



Eagle Nice (International) Holdings Limited

鷹美(國際)控股有限公司*

(incorporated in the Cayman Islands with limited liability)



Interim Report 2005

* For identification purpose only

The board of directors (the “Board”) of Eagle Nice (International) Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2005 together with the comparative unaudited figures for the corresponding period in 2004 and the relevant explanatory notes. These condensed consolidated interim financial statements have been reviewed by the Company’s audit committee.

Condensed Consolidated Profit and Loss Account

		Six months ended	
		30 September	
		2005	2004
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
REVENUE			
Sale of goods	3	300,790	244,261
Cost of sales		(227,945)	(176,458)
Gross profit		72,845	67,803
Other income	4	3,100	314
Selling and distribution expenses		(2,636)	(4,702)
Administrative expenses		(15,709)	(13,267)
Profit from operating activities		57,600	50,148
Finance costs	5	–	(170)
Profit before tax	6	57,600	49,978
Tax	7	(6,144)	(6,650)
Profit for the period		51,456	43,328
ATTRIBUTABLE TO:			
Equity holders of the Company		51,456	43,328
Interim dividend	8	25,620	15,300
Earnings per share	9		
Basic		HK12.05 cents	HK13.19 cents
Diluted		N/A	HK10.61 cents

Condensed Consolidated Balance Sheet

		As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets		169,069	52,226
Prepaid land lease payments		79,813	29,313
Prepayments and deposits for fixed assets		–	44,429
Available-for-sale investments	10	4,716	4,527
		<u>253,598</u>	<u>130,495</u>
CURRENT ASSETS			
Inventories		49,018	47,692
Accounts and bills receivable	11	95,844	38,557
Prepayments, deposits and other receivables		23,782	5,048
Pledged deposits		–	5,518
Cash and cash equivalents		213,655	322,876
		<u>382,299</u>	<u>419,691</u>
CURRENT LIABILITIES			
Accounts and bills payable	12	25,375	16,209
Accrued liabilities and other payables		65,912	20,460
Tax payable		16,838	16,557
		<u>108,125</u>	<u>53,226</u>
NET CURRENT ASSETS		<u>274,174</u>	<u>366,465</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>527,772</u>	<u>496,960</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		900	900
		<u>526,872</u>	<u>496,060</u>
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company:			
Issued capital	13	4,270	4,270
Reserves		496,982	466,170
Proposed dividend		25,620	25,620
		<u>526,872</u>	<u>496,060</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory surplus reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2005	4,270	359,932	(229)	5,396	(2,616)	7,218	102,677	25,620	502,268
Prior period and opening adjustment: HKAS – 17 – Leases (note 1(a))	-	-	-	-	-	(6,208)	-	-	(6,208)
As restated	4,270	359,932	(229)	5,396	(2,616)	1,010	102,677	25,620	496,060
Final 2005 dividend	-	-	-	-	-	-	-	(25,620)	(25,620)
Exchange realignment	-	-	-	-	4,787	-	-	-	4,787
Change in fair value of available-for-sale investments	-	-	-	-	-	189	-	-	189
Profit for the period	-	-	-	-	-	-	51,456	-	51,456
Interim dividend (Note 8)	-	-	-	-	-	-	(25,620)	25,620	-
At 30 September 2005	4,270	359,932	(229)	5,396	2,171	1,199	128,513	25,620	526,872

For the six months ended 30 September 2004

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory surplus reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2004	2,000	19,354	(229)	1,716	(2,712)	5,117	53,216	-	78,462
Prior period adjustment: HKAS – 17 – Leases (note 1(a))	-	-	-	-	-	(4,439)	-	-	(4,439)
As restated	2,000	19,354	(229)	1,716	(2,712)	678	53,216	-	74,023
Issue of subscription shares	1,050	110,250	-	-	-	-	-	-	111,300
Issue of placing shares	350	36,750	-	-	-	-	-	-	37,100
Share issue expenses	-	(6,076)	-	-	-	-	-	-	(6,076)
Profit for the period	-	-	-	-	-	-	43,328	-	43,328
Interim dividend (Note 8)	-	-	-	-	-	-	(15,300)	15,300	-
At 30 September 2004	3,400	160,278	(229)	1,716	(2,712)	678	81,244	15,300	259,675

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 September	2004
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	7,210	25,405
Net cash inflow/(outflow) from investing activities	110,179	(4,472)
Net cash inflow from financing activities	—	319,226
NET INCREASE IN CASH AND CASH EQUIVALENTS	117,389	340,159
Cash and cash equivalents at beginning of period	91,479	23,967
Effect of change in foreign exchange rate, net	4,787	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	213,655	364,126
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	213,655	364,126

Notes to Condensed Consolidated Interim Financial Statements

1. Accounting Policies

The directors are responsible for the preparation of the Group's unaudited interim financial statements. The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 21, 27, 33, 36, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statement. The impact of adopting the other HKFRSs is summarised as follows:

(a) *HKAS 17 - Leases*

In prior periods, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating lease are initially stated at cost and subsequently amortised on the straight-line basis over the lease term whereas the leasehold buildings are stated at valuation less accumulated depreciation and any impairment losses.

This change in accounting policy has had no material effect on the condensed consolidated profit and loss account and retained earnings so that no prior period adjustments were made. The comparatives on the condensed consolidated balance sheet for the year ended 31 March 2005 have been restated to reflect the reclassification of leasehold land.

(b) *HKAS 32 AND HKAS 39 - Financial Instruments**Equity securities*

In prior periods, the Group classified its investments in equity securities as long term investments which were held for non-trading purposes and were stated at fair values, on an individual investment basis. The fair value of such unlisted investment funds are determined by reference to the individual market prices of the underlying securities held by the funds.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. Available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the profit and loss account. The amount of the loss recognised in the profit and loss account shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognized in the profit and loss account.

The effect of the above changes has had no impact on the condensed consolidated profit and loss account and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 March 2005 have been restated to reflect the classification of available-for-sale investments.

2. Summary of the Impact of Changes in Accounting Policy

- (a) The following table summarises the impact on profit after tax for the six months ended 30 September 2005 and 2004 upon the adoption of the new HKAS 17. As there were no material effects on the retained earnings resulting from the adoption of HKAS 17, no prior period adjustments on the retained earnings were made for the adoption of HKAS 17. Therefore, the amounts shown in the table below for the six months ended 30 September 2004 may not be comparable to the amounts shown for the current interim period. Effect on the profit after tax for the six months ended 30 September 2005 and 2004 are as follows:

		For the six months ended 30 September	
		2005	2004
		Equity holders of the Company (Unaudited) HK\$'000	Equity holders of the Company (Unaudited) HK\$'000
Effect of new policy – Increase / (decrease)			
Effect on profit after tax:			
HKAS 17 - Leases	1(a)		
Increase in amortization of prepaid land lease payments		(320)	(423)
Decrease in depreciation		604	423
		<hr/>	<hr/>
Total effect for the period		284	–
		<hr/>	<hr/>
Effect on earnings per share:			
Basic		HK0.07 cent	–
		<hr/>	<hr/>
Diluted		N/A	N/A
		<hr/>	<hr/>

(b) Effect of adoption of HKAS 17 on condensed consolidated balance sheet:

	Note	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Unaudited) HK\$'000
Increase in prepaid land lease payments from fixed assets	(i)	79,813	29,313
Decrease in the Group's asset revaluation reserve due to reversal of revaluation surplus on leasehold land	(ii)	6,774	6,774
Total fixed assets decreased by		86,587	36,087
Decrease in deferred tax liabilities due to reversal of revaluation surplus on leasehold land	(ii)	566	566

(i) The carrying amount of the Group's prepaid land lease payments which are stated at cost less accumulated amortisation, were reclassified from the Group's fixed assets.

(ii) In prior periods the Group's leasehold land was stated at valuation where any surplus on revaluation was credited to the Group's asset revaluation reserve. Deferred tax liabilities so arising were also provided for at the balance sheet by debiting against the asset revaluation reserve. With the adoption of HKAS 17, the revaluation surplus on the Group's leasehold land previously recognised was reversed and the respective balances were debited against the Group's asset revaluation reserve and deferred tax liabilities.

3. Segment Information

An analysis of the Group's turnover and segment results by geographical segments is as follows:

	Turnover Six months ended 30 September (Unaudited)		Profit from operating activities Six months ended 30 September (Unaudited)	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The People's Republic of China (the "PRC")	143,498	71,265	38,616	35,501
Japan	90,484	108,585	19,846	20,087
South Korea	24,509	28,171	6,129	3,038
Hong Kong	9,134	9,431	1,480	2,611
Others	33,165	26,809	6,774	6,566
	300,790	244,261	72,845	67,803
Other income			3,100	314
Unallocated expenses			(18,345)	(17,969)
Profit from operating activities			57,600	50,148

No information was disclosed in respect of the Group's business segments as the Group is solely engaged in the manufacture and sale of sportswear and garments.

4. Other Income

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest income	2,768	234
Rental income	237	–
Others	95	80
	<u>3,100</u>	<u>314</u>

5. Finance Costs

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest expense on bank loans and overdrafts wholly repayable within five years	<u>–</u>	<u>170</u>

6. Profit before Tax

Profit before tax was determined after charging the following:

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation	6,922	5,092
Amortisation of prepaid land lease payments	<u>320</u>	<u>423</u>

7. Tax

	Six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current period provision:		
Hong Kong	3,299	5,552
Elsewhere	2,845	1,098
	<hr/>	<hr/>
Tax charge for the period	6,144	6,650
	<hr/>	<hr/>

Hong Kong profits tax for the six months ended 30 September 2005 has been provided at the rate of 17.5% (six months ended 30 September 2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Company's certain subsidiaries in the PRC were granted tax relief under which they are exempted from the PRC enterprise income tax for the first two profit-making years and a 50% reduction in the PRC enterprise income tax for the succeeding three years. Moreover, under the relevant tax laws and regulations in the PRC, the Company's subsidiaries in the PRC may set off loss incurred by them in a financial year against profits made by them in the succeeding financial year or years, subject to maximum of five financial years. The first profit-making year of the aforesaid subsidiaries in the PRC is year ended 31 December 2002.

8. Interim Dividend

	Six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared of HK\$0.06 per share (2004: HK\$0.045 per share)	25,620	15,300
	<hr/>	<hr/>

At the meeting on 18 November 2005, the Board resolved that an interim dividend of HK\$0.06 per share for the six months ended 30 September 2005 to be paid to the shareholders whose names appear on the Company's register at the close of business on 5 December 2005.

9. Earnings Per Share

A reconciliation of the earnings and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	Six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
Earnings:		
Profit attributable to equity holders of the Company for the purpose of calculation of basic and diluted earnings per share (HK\$)	51,456,000	43,328,000
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings per share	427,000,000	328,524,590
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all outstanding convertible bonds	N/A	79,868,852
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	N/A	408,393,442

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months ended 30 September 2005.

10. Available-For-Sale Investments

	As at	As at
	30 September	31 March
	2005	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Unlisted investment funds, at fair value	4,716	4,527

Gains on fair values of unlisted investment funds of approximately HK\$189,000 were recognized in the asset revaluation reserve.

11. Accounts and Bills Receivable

The Group generally gives credit terms up to 30 days to its customers. An aged analysis of the Group's accounts and bills receivable, based on invoice date, is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within 30 days	78,385	37,207
31 to 60 days	15,705	703
61 to 90 days	828	531
Over 90 days	926	116
	<u>95,844</u>	<u>38,557</u>

12. Accounts and Bills Payable

An aged analysis of the Group's accounts and bills payable, based on invoice date, is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within 90 days	25,145	15,598
91 to 180 days	9	532
181 to 365 days	147	26
Over 365 days	74	53
	<u>25,375</u>	<u>16,209</u>

13. Share Capital

The following is a summary of movements in the authorized and issued share capital of the Company:

	Number of ordinary shares	Nominal value of shares HK\$'000
<i>Authorised:</i>		
At 30 September 2005 (unaudited) and 31 March 2005 (audited)	<u>10,000,000,000</u>	<u>100,000</u>
	Number of issued shares	Nominal value of issued shares HK\$'000
<i>Issued and fully paid:</i>		
At 30 September 2005 (unaudited) and 31 March 2005 (audited)	<u>427,000,000</u>	<u>4,270</u>

14. Comparative Figures

Certain comparative figures have been restated to conform to current period presentation.

15. Approval of the Interim Financial Statements

These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 18 November 2005.

Management Discussion and Analysis

Business Review

The Group is principally engaged in the design and manufacture of sportswear for men, women and children on an OEM (an acronym for “original equipment manufacturer”, which produces or customizes products according to the design supplied by others) basis. The sportswear manufactured and sold by the Group can broadly be divided into tracksuits, sport pants, jackets, sweaters and T-shirts. The remaining products comprise casual wear, kids wear and fashion wear. The Group mainly manufactures products under international brandnames such as *Nike*, *adidas* and *Puma*.

The Group’s performance remained strong for the six months ended 30 September 2005. The Group’s products were mainly sold to the PRC, Japan and South Korea. The turnover and net profit of the Group for the six months ended 30 September 2005 increased by approximately 23.1% and approximately 18.8% respectively compared to the previous corresponding period in 2004 as a result of the improvement in productivity and substantial growth in the PRC market.

The improvement in productivity was the result of financial and technological assistance from Yue Yuen Industrial (Holdings) Limited (stock code: 551) (“Yue Yuen”), the largest shareholder of the Company. Not only did Yue Yuen inject fund to the Company but also provide the expertise of production planning to the Group. Implementation of the more advanced production planning computer system assisted by Yue Yuen has enabled the Group to i) fully utilize the advanced function of newly-installed machinery; ii) efficiently schedule the material purchases; iii) efficiently allocate the labour force; and iv) reduce the material consumption and wastage.

Besides, as most of the material purchases of the Group are made from Taiwan, in January 2005, a liaison office was established in Taiwan so that our staff in Taiwan can directly deal with the vendors in Taiwan to ensure efficient scheduling of material purchases and timely delivery of material with stable quality.

Moreover, the production processes were reorganized from traditional production (i.e. different parts of a product manufactured by different production teams) to assembly production lines (i.e. each worker performs a particular job which must be completed before the product moves to the next position in the line), which greatly improved the labour’s productivity.

In terms of geographical markets, the PRC has become the dominant market of the Group that the proportion of the Group’s sales to the PRC market grew from approximately 29.2% for the period ended 30 September 2004 to approximately 47.7% for the period ended 30 September 2005. Such trend is expected to continue in the coming years. In the PRC, rising affluence, rising popularity of sports, impact of the 2008 Beijing Olympics, and low penetration rate of sportswear in cities are driving demands for sportswear. Therefore, the PRC market has become the focal point for leading sportswear brands which have encountered limited growth opportunities in the mature American and European markets. The PRC market is the most promising of the emerging markets for the international sportswear brands. The PRC market is expected to be a significant earning driver for the Group.

As one of the major manufacturers of Nike apparel for Asian markets, the Group has been well-prepared to capture the growth in the PRC's sportswear demand. In order to cope with the growing demand from our customers, on production side, the Group continued to expand its production capacity with the completion and commencement of operation of the new production plant (the "New Production Plant") in Shantou, the PRC in September 2005. The New Production Plant was acquired by the Group in June 2004 at a consideration of approximately RMB102.2 million subject to adjustments. As a result of the actual completed gross floor area as stated in the title certificates more than the planned gross floor area, the consideration was adjusted upwards to approximately RMB102.9 million. The New Production Plant comprises a 7-storeyed industrial complex with gross floor area of approximately 67,000 square meters together with ancillary facilities including a basketball court and a carport. The production capacity of the New Production plant is approximately 1.5 times that of the old factory when it is fully operated by the financial year of 2007. Nearly half of the gross floor area of the old factory had no longer been used.

To provide better working environment for the labour in order to attract mature labour and recruit sufficient workforce to fill the expanded capacity of the New Production Plant, on August 2005, the Group entered into an agreement with a third party to acquire a building in Shantou, the PRC, which is adjacent to the New Production Plant, with a total gross floor area of approximately 18,000 square meters. Such property will be a recreational complex well-equipped with various facilities for the employees such as training room, multi-function meeting room, canteen, health centre, reading room, chess room, gymnasium...etc. It is expected that the construction and decoration of the building will be completed in mid-2006.

Financial Review

For the six months ended 30 September 2005, turnover of the Group increased from approximately HK\$244.3 million to approximately HK\$300.8 million, an increase of approximately 23.1%. The increase was mainly attributed to an increase in the orders placed by customers as a result of the effort of the Group's marketing team supported by an expansion in the Group's production capacity as well as the improvement in the efficiency of production and substantial growth in the PRC market.

Gross profit of the Group for the six months ended 30 September 2005 increased to approximately HK\$72.8 million compared to approximately HK\$67.8 million achieved in the previous corresponding period in 2004, an increase of approximately 7.4%. However, the gross profit margin of the Group was approximately 24.2% for the six months ended 30 September 2005 compared to approximately 27.8% for the previous corresponding period in 2004, a decrease of approximately 3.6%. The decrease in gross profit margin was mainly attributed to (i) an increase in labour costs; (ii) an increase in transportation cost and (iii) a rise in material costs.

Other income for the six months ended 30 September 2005 mainly consisted of interest income and rental income. A substantial increase of approximately HK\$2,534,000 in interest income was noted for the current period, which was attributed to relatively high deposit level kept and an increase in bank deposit interest rates during the current period. Rental income was derived from letting of the properties acquired by the Group in Jan 2005.

Selling and distribution costs of the Group for the six months ended 30 September 2005 decreased by approximately HK\$2.1 million due to decrease in commission, quota charge and advertising fee incurred during the current period.

Administrative costs of the Group for the six months ended 30 September 2005 increased by approximately 18.4% to approximately HK\$15.7 million compared to approximately HK\$13.3 million for the corresponding period in 2004 as a result of an increase in staff costs due to employment of additional staff and additional expenses incurred by Taiwan liaison office established in January 2005.

With the repayment of all outstanding bank borrowings during the year ended 31 March 2005, no finance costs were incurred during the current period compared to approximately HK\$170,000 incurred during the previous corresponding period in 2004.

The Group's profit attributable to equity holders of the Company for the six months ended 30 September 2005 increased by approximately 18.8% to approximately HK\$51.5 million compared to approximately HK\$43.3 million for the previous corresponding period in 2004. The increase was mainly the result of the increase in the turnover during the current period.

Liquidity and Financial Resources

As at 30 September 2005, the Group had net current assets of approximately HK\$274.2 million (31 March 2005: approximately HK\$366.5 million).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. As at 30 September 2005, the Group had cash and bank deposits amounted to approximately HK\$213.7 million (31 March 2005: approximately HK\$322.9 million).

As at 30 September 2005, the Group had no outstanding borrowings (31 March 2005: nil). As at 30 September 2005, the Group had aggregate banking facilities of approximately HK\$138.2 million (31 March 2005: approximately HK\$159.6 million) and were secured by (i) a property owned by the Group; (ii) the available-for-sale investments of the Group; (iii) corporate guarantees executed by the Company; and (iv) unlimited corporate guarantees executed by two subsidiaries of the Company. No banking facilities were utilized by the Group as at 30 September 2005 (31 March 2005: nil).

The management believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

As at 30 September 2005, the Group's gearing ratios represented by total liabilities as a percentage of the Group's total assets amounted to approximately 17.1% (31 March 2005: approximately 9.8%).

There is no material effect of seasonality on the Group's borrowing requirements.

For the six months ended 30 September 2005, the Group was not subject to any significant exposures to foreign exchange rate risk. Hence, no financial instrument for hedging was employed.

Contingent Liabilities and Capital Commitments

As at 30 September 2005, the Group did not have any significant contingent liabilities (31 March 2005: nil).

The Group had the following capital commitment at the balance sheet date:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of the New Production Plant	–	53,939
Construction in progress	9,192	6,926
	9,192	60,865
Authorised, but not contracted for:		
Construction in progress	–	39,416

Significant Investments

As at 30 September 2005, there was no significant investment held by the Group (31 March 2005: nil).

Future Plan and Prospects

The sportswear industry in Asia, particular in the PRC, is expected to demonstrate a strong momentum in the coming future to propel the business of the Group to greater heights. The Group will also try to penetrate into new markets such as Europe and the United States.

In addition to placing great efforts in securing more orders from international brands, the Group will continue to improve the production efficiency by automating more of its production process; and expand its production capacity by acquiring further plant and machinery in order to capture the growing demand and orders.

The Group will always have the interests of its shareholders in mind and will use its best efforts in enhancing the Group's profitability in the long run and generating fruitful returns to its supportive shareholders.

Employees and Remuneration Policies

As at 30 September 2005, the Group employed a total of approximately 5,000 employees including directors (31 March 2005: approximately 4,700).

The employees are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for the employees of the Group in Hong Kong and to the central pension scheme for the employees of the Group in the PRC.

Material Acquisition or Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies during the six months ended 30 September 2005 (31 March 2005: nil).

Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(i) *The Company*

Name of director	Capacity/ Nature of interest	Number of shares held		Percentage of issued share capital of the Company
		Long position	Short position	
Chung Yuk Sing	Interest of a controlled corporation/ Corporate	123,000,000 (Note)	–	28.81%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.35%
Kuo Tai Yu	Beneficial owner/ Personal	1,680,000	–	0.39%

Note: These shares are held by Time Easy Investment Holdings Limited ("Time Easy"). The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni, the wife of Mr. Chung Yuk Sing, in the proportion of 90% and 10% respectively.

(ii) Associated Corporations

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number and class of shares in associated corporation held		Percentage of issued share capital of the same class of the associated corporation
			Long position	Short position	
Chung Yuk Sing	Eagle Nice Development Limited (“Eagle Nice Development”)	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 1)	90%
	Far East (International) Garment Limited (“Far East”)	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 2)	90%
Tsang Yuk Ni	Eagle Nice Development	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 1)	10%
	Far East	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 2)	10%

Notes:

1. Pursuant to an option agreement dated 28 March 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni was granted an option to Jespar Age Limited (“Jespar”) whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Eagle Nice Development upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.
2. Pursuant to an option agreement dated 28 March 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni was granted an option to Jespar whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Far East upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.

Save as disclosed above, as at 30 September 2005, none of the directors and chief executive of the Company was interested in or had any short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 September 2005, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares		Percentage of issued share capital of the Company
		Long position	Short position	
Time Easy	Beneficial owner/ Personal	123,000,000 (Note 1)	–	28.81%
Pou Chen Corporation ("PCC")	Interest of a controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	44.96%
Wealthplus Holdings Limited ("Wealthplus")	Interest of a controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	44.96%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of a controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	44.96%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of a controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	44.96%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 (Notes 2 and 3)	–	44.96%

Notes:

1. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni in the proportion of 90% and 10% respectively.
2. PCC owns the entire interest in Wealthplus which in turns owns approximately 47.4% interest in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing which in turn owns the entire interest in Great Pacific.

Save as disclosed above, as at 30 September 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Directors' Interests In Contracts

No directors had a significant beneficial interests, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the six months ended 30 September 2005.

Directors' Interests in Competing Business

Interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Ku Yu Sun Edward ("Mr. Ku")	Yuen Thai Industrial Company Limited ("Yuen Thai") (Note)	Manufacturing of sports and active wear	As a director

Note: Yuen Thai is a company incorporated in Hong Kong on 24 September 2003 and is held as to 50% by Yue Yuen and its subsidiaries (the "Yue Yuen Group") and 50% by a subsidiary of Luen Thai Holdings Limited, a company listed on the Stock Exchange since 2004. Mr. Ku has been nominated by the Yue Yuen Group to represent its interest on the board of directors of Yuen Thai.

Having considered (i) the nature, geographical market, scope and size of Yuen Thai as compared to those of the Group; and (ii) the nature and extent of Mr. Ku's interest in Yuen Thai, the directors of the Company believe that there is unlikely to be any significant competition caused to the business of the Group.

Save as disclosed above, none of the directors of the Company or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under the age of 18 or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

On 6 August 2003, the Company has conditionally adopted a share option scheme whereby eligible participants of the share option scheme, including any employee (whether full-time or part-time) and any director of the Company and/or any of its subsidiaries whom the Board may think fit with reference to their respective contributions to the Group, may be granted options which entitle them to subscribe for the shares of the Company. Details of the share option scheme are set out in note 26 to the financial statements of the Company for the year ended 31 March 2005.

As at 30 September 2005, no share options had been granted under the share option scheme.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2005.

Code on Corporate Governance Practices of the Listing Rules

At as 30 September 2005, the Company had complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules, save for the following deviations:

Code Provision A4.1

The CG Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

All independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Code Provision A4.2

The CG Code also stipulates every director should be subject to retirement by rotation at least once every three years.

According to the articles of association of the Company, at each annual general meeting, one-third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board and the managing director of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire.

As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman of the Board and the management director provide the Group with strong and consistent leadership, and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of the Board and the managing director of the Company should not be subject to retirement by rotation.

In addition, as the Board comprises 9 other directors who will be subject to retirement by rotation under the articles of association of the Company which rotation cycle roughly equals to once every three years, the Board considers that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry of the Company's directors, the directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2005.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2005.

Closure of Register of Members

The register of members of the Company will be closed from 6 December 2005 to 7 December 2005, both dates inclusive. During this period, no transfer of shares of the Company will be registered.

In order to qualify for the entitlement of the proposed interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 5 December 2005.

On Behalf of the Board
Chung Yuk Sing
Chairman

Hong Kong, 18 November 2005

As at the date hereof, the board of directors of the Company comprises eight executive directors, namely, Mr. Chung Yuk Sing, Mr. Tsai Nai Kun, Mr. Chung Tung Sau, Ms. Tsang Sau Fan, Mr. Ku Yu Sun Edward, Mr. Kuo Tai Yu, Mr. Lin Pin Huang Otto and Mr. Chen Zhen Hao and three independent non-executive directors, namely, Mr. Chan Cheuk Ho, Mr. Li Chi Chung and Mr. Cheng Yung Hui Tony.