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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 2020**

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 2020, together with the comparative figures for the six months ended 30 September 2019.

### **CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the six months ended 30 September 2020*

		<b>Six months ended 30 September</b>	
	<i>Notes</i>	<b>2020</b>	2019
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Revenue	4	<b>41,104</b>	92,647
Cost of sales		<b>(36,960)</b>	(82,843)
Gross profit		<b>4,144</b>	9,804
Other income		<b>623</b>	619
Other gains and losses		<b>834</b>	332
Administrative expenses		<b>(13,698)</b>	(24,921)
Impairment loss on trade receivables, net of reversal		<b>(7,524)</b>	–
Finance costs	5	<b>(1,007)</b>	(770)

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2020</b>	2019
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Loss before taxation		<b>(16,628)</b>	(14,936)
Income tax credit (expense)	<i>6</i>	<u><b>139</b></u>	<u>(85)</u>
Loss for the period	<i>7</i>	<u><b>(16,489)</b></u>	<u>(15,021)</u>
Loss per share	<i>9</i>		
Basic ( <i>HK cents</i> )		<u><b>(3.2)</b></u>	<u>(2.9)</u>

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

*For the six months ended 30 September 2020*

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

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

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

# 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 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.

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

## 2. BASIS OF PREPARATION

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

### 3. PRINCIPAL ACCOUNTING POLICIES

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

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

#### 3.1 Application of amendments to HKFRSs

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

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

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

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

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

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

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

#### 4. REVENUE AND SEGMENT INFORMATION

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

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

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

*Note:* Others include sales of fabrics and accessories.

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

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

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

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

### **5. FINANCE COSTS**

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

## 6. INCOME TAX (CREDIT) EXPENSE

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

## 7. LOSS FOR THE PERIOD

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

## 9. LOSS PER SHARE

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

### Loss

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

### Number of shares

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

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

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

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

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

## 11. TRADE RECEIVABLES

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

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

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

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

No interest is charged on the trade receivables.

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

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

## 12. TRADE PAYABLES

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

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

### 13. BANK BORROWINGS

	As at <b>30 September</b> <b>2020</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 March 2020 <i>HK\$'000</i> (audited)
Unsecured and guaranteed:		
Bank overdrafts	–	7,996
Bank loans	<u>4,000</u>	<u>16,239</u>
	<u>4,000</u>	<u>24,235</u>
Secured and guaranteed:		
Bank overdrafts	13,825	7,958
Bank loans	<u>34,366</u>	<u>17,042</u>
	<u>48,191</u>	<u>25,000</u>
Total	<u><u>52,191</u></u>	<u><u>49,235</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	43,660	44,260
More than one year, but not more than two years	2,551	1,217
More than two years, but not more than five years	4,734	2,512
More than five years	<u>1,246</u>	<u>1,246</u>
Amounts shown under current liabilities	<u><u>52,191</u></u>	<u><u>49,235</u></u>

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

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

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

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

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

#### 14. SHARE CAPITAL

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

## 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	
		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Veromia Limited	Sales of garment products	1,675	2,658
Mr. Chong Sik and Mr. Chong Pun	Rental expenses	N/A	N/A
	Interest expense on lease liabilities ( <i>Note</i> )	<u>37</u>	<u>84</u>

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

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

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

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

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

## **PROSPECT**

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

## **Revenue**

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

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

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

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

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

### **Cost of sales**

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

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

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

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

### **Other income**

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

### **Other gains and losses**

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

### **Administrative expenses**

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

**Finance costs**

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

**Income tax credit (expense)**

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

**Loss for the period**

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

**Interim dividend**

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

**Capital structure**

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 2020, the Group had cash and cash equivalents of approximately HK\$22.7 million (31 March 2020: approximately HK\$32.7 million) and had net current assets of approximately HK\$16.9 million (31 March 2020: approximately HK\$50.9 million).

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

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

## **Pledge of assets**

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

## **Foreign exchange risk**

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

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

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

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

## **Significant investments held**

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

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

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

## **Events after the reporting period**

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

## **Employees and remuneration policy**

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

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

### **Capital commitment**

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

### **Contingent liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **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 2020, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

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

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

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

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

## **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 2020.

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 2020, 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 2020 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 2020 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, 25 November 2020

*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*