u></u>	<u><u>5,200</u></u>

* amount less than HK\$1,000

Notes:

- (i) Pursuant to written resolutions passed by the shareholders of the Company on 31 January 2019, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of 9,962,000,000 new shares of HK\$0.01 each.
- (ii) Pursuant to written resolutions passed by the shareholders of the Company on 31 January 2019, conditional upon the share premium account of the Company being credited as a result of the allotment and issue of the Company's shares, the directors of the Company were authorised to capitalise the amount of approximately HK\$4,160,000 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 415,999,000 shares of the Company for the allotment and issue. The capitalisation issue was completed on 28 February 2019.
- (iii) The shares of the Company were listed on the Stock Exchange on 28 February 2019. 104,000,000 ordinary shares were issued at an offer price of HK\$0.98 per share with gross proceeds of HK\$101,920,000.

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	
		30 September	
		2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Veromia Limited	Sales of garment products	2,658	1,874
Mr. Chong Sik and Mr. Chong Pun	Rental expenses	<u>N/A</u>	<u>991</u>

As at 30 September 2019, lease liabilities of approximately HK\$3,357,000 is payable to Mr. Chong Sik and Mr. Chong Pun.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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 five largest customers for bridesmaid dresses whom had maintained long years of relationship with the Group. In addition to manufacturing products 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 shares of the Company (the "Shares") were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 28 February 2019 (the "Listing Date") by way of global offering (the "Listing").

BUSINESS REVIEW

The Group recorded revenue of approximately HK\$92.6 million for the six months ended 30 September 2019, representing a decrease of approximately 39.8% as compared to that of approximately HK\$153.9 million for the six months ended 30 September 2018. Revenue from the United States accounted for approximately 94.7% and 90.5% of the total revenue of the Group for the six months ended 30 September 2018 and 2019 respectively. The gross profit margin decreased from 24.1% for the six months ended 30 September 2018 to 10.6% for the six months ended 30 September 2019. Profit for the period amounted to approximately HK\$16.7 million for the six months ended 30 September 2018 and loss for the period amounted to approximately HK\$15.0 million for the six months ended 30 September 2019.

During the six months ended 30 September 2019, 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 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 2019 compared to the same period in 2018.

PROSPECT

Going forward, the Group will continue to strive to achieve its objective of strengthening its leading position in the industry, with the aim to optimise the returns to the shareholders. The Group will keep close track of the economic environment and evaluate its business strategies from time to time to adapt to the challenging market for the sustainable and stable development of the Group. The Group will also continue to enhance its overall competitiveness and market share in the industry by solidifying long-term relationship established with existing customers and exploring new customers, increasing geographic footprint to new markets, strengthening design and development capabilities and enhancing services for one-stop solutions.

Revenue

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

Revenue decreased by approximately HK\$61.3 million or approximately 39.8% from approximately HK\$153.9 million for the six months ended 30 September 2018 to approximately HK\$92.6 million for the six months ended 30 September 2019. The overall decrease in revenue was primarily attributable to the decrease in revenue generated from the sale of special occasion dresses of approximately HK\$34.2 million and sales of bridesmaid dresses of approximately HK\$22.3 million.

The decrease in revenue generated from the sale of special occasion dresses from approximately HK\$81.5 million for the six months ended 30 September 2018 to approximately HK\$47.3 million for the six months ended 30 September 2019 was primarily as a result of the aggregate effect of the decrease in sales quantity from 563.0 thousand units for the six months ended 30 September 2018 to 336.4 thousand units for the six months ended 30 September 2019 and the decrease in average selling prices of special occasion dresses from HK\$145 for the six months ended 30 September 2018 to HK\$141 for the six months ended 30 September 2019.

The decrease in revenue generated from the sale of bridesmaid dresses from approximately HK\$65.8 million for the six months ended 30 September 2018 to approximately HK\$43.5 million for the six months ended 30 September 2019 was primarily as a result of aggregate effect of the decrease in sales quantity from 207.6 thousand units for the six months ended 30 September 2018 to 144.0 thousand units for the six months ended 30 September 2019 and the decrease in average selling prices of bridesmaid dresses from HK\$317 for the six months ended 30 September 2018 to HK\$302 for the six months ended 30 September 2019.

The decrease in sales quantity of special occasion dresses and bridesmaid dresses were 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 special occasion dresses and 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.

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\$34.1 million or approximately 29.2% from approximately HK\$116.9 million for the six months ended 30 September 2018 to approximately HK\$82.8 million for the six months ended 30 September 2019. The decrease was in line with the decrease in revenue for the six months ended 30 September 2019.

Gross profit and gross profit margin

Gross profit decreased by approximately HK\$27.2 million or approximately 73.5% from approximately HK\$37.0 million for the six months ended 30 September 2018 to approximately HK\$9.8 million for the six months ended 30 September 2019. Gross profit margin decreased from 24.0% for the six months ended 30 September 2018 to 10.6% for the six months ended 30 September 2019. 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 increased by approximately HK\$0.5 million or approximately 500.0% from approximately HK\$0.1 million for the six months ended 30 September 2018 to approximately HK\$0.6 million for the six months ended 30 September 2019. The increase was mainly attributable to the increase in bank interest income from fixed deposits.

Other gains and losses

Other gains and losses increased by approximately HK\$0.4 million or approximately 400.0% from losses of approximately HK\$0.1 million for the six months ended 30 September 2018 to gains of approximately HK\$0.3 million for the six months ended 30 September 2019. The increase was mainly attributable to exchange gain from transactions denominated in Renminbi which depreciated during the six months ended 30 September 2019.

Administrative expenses

Administrative expenses increased by approximately HK\$14.4 million or approximately 137.1% from approximately HK\$10.5 million for the six months ended 30 September 2018 to approximately HK\$24.9 million for the six months ended 30 September 2019. The increase was mainly attributable to (i) the increase in total staff costs due to annual salary increment and increase in bonus upon listing of shares in 2019 and; (ii) the increase in professional fees related to post listing; and (iii) the increase in travelling expenses due to increase in overseas business trips for business opportunities.

Finance costs

Finance costs decreased by approximately HK\$0.5 million or approximately 38.5% from approximately HK\$1.3 million for the six months ended 30 September 2018 to approximately HK\$0.8 million for the six months ended 30 September 2019. The decrease was mainly attributable to the decrease in the average bank borrowings during the six months ended 30 September 2019.

Income tax expense

Income tax expense decreased by approximately HK\$4.6 million or approximately 97.9% from approximately HK\$4.7 million for the six months ended 30 September 2018 to approximately HK\$0.1 million for the six months ended 30 September 2019. The decrease was mainly attributable to the loss for the six months ended 30 September 2019.

(Loss) profit for the period

Loss for the six months ended 30 September 2019 amounted to approximately HK\$15.0 million. The loss was mainly attributable to the decrease in revenue and gross profit and the increase in administrative expenses upon listing.

Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019.

During the six months ended 30 September 2018, the Company declared dividends of HK\$9,000 per ordinary share, amounting to a total of HK\$9.0 million to the controlling shareholders of the Company.

Capital structure

The Shares were listed on The Stock Exchange of Hong Kong Limited on 28 February 2019. There has been no change in the capital structure of the Company since then. The capital structure of the Company comprises of issued share capital and reserves. As at the date of this announcement, 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 2019, the Group had cash and cash equivalents of approximately HK\$63.0 million (31 March 2019: approximately HK\$97.2 million) and had net current assets of approximately HK\$81.4 million (31 March 2019: approximately HK\$120.3 million).

The current ratio of the Group was approximately 1.9 times as at 30 September 2019, compared to that of approximately 3.8 times as at 31 March 2019. The current ratio decreased was mainly attributable to (i) the decrease in cash and cash equivalents and (ii) increase in dividend payable to be paid in October 2019.

The gearing ratio of the Group, which is calculated based on total bank borrowings and total equity multiplied by 100%, was 58.7% as at 30 September 2019 (31 March 2019: 20.0%%). The gearing ratio increased was mainly attributable to the increase in bank borrowings as at 30 September 2019 compared to that of 31 March 2019.

Pledge of assets

As at 30 September 2019, the Group pledged leasehold land and buildings with carrying value of approximately HK\$4.4 million (31 March 2019: approximately HK\$4.5 million) and bank deposit of approximately HK\$9.6 million (31 March 2019: nil) to secure certain banking facilities granted to the Group.

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 2019, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Significant investments held

As at 30 September 2019, the Group had no significant investments held (31 March 2019: nil).

Future plans for material investments and capital assets

Save as disclosed in the prospectus of the Company dated 15 February 2019 (the “Prospectus”), the Group currently has no other plan for material investments and capital assets.

Events after the reporting period

No significant events affecting the Group occurred since 1 October 2019 and up to the date of this announcement.

Employees and remuneration policy

As at 30 September 2019, the Group had 403 employees (31 March 2019: 419 employees). The total staff costs, including directors’ emoluments, of the Group for the six months ended 30 September 2019 were approximately HK\$28.8 million (six months ended 30 September 2018: approximately HK\$23.3 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 2019, the Group did not have any material capital commitment (31 March 2019: nil).

Contingent liabilities

As at 30 September 2019, the Group did not have any material contingent liabilities (31 March 2019: 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 2019, the Group has utilised approximately HK\$8.0 million, representing approximately 14.1%, of the net proceeds from the Listing.

	Approximate percentage of net proceeds %	Actual amount of net proceeds HK\$ million	Actual amount utilised as at 30 September 2019 HK\$ million	Unutilised amount as at 30 September 2019 HK\$ million
Intended use of net proceeds				
Increase production capacity by				
building second production facility	76	43.2	–	43.2
Set up a sales office in the U.S.	10	5.7	–	5.7
Repayment of bank borrowings	10	5.7	5.7	–
Working capital and general corporate purposes	4	2.3	2.3	–
	<u>100</u>	<u>56.9</u>	<u>8.0</u>	<u>48.9</u>

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 at 30 September 2019, the unutilised net proceeds were placed in licensed banks in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

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.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2019, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 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.

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 for Securities Transactions by Directors of Listed Issuers 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 2019.

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

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 announcement for the six months ended 30 September 2019, including the accounting principles and practices adopted by 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 2019 and up to the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (<http://www.kntholdings.com>) and the website of the Stock Exchange (<http://www.hkexnews.hk>). The interim report of the Company for the six months ended 30 September 2019 will also be published on the respective websites of the Company and the Stock Exchange and will be despatched to the shareholders of the Company in due course.

By Order of the Board
KNT Holdings Limited
Chong Sik
Chairman and Executive Director

Hong Kong, 26 November 2019

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Chong Sik, Mr. Chong Pun and Mr. Lam Chi Yuen; and four independent non-executive directors, namely, Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan.

* *For identification purpose only*