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king fook holdings limited

景福集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 280)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

The Board of Directors (the “Board”) of King Fook Holdings Limited (the “Company”) announces the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2020 with comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 September	
		2020	2019
	Notes	HK\$'000	HK\$'000
Revenue	5	281,390	321,971
Cost of sales		<u>(202,888)</u>	<u>(239,871)</u>
Gross profit		78,502	82,100
Other operating income		5,971	2,797
Distribution and selling costs		(45,821)	(56,613)
Administrative expenses		(19,838)	(20,229)
Other operating expenses		<u>(114)</u>	<u>(3,656)</u>
Operating profit		18,700	4,399
Finance costs		<u>(3,436)</u>	<u>(2,025)</u>
Profit before taxation	6	15,264	2,374
Taxation	7	<u>-</u>	<u>-</u>
Profit for the period		<u>15,264</u>	<u>2,374</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (Continued)**

		Unaudited	
		Six months ended 30 September	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		405	(514)
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of investments at fair value through other comprehensive income		<u>(1,805)</u>	<u>431</u>
Other comprehensive income for the period		<u><u>(1,400)</u></u>	<u><u>(83)</u></u>
Total comprehensive income for the period		<u><u>13,864</u></u>	<u><u>2,291</u></u>
Profit for the period attributable to:			
– Owners of the Company		15,263	2,371
– Non-controlling interests		<u>1</u>	<u>3</u>
		<u><u>15,264</u></u>	<u><u>2,374</u></u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		13,863	2,288
– Non-controlling interests		<u>1</u>	<u>3</u>
		<u><u>13,864</u></u>	<u><u>2,291</u></u>
		HK cents	HK cents
Earnings per share	9		
– Basic and diluted		<u><u>1.7</u></u>	<u><u>0.3</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 30 September 2020 HK\$'000	Audited As at 31 March 2020 HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,842	1,999
Right-of-use assets	10	85,314	111,164
Investment properties		995	1,031
Investments at fair value through other comprehensive income		1,202	3,007
Other asset		356	356
Deposits	11	10,426	4,309
		100,135	121,866
Current assets			
Inventories		436,248	471,461
Debtors, deposits and prepayments	11	30,423	29,403
Investments at fair value through profit or loss		165	263
Time deposit		-	1,514
Cash and cash equivalents		241,465	194,292
		708,301	696,933
Total assets		808,436	818,799
Current liabilities			
Trade payables, deposits received and other payables	12	30,528	28,817
Gold loan		32,339	31,286
Lease liabilities	10	47,526	50,507
		110,393	110,610
Net current assets		597,908	586,323
Total assets less current liabilities		698,043	708,189
Non-current liabilities			
Provision for long service payments		82	67
Lease liabilities	10	50,430	72,628
		50,512	72,695
Net assets		647,531	635,494
CAPITAL AND RESERVES			
Share capital		393,354	393,354
Other reserves		35,257	36,657
Retained profits		218,812	205,376
Equity attributable to owners of the Company		647,423	635,387
Non-controlling interests		108	107
Total equity		647,531	635,494

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company is a limited liability company incorporated and domiciled in Hong Kong. Its registered office is located at 9th Floor, King Fook Building, 30-32 Des Voeux Road Central, Hong Kong and its principal place of business is in Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors of the Company (the "Directors") consider the ultimate holding company to be Yeung Chi Shing Estates Limited, a company incorporated in Hong Kong.

The principal activities of the Group are gold ornament, jewellery, watch and gift retailing, bullion trading and diamond wholesaling.

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2020 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared with the same accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 March 2020 (the "2020 Annual Financial Statements"), except for the adoption of the new or revised Hong Kong Financial Reporting Standards ("HKFRSs") as disclosed in note 2.

The preparation of unaudited interim condensed consolidated financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the unaudited interim condensed consolidated financial statements were the same as those that were applied to the Group's 2020 Annual Financial Statements.

The unaudited interim condensed consolidated financial statements are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. The unaudited interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes 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 2020 Annual Financial Statements. The unaudited interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the 2020 Annual Financial Statements.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

2. CHANGES IN ACCOUNTING POLICIES

In the current period, the Group has applied for the first time the following new or revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 April 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business

The adoption of these new or revised HKFRSs has no significant impact on the unaudited interim condensed consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

Amendment to HKFRS 16 HKFRS 17	COVID-19 Related Rent Concessions ¹ Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Annual Improvements to HKFRSs 2018-2020 Cycle	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments, HKAS 41 Agriculture and Illustrative Examples accompanying HKFRS 16 Leases ⁴
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ⁴
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁵

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continued to be permitted.

⁴ Effective for annual periods beginning on or after 1 January 2022

⁵ Effective for annual periods beginning on or after 1 January 2023

The Group anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Group is currently assessing the possible impact of these new or revised HKFRSs on the Group's results and financial position in the first year of application and considers that these new or revised HKFRSs are unlikely to have a material impact to the Group's unaudited interim condensed consolidated financial statements.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing the unaudited interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2020 Annual Financial Statements.

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's top management including executive directors and chief executive for their decisions about resources allocation to the Group's business components and for their review of these components' performance. The business components in the internal financial information reported to the top management are determined according to the Group's major product and service lines.

Based on the above, the Group's top management determined that the Group has only one single reportable segment which is retailing, bullion trading and diamond wholesaling. Accordingly, no separate segment of analysis is presented.

No geographical information was presented for the six months ended 30 September 2019 and 2020 respectively as more than 90% of the Group's revenue was derived from activities in Hong Kong (place of domicile). Also, most of the Group's non-current assets are located in Hong Kong.

For each of the six months ended 30 September 2019 and 2020 respectively, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

5. REVENUE

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading and diamond wholesaling. Revenue of the Group recognised during the period comprised the following:

	Unaudited	
	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Revenue from contracts with customers:		
Gold ornament, jewellery, watch and gift retailing	256,377	310,670
Bullion trading	24,609	9,385
Diamond wholesaling	404	1,916
	<u>281,390</u>	<u>321,971</u>
Total revenue	<u>281,390</u>	<u>321,971</u>
Timing of revenue recognition:		
At a point in time	<u>281,390</u>	<u>321,971</u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging and (crediting):

	Unaudited	
	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Auditors' remuneration	380	380
Cost of inventories sold, including	203,861	239,819
– provision for and write down of inventories to net realisable value	6,714	3,002
– reversal of provision for and write down of inventories to net realisable value*	(6,867)	(3,496)
Depreciation of investment properties	36	16
Depreciation of property, plant and equipment	473	587
Depreciation of right-of-use assets	22,972	25,490
Dividend income	(6)	(116)
Fair value change of investments at fair value through profit or loss	98	46
Foreign exchange differences, net	(64)	10
Government grants [#]	(4,063)	-
Interest income from financial assets at amortised cost	(1,285)	(1,509)
Loss on write off of property, plant and equipment	15	-
Outgoings in respect of investment properties	92	47
Provision for impairment loss on right-of-use assets	-	3,600
Provision for long service payments		
– provided against the account	26	37
– reversal of provision	(11)	(7)
Rental expenses for variable lease payments	1,154	1,861
Rental expenses on short term leases in respect of furniture and fixtures	-	135
Rental expenses on short term leases in respect of properties	308	4,341
Rental income on owned properties	(548)	(608)
Write back of payables	-	(562)
	<u>-</u>	<u>(562)</u>

* Reversal of provision for and write down of inventories to net realisable value mainly arose from inventories that were sold during the period.

6. PROFIT BEFORE TAXATION (Continued)

During the period, the Group successfully applied for funding support from both Employment Support Scheme and Subsidy Scheme for Precious Metals Trading Industry under the Anti-Epidemic Fund, set up by the Hong Kong Government. The purpose of the Employment Support Scheme is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all of the funding on paying wages to their employees. For the Subsidy Scheme for Precious Metals Trading Industry, it aims to provide relief to members of the Chinese Gold and Silver Exchange Society affected by Novel Coronavirus (COVID-19). There were no unfulfilled conditions or contingencies relating to these government grants in which they were recognised during the period.

7. TAXATION

No Hong Kong profits tax has been provided for the six months ended 30 September 2019 and 2020 respectively as the Group has sufficient tax loss brought forward to set off against the estimated assessable profit.

No overseas profits tax has been provided for the six months ended 30 September 2019 and 2020 respectively as the Group has no estimated assessable profit.

8. DIVIDEND

Unaudited	
Six months ended 30 September	
2020	2019
HK\$'000	HK\$'000

Dividends recognised as distribution during the period:

2020 final dividend of HK0.2 cents per ordinary share

<u>1,827</u>	<u>-</u>
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At a meeting held on 26 November 2020, the Board resolved not to declare an interim dividend for the year ending 31 March 2021.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the Company of HK\$15,263,000 (for the six months ended 30 September 2019: HK\$2,371,000) and the weighted average number of 913,650,465 (for the six months ended 30 September 2019: 913,650,465) ordinary shares in issue during the period.

Diluted earnings per share and basic earnings per share for each of the six months ended 30 September 2019 and 2020 respectively are the same as there were no dilutive potential ordinary shares during both periods.

10. LEASES

Nature of leasing activities

The Group has obtained the right to use properties and furniture and fixtures as its office premises and retail stores under non-cancellable operating lease agreements, which comprise only fixed payments and variable payments that are based on sales over the lease terms.

Right-of-use assets

No addition to right-of-use assets had been recognised during the period (for the six months ended 30 September 2019: HK\$9,764,000). Lease of a retail store contained variable lease payment terms that are based on sales generated from the retail store pursuant to the terms and conditions as set out in the respective rental agreement and minimum annual lease payment terms that are fixed.

10. LEASES (Continued)

Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period are as follows:

	Unaudited As at 30 September 2020		Audited As at 31 March 2020	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	47,526	51,281	50,507	55,505
After 1 year but within 2 years	32,031	33,819	38,152	40,817
After 2 years but within 5 years	18,399	18,727	34,476	35,496
	<u>97,956</u>	<u>103,827</u>	<u>123,135</u>	<u>131,818</u>
Less: Total future interest charges		<u>(5,871)</u>		<u>(8,683)</u>
Present value of lease liabilities		<u>97,956</u>		<u>123,135</u>

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	Unaudited As at 30 September 2020 HK\$'000	Audited As at 31 March 2020 HK\$'000
Current		
Trade debtors	6,937	1,468
Other receivables	10,303	4,401
Deposits and prepayments	13,183	23,534
	<u>30,423</u>	<u>29,403</u>
Non-current		
Rental deposits	<u>10,426</u>	<u>4,309</u>
	<u>40,849</u>	<u>33,712</u>

The ageing analysis of trade debtors, based on invoice date, was as follows:

	Unaudited As at 30 September 2020 HK\$'000	Audited As at 31 March 2020 HK\$'000
Within 30 days	6,257	1,383
31 – 90 days	632	85
More than 90 days	48	-
	<u>6,937</u>	<u>1,468</u>

12. TRADE PAYABLES, DEPOSITS RECEIVED AND OTHER PAYABLES

	Unaudited As at 30 September 2020 HK\$'000	Audited As at 31 March 2020 HK\$'000
Trade payables	11,506	5,411
Other payables and accruals	10,430	6,244
Contract liabilities	2,201	2,277
Deposits received	6,391	14,885
	<u>30,528</u>	<u>28,817</u>

The ageing analysis of trade payables, based on invoice date, was as follows:

	Unaudited As at 30 September 2020 HK\$'000	Audited As at 31 March 2020 HK\$'000
Within 30 days	10,438	5,236
31 – 90 days	1,068	166
More than 90 days	-	9
	<u>11,506</u>	<u>5,411</u>

13. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group entered into a lease agreement for the use of a new retail store at New Town Plaza with a term of 3 years. The total amounts of right-of-use assets, lease liabilities and provision for reinstatement costs recognised are approximately HK\$8,535,000, HK\$8,448,000 and HK\$87,000 respectively.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the year ending 31 March 2021 (for the year ended 31 March 2020: Nil) to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results Overview

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading and diamond wholesaling. More than 90% of the Group's revenue is derived from activities in Hong Kong.

For the six months ended 30 September 2020, the Group recorded total revenue of HK\$281.4 million, representing a decrease of HK\$40.6 million or 12.6% from HK\$322.0 million for the last corresponding period. The Group recorded an unaudited consolidated profit attributable to owners of the Company of HK\$15.3 million for such period as compared to HK\$2.4 million for the same period last year. Such improvement in profit was primarily due to (i) improvement in gross profit margin; (ii) reduction in rental costs of the Group's shops; and (iii) receipt of subsidies under the Employment Support Scheme and Subsidy Scheme for Precious Metals Trading Industry of Hong Kong Government.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review

The Group operated six retail shops in Hong Kong for the six months ended 30 September 2020. The revenue of the Group's retailing business for such period decreased by HK\$39.1 million or 12.2% to HK\$281.0 million from HK\$320.0 million for the same period last year. Such decrease was mainly caused by the adverse impact of COVID-19 in April and May this year. The Group's quarterly revenue improved from 30.4% decline in the first quarter to 3.0% growth in the second quarter year-on-year. As compared to the same period last year, despite same store sales growth for the six months ended 30 September 2020 was -13.7%, the Group's gross profit decreased only 4.4% from HK\$82.1 million to HK\$78.5 million. This is due to the improvement in gross profit margin from 25.5% to 27.9% mainly as a result of better discount control. As consumers reduced their physical shop visits due to COVID-19, the Group had developed online platform to reach out to our customers during the period. The online platform was well received by our customers and its sales contribution was satisfactory.

Outlook

The Group considers the 2nd half of this year will be full of challenges, given that the global COVID-19 pandemic is still serious, Sino-US relations are expected to remain bad and the Employment Support Scheme for local business will finish in November this year, which would weaken consumers' buying sentiment. On the other hand, once the COVID-19 pandemic calms down, social distancing can be relaxed and as soon as the travel restrictions and health quarantine measures upon arrival can be eased, the Group expects the demand for luxury products will recover. In order to capture the business opportunity in the recovery of luxury markets, the Group will continue to explore opportunities to expand its retail network with reasonable rental terms. Furthermore, the Group will keep on investing in staff, strengthening online platforms and digital marketing and continue to offer creative designs to cater for the needs of its customers.

Besides implementing various measures to enhance sales performance, the Group will continue to improve operational efficiency through rental term negotiation, inventory management and cost control.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE PRACTICES

The Company had complied with all the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2020 except the deviations as explained below:

Code provision A.4.1

The non-executive directors of the Company were not appointed for a specific term, but each of them is subject to retirement by rotation at annual general meeting of the Company at least once every 3 years in accordance with the Articles of Association of the Company. The retiring directors shall be eligible for re-election.

Code provisions A.5.1 to A.5.4

The Company has not established a nomination committee. In view of the current structure of the Board and the business operations of the Group, the Board believes that it is not necessary to establish a nomination committee as it considers that all Directors should be involved in performing the duties set out in such code provisions.

Code provision D.1.4

The Company does not have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Board decides on the key terms and conditions of the appointment of the Directors from time to time which are recorded in the relevant board minutes.

CORPORATE GOVERNANCE PRACTICES (Continued)

Code provision E.1.5

The Company does not have a dividend policy or any pre-determined dividend distribution ratio. The Board will decide on the declaration/recommendation of any future dividends after taking into consideration a number of factors, including the prevailing market conditions, the Company's operating results, business plans and prospects, financial position and working capital requirements, and other factors that the Board considers relevant.

REVIEW BY AUDITOR AND AUDIT COMMITTEE

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2020 have been reviewed by BDO Limited, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

The audit committee of the Company has reviewed with the management of the Group the accounting policies and practices adopted by the Group, its system of risk management and internal control and financial reporting matters and the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2020.

DISCLOSURE UNDER SECTION 436 OF THE HONG KONG COMPANIES ORDINANCE

The financial information of the Group relating to the year ended 31 March 2020 included in this interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 March 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

By Order of the Board
Tang Yat Sun, Richard
Chairman

Hong Kong, 26 November 2020

As at the date of this announcement, the executive directors of the Company are Mr. Tang Yat Sun, Richard, Dr. Fung Yuk Bun, Patrick and Mr. Wong Wei Ping, Martin; the non-executive director is Mr. Ng Ming Wah, Charles; and the independent non-executive directors are Mr. Cheng Kar Shing, Peter, Mr. Ho Hau Hay, Hamilton, Mr. Sin Nga Yan, Benedict and Mr. Cheng Kwok Shing, Anthony.