



*Interim  
Report  
2005*



**KINGMAKER FOOTWEAR HOLDINGS LIMITED**  
**信星鞋業集團有限公司**



## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Kingmaker Footwear Holdings Limited (the “Company”) takes the pleasure to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2005, which were prepared in accordance with accounting principles generally accepted in Hong Kong and reviewed by the Company’s audit committee, as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

|                                  |       | For the six months ended<br>30th September |              |
|----------------------------------|-------|--|--------------|
|                                  |       | 2005                                       | 2004         |
|                                  |       | (Unaudited)                                | (Unaudited)  |
|                                  | Notes | HK\$'000                                   | HK\$'000     |
| Turnover                         | 2     | 722,342                                    | 831,399      |
| Cost of sales                    |       | (633,989)                                  | (711,594)    |
| Gross profit                     |       | 88,353                                     | 119,805      |
| Other income and gains           |       | 5,618                                      | 2,103        |
| Distribution and selling costs   |       | (13,096)                                   | (18,310)     |
| Administrative expenses          |       | (35,134)                                   | (39,565)     |
| Profit from operating activities |       | 45,741                                     | 64,033       |
| Finance costs                    |       | (87)                                       | (151)        |
| PROFIT BEFORE TAX                | 3     | 45,654                                     | 63,882       |
| Tax                              | 4     | (1,699)                                    | (1,927)      |
| PROFIT FOR THE PERIOD            |       | 43,955                                     | 61,955       |
| ATTRIBUTABLE TO:                 |       |  |              |
| Equity holders of the Company    |       | 43,955                                     | 61,955       |
| Dividend – Interim               | 5     | 22,919                                     | 22,919       |
| Earnings per share               | 6     |  |              |
| – Basic                          |       | HK6.71 Cents                               | HK9.46 Cents |



## CONDENSED CONSOLIDATED BALANCE SHEET

|  | Notes | As at   |  |  |
|--|-------|---|--|--|
|  |       | 30th September<br>2005<br>(Unaudited)<br>HK\$'000 | 30th September<br>2004<br>(Unaudited)*<br>HK\$'000 | 31st March<br>2005<br>(Restated)<br>HK\$'000 |
| <b>Non-current assets</b>                    |       |   |  |  |
| Property, plant and equipment                |       | 394,132   | 404,937  | 410,404                                      |
| Prepaid land lease payments                  |       | 52,232  | 53,897   | 53,065                                       |
| Investment in club membership                |       | 1,041   | –  | 1,060  |
| Available-for-sale investments               |       | 883   | 596  | 970  |
|  |       | <b>448,288</b>                                    | <b>459,430</b>                                     | <b>465,499</b>                               |
| <b>Current assets</b>                        |       |   |  |  |
| Inventories                                  |       | 178,061   | 196,446  | 193,709                                      |
| Accounts and bills receivable                | 7     | 162,426   | 178,916  | 72,322                                       |
| Prepayments, deposits and other receivables  |       | 6,743   | 3,818  | 4,118  |
| Tax recoverable                              |       | 111   | 111  | 111  |
| Cash and cash equivalents                    |       | 219,702   | 148,081  | 184,661                                      |
|  |       | <b>567,043</b>                                    | <b>527,372</b>                                     | <b>454,921</b>                               |
| <b>Current liabilities</b>                   |       |   |  |  |
| Accounts payable                             | 8     | 90,599  | 159,712  | 82,884                                       |
| Accrued liabilities and other payables       |       | 94,505  | 61,017   | 73,108                                       |
| Tax payable                                  |       | 81,414  | 80,063   | 81,454                                       |
| Interest-bearing bank borrowings             | 9     | 22,128  | 5,996  | 1,691  |
| Dividend payable                             |       | 68,757  | 22,919   | –  |
|  |       | <b>357,403</b>                                    | <b>329,707</b>                                     | <b>239,137</b>                               |
| <b>NET CURRENT ASSETS</b>                    |       | <b>209,640</b>                                    | <b>197,665</b>                                     | <b>215,784</b>                               |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <b>657,928</b>                                    | <b>657,095</b>                                     | <b>681,283</b>                               |
| <b>CAPITAL AND RESERVES</b>                  |       |   |  |  |
| Issued capital                               | 10    | 65,483  | 65,483   | 65,483                                       |
| Reserves                                     |       | 592,445   | 591,612  | 569,962                                      |
| Proposed final dividend                      |       | –   | –  | 45,838                                       |
|  |       | <b>657,928</b>                                    | <b>657,095</b>                                     | <b>681,283</b>                               |

\* For reference only.



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2005

|   | Six months ended<br>30th September |                                 |
|---|------------------------------------|---------------------------------|
|   | 2005<br>(Unaudited)<br>HK\$'000    | 2004<br>(Unaudited)<br>HK\$'000 |
| Net cash inflow/(outflow) from operating activities | 16,224                             | (2,671)                         |
| Net cash outflow from investing activities          | (3,153)                            | (28,733)                        |
| Net cash inflow/(outflow) from financing activities | 20,436                             | (1,382)                         |
| Increase/(decrease) in cash and cash equivalents    | 33,507                             | (32,786)                        |
| Cash and cash equivalents at beginning of period    | 184,661                            | 179,950                         |
| Effect of foreign exchange rate changes, net        | 1,534                              | 917                             |
| Cash and cash equivalents at end of period          | 219,702                            | 148,081                         |
| Analysis of balances of cash and cash equivalents:  |                                    |                                 |
| Cash and bank balances                              | 219,702                            | 148,081                         |



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | (Unaudited)   |                |                     |                   |                     |                  |                | Total          |
|---|---------------|----------------|---------------------|-------------------|---------------------|------------------|----------------|----------------|
|   | Share Capital | Share Premium  | Capital             | Exchange Reserves | Investment Reserves | Retained Profits | Proposed       |                |
|   |               |                | Redemption Reserves |                   |                     |                  | Final Dividend |                |
| HK\$'000  | HK\$'000      | HK\$'000       | HK\$'000            | HK\$'000          | HK\$'000            | HK\$'000         | HK\$'000       |                |
| At 1st April 2005   | 65,483        | 71,132         | 53                  | (2,518)           | -                   | 501,295          | 45,838         | 681,283        |
| Exchange reserve arising on consolidation of subsidiaries | -             | -              | -                   | 1,534             | -                   | -                | -              | 1,534          |
| 2005 final dividend declared                              | -             | -              | -                   | -                 | -                   | -                | (45,838)       | (45,838)       |
| Change in fair value of available-for-sale investments    | -             | -              | -                   | -                 | (87)                | -                | -              | (87)           |
| Net profit for the period                                 | -             | -              | -                   | -                 | -                   | 43,955           | -              | 43,955         |
| 2005/06 interim dividend                                  | -             | -              | -                   | -                 | -                   | (22,919)         | -              | (22,919)       |
| <b>At 30th September 2005</b>                             | <b>65,483</b> | <b>71,132*</b> | <b>53*</b>          | <b>(984)*</b>     | <b>(87)*</b>        | <b>522,331*</b>  | <b>-</b>       | <b>657,928</b> |
| At 1st April 2004   | 65,483        | 71,132         | 53                  | (1,678)           | -                   | 482,152          | 45,838         | 662,980        |
| Exchange reserve arising on consolidation of subsidiaries | -             | -              | -                   | 917               | -                   | -                | -              | 917            |
| 2004 final dividend paid                                  | -             | -              | -                   | -                 | -                   | -                | (45,838)       | (45,838)       |
| Net profit for the period                                 | -             | -              | -                   | -                 | -                   | 61,955           | -              | 61,955         |
| 2004/05 interim dividend                                  | -             | -              | -                   | -                 | -                   | (22,919)         | -              | (22,919)       |
| At 30th September 2004                                    | 65,483        | 71,132*        | 53*                 | (761)*            | -*                  | 521,188*         | -              | 657,095        |

\* *These reserve accounts comprise the consolidated reserves of HK\$592,445,000 (2004: HK\$591,612,000) in the consolidated balance sheet.*



## NOTES:

### 1. Significant Accounting Policies

These unaudited 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 31st 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 19  | Employee Benefits  |
| HKAS 21  | The Effects of Changes in Foreign Exchange Rates                                       |
| HKAS 23  | Borrowing Costs  |
| HKAS 24  | Related Party Disclosures  |
| 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                                     |
| HKFRS 2  | Share-based Payment  |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |



## 1. Significant Accounting Policies (CONT'D)

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 33, 36, 37, HKFRS 2 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 statements. The impact of adopting the other HKFRSs is summarized as follows:

### (a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost 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 leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term. Alternatively, when the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. The comparatives on the condensed consolidated balance sheet for the year ended 31st March 2005 have been restated to reflect the reclassification of leasehold land.

### (b) HKAS 32 and HKAS 39 – Financial Instruments

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 cost less any impairment losses.

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. After initial recognition, 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 income statement.



## 1. Significant Accounting Policies (CONT'D)

### (b) HKAS 32 and HKAS 39 – Financial Instruments (CONT'D)

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

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 recognized directly in equity shall be removed from equity and recognized in the income statement. The amount of the loss recognized in the income statement 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 income statement.

The effect of the above changes is that the investment in securities under long-term investments has been reclassified into available-for-sale investments in the condensed consolidated balance sheet. There is no effect on the condensed consolidated profit and loss account and retained profits.





## 2. Segmental Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

### (a) Business Segments

The following tables present revenue, results and certain expenditure information for the Group's business segments.

| (Unaudited)                             |                    |                    |                                    |                                  |              |
|---|--------------------|--------------------|------------------------------------|----------------------------------|--------------|
| For the six months ended 30th September |                    |                    |                                    |                                  |              |
|   | Rugged<br>footwear | Casual<br>footwear | Baby and<br>children's<br>footwear | Sportswear<br>and<br>sport shoes | Consolidated |
|   | 2005               | 2005               | 2005                               | 2005                             | 2005         |
|   | HK\$'000           | HK\$'000           | HK\$'000                           | HK\$'000                         | HK\$'000     |
| Segment revenue:                        |                    |                    |                                    |                                  |              |
| Sales to external customers             | 100,092            | 315,979            | 302,839                            | 3,432                            | 722,342      |
| Segment results                         | 8,628              | 26,691             | 13,846                             | (4,240)                          | 44,925       |
| Unallocated income                      |                    |                    |                                    |                                  | 5,618        |
| Unallocated expenses                    |                    |                    |                                    |                                  | (4,802)      |
| Profit from operating activities        |                    |                    |                                    |                                  | 45,741       |
| Finance costs                           |                    |                    |                                    |                                  | (87)         |
| Profit before tax                       |                    |                    |                                    |                                  | 45,654       |
| Tax                                     |                    |                    |                                    |                                  | (1,699)      |
| Profit for the period                   |                    |                    |                                    |                                  | 43,955       |



## 2. Segmental Information (CONT'D)

### (a) Business Segments (CONT'D)

|                                     | (Unaudited)                             |  |  |  | Consolidated<br>2004<br>HK\$'000 |
|-------------------------------------|---|--|--|--|----------------------------------|
|                                     | For the six months ended 30th September |  |  |  |                                  |
|                                     | Rugged<br>footwear<br>2004<br>HK\$'000  | Casual<br>footwear<br>2004<br>HK\$'000 | Baby and<br>children's<br>footwear<br>2004<br>HK\$'000 | Sportswear<br>and<br>sport shoes<br>2004<br>HK\$'000 |                                  |
|                                     |   |  |  |  |                                  |
| Segment revenue:                    |   |  |  |  |                                  |
| Sales to external<br>customers      | 163,738                                 | 287,444                                | 376,076  | 4,141  | 831,399                          |
| Segment results                     | 16,099                                  | 25,084                                 | 28,516   | (2,797)  | 66,902                           |
| Unallocated income                  |   |  |  |  | 3,100                            |
| Unallocated expenses                |   |  |  |  | (5,969)                          |
| Profit from operating<br>activities |   |  |  |  | 64,033                           |
| Finance costs                       |   |  |  |  | (151)                            |
| Profit before tax                   |   |  |  |  | 63,882                           |
| Tax                                 |   |  |  |  | (1,927)                          |
| Profit for the period               |   |  |  |  | 61,955                           |

### (b) Geographical Segments

The following tables present revenue for the Group's geographical segments.

|                                | (Unaudited)                                     |                            |                            |                                  |
|--------------------------------|---|----------------------------|----------------------------|----------------------------------|
|                                | For the six months ended 30th September         |                            |                            |                                  |
|                                | United States<br>of America<br>2005<br>HK\$'000 | Europe<br>2005<br>HK\$'000 | Others<br>2005<br>HK\$'000 | Consolidated<br>2005<br>HK\$'000 |
|                                |   |                            |                            |                                  |
| Segment revenue:               |   |                            |                            |                                  |
| Sales to external<br>customers | 475,387   | 208,913                    | 38,042                     | 722,342                          |
|                                | 2004<br>HK\$'000                                | 2004<br>HK\$'000           | 2004<br>HK\$'000           | 2004<br>HK\$'000                 |
| Segment revenue:               |   |                            |                            |                                  |
| Sales to external<br>customers | 495,254   | 267,023                    | 69,122                     | 831,399                          |



### 3. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

|                                       | <b>For the six months ended</b> |                 |
|---------------------------------------|---------------------------------|-----------------|
|                                       | <b>30th September</b>           |                 |
|                                       | <b>2005</b>                     | 2004            |
|                                       | <b>(Unaudited)</b>              | (Unaudited)     |
|                                       |                                 | (Restated)      |
|                                       | <b>HK\$'000</b>                 | <b>HK\$'000</b> |
| Cost of inventories sold              | <b>500,526</b>                  | 546,757         |
| Depreciation                          | <b>19,447</b>                   | 16,551          |
| Amortisation of prepaid land premiums | <b>832</b>                      | 832             |
| Interest cost on bank borrowings      | <b>87</b>                       | 151             |
| Interest income                       | <b>(3,099)</b>                  | (1,415)         |
| Staff cost and wages                  | <b>98,896</b>                   | 123,307         |

### 4. Tax

|            | <b>For the six months ended</b> |                 |
|------------|---------------------------------|-----------------|
|            | <b>30th September</b>           |                 |
|            | <b>2005</b>                     | 2004            |
|            | <b>(Unaudited)</b>              | (Unaudited)     |
|            |                                 | (Restated)      |
|            | <b>HK\$'000</b>                 | <b>HK\$'000</b> |
| Hong Kong  | <b>28</b>                       | 24              |
| Elsewhere  | <b>1,671</b>                    | 1,903           |
| Tax charge | <b>1,699</b>                    | 1,927           |

Hong Kong profits tax has been provided at the rate of 17.5% (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 taxation prevailing in the countries in which the Group operates.



## 5. Interim Dividend

|  | <b>For the six months ended<br/>30th September</b> |  |
|--|--|--|
|  | <b>2005<br/>(Unaudited)<br/>HK\$'000</b>           | <b>2004<br/>(Unaudited)<br/>HK\$'000</b> |
| 2005/06 Interim dividend of HK3.5 cents<br>(2004/05: HK3.5 cents) per ordinary share | <b>22,919</b>                                      | 22,919                                   |

The Board resolved to declare an interim dividend of HK3.5 cents (2004: HK3.5 cents) per ordinary share for the six months ended 30th September 2005 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on 9th January 2006. The dividend is expected to be paid on 20th January 2006.

## 6. Earnings Per Share

The calculation of basic earnings per share for the period is based on the net profit attributable to equity holders of HK\$43,955,000 (2004: HK\$61,955,000), and the weighted average number of 654,825,625 (2004: 654,825,625) ordinary shares in issue during the period.

No diluted earnings per share is presented for both current and last period as there are no diluted potential ordinary shares.

## 7. Accounts and Bills Receivable

The majority of the Group's sales are mainly on credit with varying credit terms of 30 to 90 days. The ageing analysis of accounts and bills receivable is as follows:

|                                  | <b>Within<br/>90 days<br/>HK\$'000</b> | <b>Between<br/>91-180 days<br/>HK\$'000</b> | <b>Between<br/>181-365 days<br/>HK\$'000</b> | <b>Over<br/>365 days<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|----------------------------------|--|---|--|---------------------------------------|---------------------------|
| <b>(Unaudited)</b>               |  |   |  |                                       |                           |
| <b>As at 30th September 2005</b> | <b>161,999</b>                         | <b>411</b>                                  | <b>16</b>                                    | <b>-</b>                              | <b>162,426</b>            |
| <b>(Audited)</b>                 |  |   |  |                                       |                           |
| <b>As at 31st March 2005</b>     | <b>68,509</b>                          | <b>1,722</b>                                | <b>1,833</b>                                 | <b>258</b>                            | <b>72,322</b>             |



## 8. Accounts Payable

The ageing analysis of accounts payable is as follows:

|                                  | Within<br>90 days<br><i>HK\$'000</i> | Between<br>91-180 days<br><i>HK\$'000</i> | Between<br>181-365 days<br><i>HK\$'000</i> | Over<br>365 days<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|----------------------------------|--------------------------------------|---|--|-------------------------------------|--------------------------|
| <b>(Unaudited)</b>               |                                      |   |  |                                     |                          |
| <b>As at 30th September 2005</b> | <b>89,318</b>                        | <b>1,281</b>                              | <b>-</b>                                   | <b>-</b>                            | <b>90,599</b>            |
| <b>(Audited)</b>                 |                                      |   |  |                                     |                          |
| As at 31st March 2005            | 81,231                               | 782                                       | 400  | 471                                 | 82,884                   |

## 9. Interest-bearing Bank Borrowings

|   | 30th September<br>2005<br><b>(Unaudited)</b><br><i>HK\$'000</i> | 31st March<br>2005<br><b>(Audited)</b><br><i>HK\$'000</i> |
|---|---|---|
| Trust Receipt loans, unsecured                | <b>2,128</b>  | 1,691   |
| Bank Loan, unsecured                          | <b>20,000</b>   | -   |
|   | <b>22,128</b>   | 1,691   |
| Trust receipt loans repayable within one year | <b>2,128</b>  | 1,691   |
| Bank loans repayable:                         |   |   |
| Within one year                               | <b>20,000</b>   | -   |
|   | <b>22,128</b>   | 1,691   |
| Portion classified as current liabilities     | <b>(22,128)</b>   | (1,691)   |
| Long term portion                             | -   | -   |

The banking facilities are supported by corporate guarantees given by the Company and certain of its subsidiaries.



## 10. Share Capital

|  | <b>30th September<br/>2005<br/>(Unaudited)<br/>HK\$'000</b> | 31st March<br>2005<br>(Audited)<br>HK\$'000 |
|--|---|---|
| <i>Authorised:</i>                             |   |   |
| 1,000,000,000 ordinary shares at HK\$0.10 each | <b>100,000</b>  | 100,000                                     |
| <i>Issued and fully Paid:</i>                  |   |   |
| 654,825,625 ordinary shares at HK\$0.10 each   | <b>65,483</b>   | 65,483                                      |

## 11. Related Party Transactions

*Compensation of key management personnel of the Group*

|   | <b>For the six months ended<br/>30 September</b> |                                 |
|---|--|---------------------------------|
|   | <b>2005<br/>(Unaudited)<br/>HK\$'000</b>         | 2004<br>(Unaudited)<br>HK\$'000 |
| Short-term employee benefits                        | <b>4,832</b>                                     | 4,780                           |
| Post-employment benefits                            | <b>50</b>  | 51                              |
| Total compensation paid to key management personnel | <b>4,882</b>                                     | 4,831                           |



## 12. Contingent Liabilities and Commitments

As at 30th September 2005, the Group had bills discounted with recourse of approximately HK\$1,060,000 (31st March 2005: HK\$1,353,000). The commitment were as follows:

|   | <b>30th September<br/>2005<br/>(Unaudited)<br/>HK\$'000</b> | 31st March<br>2005<br>(Audited)<br>HK\$'000 |
|---|---|---|
| Commitments contracted for but not provided<br>in the financial statements in respect of: |   |   |
| Acquisition of plant and machinery and construction                                       | <b>5,750</b>  | 4,136                                       |
| Investment in wholly foreign owned enterprise   | <b>15,834</b>   | 18,003                                      |
| Management fee  |   |   |
| – Within one year   | <b>310</b>  | 310   |
| – In the second to fifth years, inclusive   | <b>1,517</b>  | 1,688                                       |
| – After 5 years   | <b>20,027</b>   | 20,271                                      |

## 13. Comparative Figures

Due to the adoption of new HKFRSs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current period's presentation.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Company results and review

#### *Financial results*

As the world's fast emerging economic force, China has come under the spotlight of trade imbalances and its precarious relationship with major trading partners of the United States and European Union has created tremendous uncertainties and hesitation among customers. Trade protectionist pressure contributed to the lingering weak market sentiment, and coupled with the increasing costs in labour, electricity, transportation and materials in China, the Group saw a 13% drop in turnover to HK\$722 million for the six months under review.

Fuel has been going through a roller-coaster ride this year, hitting a historical high of nearly US\$80 a barrel. In addition to the impact of higher materials and production cost, there is also a grief concern that it will slow economic activities and dampen consumer purchasing power. Despite its latest softening, the surging crude oil prices have been putting a tight squeeze on the Group's profit margin, and there is always a possibility for fuel prices to rise again. Average selling price (ASP) decreased slightly as baby and children shoe products accounted for a larger share of the product mix than targeted. The Group will further intensify its efforts to expand the casual premium footwear product lines so as to improve the ASP.

Gross margin fell 2-percentage-points to 12% against a backdrop of rising outsole and other material costs and inbound freight expenses to meet demanding delivery schedules. This also reflected increased research-and-development expenses for new premium casual-footwear products.

Administrative and finance costs remained stable. Net profit fell 29% year on year to HK\$44 million. Earnings per share were HK6.7 cents, as compared with HK9.5 cents for the same period last year.





### *Operational performance*

Ensuring more efficient cost control to improve profit margin is a critical goal of the Group, the implementation of the lean manufacturing system has begun to have effect in alleviating a spectrum of cost-bearing issues - including higher material cost, especially in outsoles, and expensive disruptions to the production flow as a result of the erratic electricity supply in China.

Shortage of experienced labour in the Pearl River Delta remains a hindering concern to efficient resources utilization, therefore weighing heavily on the production costs in China. The Group has improved and upgrade its factory premises to provide a better working environment to its staff. It is expected that the introduction of the lean manufacturing system will continue to help reduce labour cost as a result of smoother manufacturing flow and higher production efficiency. This was reflected in the drop of the total wage expenditure, despite a rise in individual salary.

Inward freight costs were on the high side but the Group managed to control the increase of outward transportation cost as the positive impact of the effective implementation of the lean manufacturing system helped offset the increasing fuel cost.

The Group will continue to invest in the research and development of premium casual products to improve its product portfolio for a higher profit margin. We continue to believe that the focus on strengthening our ODM capability in the more lucrative niche market of trendy casual footwear will help ensure sustainable profitability. The process has taken the Group longer than expected and as at the period end, baby and children, casual and rugged footwear products accounted for 42%, 44% and 14% respectively of the total Group's turnover.

The Group currently operates 25 production lines in China and 12 lines in Vietnam. In view of the difficult business environment in China, the Group made the strategic decision to suspend the previously proposed addition of two production lines in Zhongshan. The management believes that it is more important to focus on enhancing the productivity and efficiency of the existing facilities and holds off substantial capital expenditure in next few years.



The potential impact of high oil prices on consumer purchasing power and economic growth weighs heavily on our customers and they tend to be more cautious and prudent in making procurement decisions in view of market uncertainties. For the six months under review, turnover to the US fell 4%, partly because the tension in the trade relationship between China and the US had deterred some customers from placing orders, and partly as a result of the appreciation of Renminbi.

The Group's turnover to the EU countries dropped 22% because of the uncertainties created by the trade disputes between China and the European Union. The weakening Euro also led to a turnover decline. The Group has been making intensive marketing efforts in expanding market presence in the EU but business growth derived from existing branded customers was lower than expected while new customers had been slow in making order commitments.

In the reporting period, orders from US, EU and other customers contributed 66%, 29% and 5% respectively of group turnover.

### **Future plans and prospects**

Increasing anti-dumping allegations and trade imbalance concerns from the US and the EU have further strengthened the Group's belief that the development of premium products of higher profit margin is the strategy for future growth. The overall economic improvement worldwide is also in support of this business direction.

Given the difficult operating environment in China, the diversification of production bases to Vietnam has proved to be a positive move, even though the output from the Vietnam facility for the period was below expectation as a result of softer than expected orders from EU customers. The Group has also made corresponding adjustments to the development pace of the Vietnam facility - stalling the third phase development until there are more new customers or orders from the existing customers.

The Group believes that it is prudent to reserve capital at this stage, and the focus should be placed on improving the production efficiency of its existing 37 production lines, and further enhancing the sample-making centres in Zhongshan, Zhuhai and Taiwan to develop more appealing premium products and attract new customers.



The goal of achieving the optimal product mix of 40% in premium casual shoes, 40% in baby and children products and 20% in rugged wear remains, and the Group will devote more research, development and marketing efforts in bolstering the share of the premium products for higher profitability. Ultimately, this will be the core product line in the next few years.

The Group has been diligently conservative in cash-flow management and we will continue to enhance the lean manufacturing system which has been showing some very encouraging results in improving production efficiency and labour resources deployment to the benefit of the overall operation.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2005, the Group, after the enhancement of the existing production and environmental facilities, have a cash position of HK\$220 million (31st March 2005: HK\$185 million). The Directors are of the opinion that with the completion of the major expansion plan for the last 5 years, the current cash position and available banking facilities of approximately HK\$235 million (31st March 2005: HK\$195 million) will provide sufficient working capital to facilitate its operations and expansion.

As at 30th September 2005, the Group has the total indebtedness amounted to approximately HK\$22 million (31st March 2005: HK\$1.7 million), representing a gearing ratio of approximately 3.34% (31st March 2005: 0.25%), which is the total indebtedness divided by the shareholders equity.

The Group's activities involve currencies such as Renminbi, Taiwan dollars, and US dollars. It is the Group's policy to adopt a conservative approach on foreign exchange exposure management. The Group does not anticipate significant foreign exchange fluctuation as long as the Hong Kong SAR government's policy to peg the Hong Kong dollar to the US dollar remains in effect. The Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Group generally finances its operation with internal resources and bank facilities provided by banks in Hong Kong. Interest rates of borrowings are fixed by reference to the USD London InterBank Offered Rate.



## DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

At 30th September 2005, the interest and short position of the directors in share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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 (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Long positions in ordinary shares of the Company:

|                          | Number of shares held,<br>capacity and nature of interest |   |   | Total       | % of<br>the Company's<br>issued<br>share capital |
|--------------------------|---|---|---|-------------|--|
|                          | Directly<br>beneficially<br>owned                         | Through<br>spouse or<br>minor<br>children * | Through<br>controlled<br>corporation ** |             |  |
| Chen Ming Hsiung, Mickey | 7,906,250   | 9,219,250                                   | 269,704,752                             | 286,830,252 | 43.80%   |
| Huang Hsiu Duan, Helen   | 9,219,250   | 7,906,250                                   | 269,704,752                             | 286,830,252 | 43.80%   |
| Lee Kung                 | -   | -   | 269,704,752                             | 269,704,752 | 41.19%   |
| Chan Ho Man, Daniel      | 3,173,750   | -   | -                                       | 3,173,750   | 0.48%  |
| Kimmel, Phillip Brian    | 1,400,000   | -   | -                                       | 1,400,000   | 0.20%  |

\* Mdm. Huang Hsiu Duan, Helen is the wife of Mr. Chen Ming Hsiung, Mickey.

\*\* These shares represent a 41.19% equity interest in the Company and are owned by King Strike Limited. The issued share capital of King Strike Limited is beneficially owned by Chen Ming Hsiung, Mickey as to 75.80%, Huang Hsiu Duan, Helen as to 22.07% and Lee Kung as to 2.13%.

The interest of the directors in the share options of the Company are separately disclosed in Directors' Rights to Acquire Shares or Debentures section.

Save as disclosed above, as at 30th September 2005, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme below, at no time during the period 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 minor children under 18 years of age, 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

As at 30th September 2005, the following share options were outstanding under the Company's share option scheme:

|                                     | Date of grant     | Number of options | Exercise price<br>HK\$ | Exercise period                       |
|-------------------------------------|-------------------|-------------------|------------------------|---------------------------------------|
| <b>Directors</b>                    |                   |                   |                        |                                       |
| Chen Ming Hsiung                    | 14th January 2004 | 550,000           | 3.225                  | 14th January 2004 to 27th August 2012 |
| Huang Hsiu Duan                     | 14th January 2004 | 100,000           | 3.225                  | 14th January 2004 to 27th August 2012 |
| Lee Kung                            | 14th January 2004 | 400,000           | 3.225                  | 14th January 2004 to 27th August 2012 |
| Chan Ho Man                         | 14th January 2004 | 500,000           | 3.225                  | 14th January 2004 to 27th August 2012 |
| Kimmel Phillip Brian                | 14th January 2004 | 500,000           | 3.225                  | 14th January 2004 to 27th August 2012 |
|                                     |                   | 2,050,000         |                        |                                       |
| <b>Other employees in aggregate</b> |                   |                   |                        |                                       |
|                                     | 14th January 2004 | 7,900,000         | 3.225                  | 1st January 2005 to 27th August 2012  |
|                                     | 14th January 2004 | 7,200,000         | 3.225                  | 14th January 2004 to 27th August 2012 |
|                                     |                   | 15,100,000        |                        |                                       |
| <b>Total</b>                        |                   | 17,150,000        |                        |                                       |

Apart from the existing share option scheme and the outstanding options as fully described in the 2004/05 annual report, no new share option was granted during the period.



## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30th September 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

| Name  | Capacity and nature of interest | Number of ordinary shares held | Percentage of Company's issued share capital |
|---|---------------------------------|--------------------------------|--|
| King Strike Limited<br>(Note 1)                 | Directly beneficially owned     | 269,704,752                    | 41.19%                                       |
| J.P. Morgan Chase & Co.<br>(Note 2)             | Custodian                       | 58,805,399                     | 8.98%  |
| Gryphon International<br>Investment Corporation | Investment Manager              | 49,792,313                     | 7.60%  |
| Aberdeen Asset<br>Management Asia Ltd.          | Investment Manager              | 42,782,000                     | 6.53%  |

### Notes:

- (1) The issued share capital of King Strike Limited is beneficially owned by Chen Ming Hsiung, as to 75.8%. Huang Hsiu Duan as to 22.07% and Lee Kung as to 2.13%.



(2) The following is a breakdown of the interests in shares of J.P. Morgan Chase & Co.:

| Controlled corporation    | Controlling shareholder | % of control | Total interest in shares |                 | Approximate % of the issued share capital |
|---------------------------|-------------------------|--------------|--------------------------|-----------------|---|
|                           |                         |              | Direct interest          | Deemed interest |   |
| JPMorgan Chase Bank, N.A. | J.P. Morgan Chase & Co. | 100.00       | 58,805,399               | –               | 8.98%                                     |

The 58,805,399 shares included a lending pool of 58,805,399 shares.

Save as disclosed above, as at 30th September 2005, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 4th January 2006 to 9th January 2006, both days inclusive, during which period no transfers of shares shall be effected. To qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 3rd January 2006.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.



## EMPLOYMENT AND REMUNERATION POLICIES

The Group, including its subsidiaries in Hong Kong, Taiwan, PRC, Vietnam and Macau employed approximately 15,000 employees as at 30th September 2005. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Share options may also be granted in accordance to the terms of the Group's approved share option scheme.

## CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or, was not during the six months ended 30th September 2005 in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock of Exchange of Hong Kong Limited (the "Stock Exchange") which came into effect on 1st January 2005, with deviation from certain code provisions as explained below.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The Board believes that vesting the roles of the Chairman and the CEO in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operation of the Board which comprises experienced and high calibre individuals with a substantial number thereof being non-executive directors. The roles of the Chairman and the CEO are not separated and are performed by the same individual, Mr. Chen Ming Hsiung, Mickey.

Non-executive directors of the Company were previously not appointed for a specific term but were subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. On 23rd August 2005, the Board resolved to change the terms of appointment of non-executive directors to a specific term of three years to comply with the code provision A.4.1.





The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

## **AUDIT COMMITTEE**

The Audit Committee ("Committee") has reviewed with the management, the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including a review of the unaudited interim results for the period.

The members of the Committee included the three independent non-executive and one non-executive directors of the Company for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control.

## **REMUNERATION AND NOMINATION COMMITTEE**

On 23rd August 2005, a remuneration committee and a nomination committee were established by the Company. Each of the committees comprises five members, the majority of which being independent non-executive Directors. Each of the committees has adopted the terms of the reference in line with those set out in Appendix 14 of the Listing Rules.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30th September 2005.

On behalf of the Board  
**Chen Ming Hsiung, Mickey**  
*Chairman*

Hong Kong, 15th December 2005