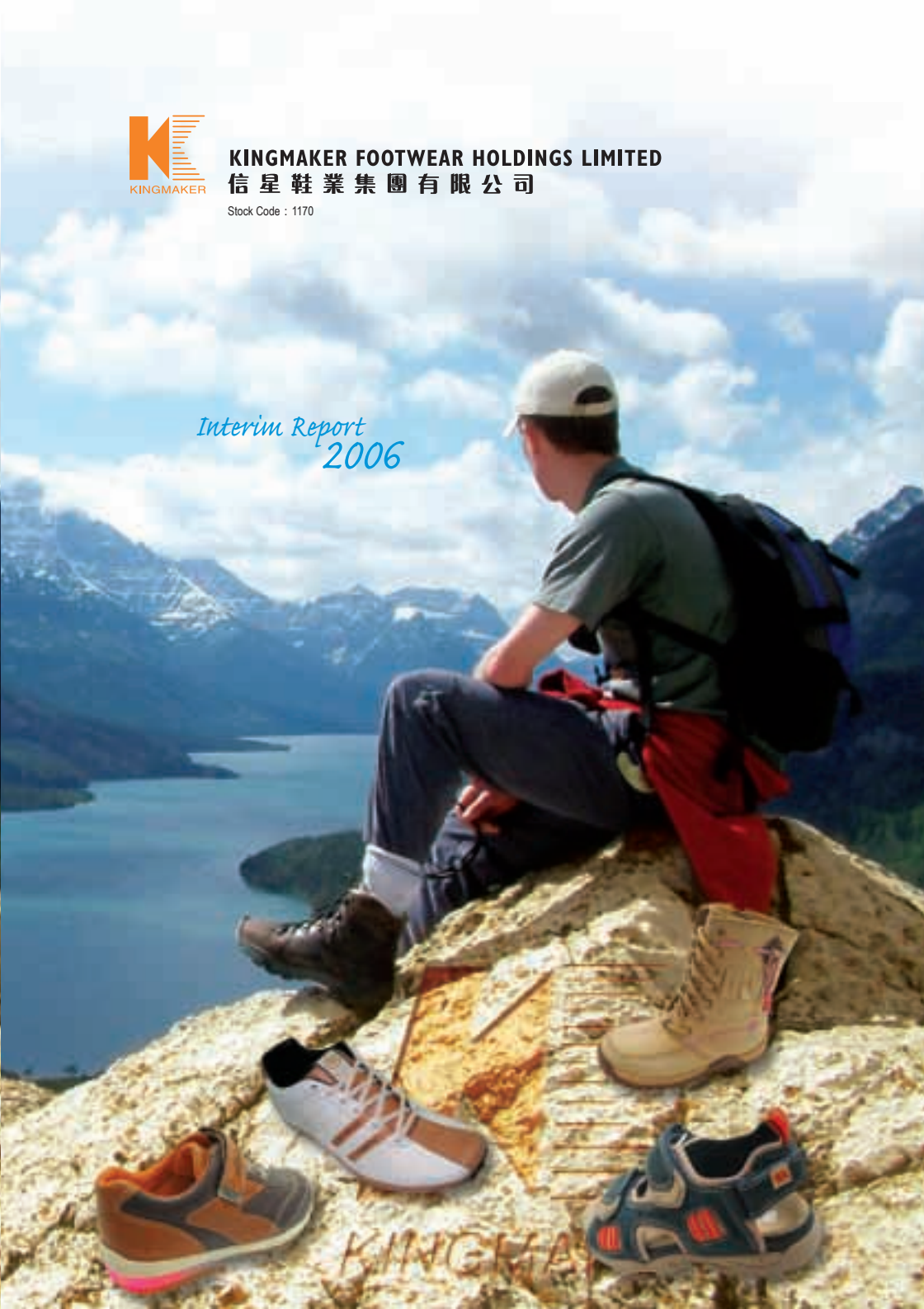




KINGMAKER FOOTWEAR HOLDINGS LIMITED
信星鞋業集團有限公司

Stock Code : 1170

Interim Report
2006



CORPORATE INFORMATION

Board of Directors

Chen Ming-hsiung, Mickey
Huang Hsiu-duan, Helen
Lee Kung, Bobby
Chan Ho-man, Daniel
Kimmel, Phillip Brian
Chow Wing-kin, Anthony, SBS, J.P.[^]
Tam King-ching, Kenny*
Chan Mo-po, Paul*
Yung Tse-kwong, Steven*

Principal Bankers

Calyon
Rabobank International
Standard Chartered Bank
Hang Seng Bank
UFJ Bank

Solicitors

Peter C. Wong, Chow & Chow

Principal Place of Business

17th Floor
Empress Plaza
17-19 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

[^] *Non-executive director*

* *Independent non-executive director*

Company Secretary

Chan Ho-man, Daniel

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Registrar

Butterfield Fund Services
(Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Hamilton
Bermuda

Hong Kong Registrar

Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Company website

<http://www.irasia.com/listco/hk/kingmaker/index.htm>

Stock Code

1170

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 2006, which were reviewed by the Company’s audit committee, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the six months ended	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	2	588,365	722,342
Cost of sales		(523,177)	(633,989)
Gross profit		65,188	88,353
Other income and gains		5,935	5,618
Distribution and selling costs		(12,739)	(13,096)
Administrative expenses		(31,665)	(35,134)
Finance costs		(48)	(87)
PROFIT BEFORE TAX	3	26,671	45,654
Tax	4	(3,576)	(1,699)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		23,095	43,955
Dividend – Interim	5	6,550	22,919
Earnings per share	6		
– Basic		HK3.53 Cents	HK6.71 Cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at		
		30th September 2006 (Unaudited) HK\$'000	30th September 2005 (Unaudited)* HK\$'000	31st March 2006 (Audited) HK\$'000
Non-current assets				
Property, plant and equipment		360,488	394,132	367,716
Prepaid land lease payments		75,119	52,232	76,064
Investment properties		2,973	–	2,973
Investments in club memberships		1,045	1,041	1,045
Available-for-sale equity investments		1,089	883	1,369
Total non-current assets		440,714	448,288	449,167
Current assets				
Inventories		146,401	178,061	154,084
Accounts and bills receivable	7	160,132	162,426	91,192
Prepayments, deposits and other receivables		8,333	6,743	12,213
Tax recoverable		111	111	111
Cash and cash equivalents		217,584	219,702	240,520
Total current assets		532,561	567,043	498,120
Current liabilities				
Accounts and bills payable	8	83,381	90,599	83,016
Accrued liabilities and other payables		85,629	94,505	68,849
Interest-bearing bank borrowings	9	1,912	22,128	20,140
Dividends payable		52,403	68,757	–
Tax payable		90,161	81,414	89,149
Total current liabilities		313,486	357,403	261,154
NET CURRENT ASSETS		219,075	209,640	236,966
NET ASSETS		659,789	657,928	686,133
EQUITY				
Issued share capital	10	65,505	65,483	65,505
Reserves		594,284	592,445	574,775
Proposed final and special dividends		–	–	45,853
Total equity		659,789	657,928	686,133

* For reference only.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2006*

	Six months ended 30th September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash from operating activities	3,030	16,224
Net cash used in investing activities	(10,982)	(3,153)
Net cash (used in)/generated from financing activities	(18,228)	20,436
Net (decrease)/increase in cash and cash equivalents	(26,180)	33,507
Cash and cash equivalents at beginning of period	240,520	184,661
Effect of foreign exchange rate changes, net	3,244	1,534
Cash and cash equivalents at end of period	217,584	219,702
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	217,584	219,702

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)							Total HK\$'000
	Share Capital HK\$'000	Share Premium HK\$'000	Capital Redemption Reserves HK\$'000	Exchange Reserves HK\$'000	Investment Reserves HK\$'000	Retained Profits HK\$'000	Proposed Final Dividend HK\$'000	
At 1st April 2006	65,505	71,497	53	10,176	399	492,650	45,853	686,133
Exchange reserve arising on consolidation of subsidiaries	-	-	-	3,244	-	-	-	3,244
2006 final dividend approved	-	-	-	-	-	-	(45,853)	(45,853)
Change in fair value of available-for-sale equity investments	-	-	-	-	(280)	-	-	(280)
Net profit for the period	-	-	-	-	-	23,095	-	23,095
2006/07 interim dividend	-	-	-	-	-	(6,550)	-	(6,550)
At 30th September 2006	65,505	71,497*	53*	13,420*	119*	509,195*	-	659,789
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 paid	-	-	-	-	-	-	(45,838)	(45,838)
Change in fair value of available-for-sale equity investments	-	-	-	-	(87)	-	-	(87)
Net profit for the period	-	-	-	-	-	43,955	-	43,955
2005/06 interim dividend	-	-	-	-	-	(22,919)	-	(22,919)
At 30th September 2005	65,483	71,132*	53*	(984)*	(87)*	522,331*	-	657,928

* These reserve accounts comprise the consolidated reserves of HK\$594,284,000 (2005: HK\$592,445,000) 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” and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These 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 2006, except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of these new standards, amendments and interpretations has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been made.

The Group has not early applied the following new standards, amendments and interpretations (“INT”) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or INT will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ⁽¹⁾
HKFRS 7	Financial instruments: Disclosures ⁽¹⁾
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁽²⁾
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁽³⁾
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after 1st January 2007.

⁽²⁾ Effective for annual periods beginning on or after 1st May 2006.

⁽³⁾ Effective for annual periods beginning on or after 1st June 2006.

⁽⁴⁾ Effective for annual periods beginning on or after 1st November 2006.

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)				Consolidated 2006 HK\$'000
	For the six months ended 30th September				
	Rugged footwear 2006 HK\$'000	Casual footwear 2006 HK\$'000	Baby and children's footwear 2006 HK\$'000	Sportswear and sport shoes 2006 HK\$'000	
Segment revenue:					
Sales to external customers	80,218	276,551	231,596	–	588,365
Segment results	4,485	14,449	8,162	(846)	26,250
Unallocated income					5,935
Unallocated expenses					(5,466)
Finance costs					(48)
Profit before tax					26,671
Tax					(3,576)
Profit for the period					23,095

2. Segmental Information (CONT'D)

(a) Business Segments (CONT'D)

	(Unaudited)				
	For the six months ended 30th September				
	Rugged footwear	Casual footwear	Baby and children's footwear	Sportswear and 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)
Finance costs					(87)
Profit before tax					45,654
Tax					(1,699)
Profit for the period					43,955

2. Segmental Information (CONT'D)

(b) Geographical Segments

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

	(Unaudited)			
	For the six months ended 30th September			
	United States	Europe	Others	Consolidated
	of America	2006	2006	2006
	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:				
Sales to external customers	309,373	246,546	32,446	588,365
	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:				
Sales to external customers	475,387	208,913	38,042	722,342

3. Profit Before Tax

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

	For the six months ended	
	30th September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	389,056	500,526
Depreciation	19,155	19,447
Amortisation of prepaid land premiums	945	832
Interest cost on bank borrowings	48	87
Interest income	(5,518)	(3,099)
Staff cost and wages	94,829	98,896

4. Tax

	For the six months ended	
	30th September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong	340	24
Elsewhere	3,236	1,671
Tax charge	3,576	1,699

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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

	For the six months ended	
	30th September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
2006/07 Interim dividend of HK1 cent (2005/06: HK3.5 cents) per ordinary share	6,550	22,919

The Board resolved to declare an interim dividend of HK1 cent (2005: HK3.5 cents) per ordinary share for the six months ended 30th September 2006 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on 16th January 2007. The dividend is expected to be paid on 29th January 2007.

6. Earnings Per Share

The calculation of basic earnings per share for the period is based on the net profit attributable to the Company's equity holders of HK\$23,095,000 (2005: HK\$43,955,000), and the weighted average number of 655,046,445 (2005: 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 Group's accounts and bills receivable mainly related to a few recognised and creditworthy customers. Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of insurance, except for certain well established customers, where the terms are extended to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the Group's senior management. Accounts receivable are non-interest-bearing, except for a balance due from a customer of approximately HK\$78,249,000 (31st March 2006: HK\$42,618,000) which bears interest at a rate of 0.5% for a fixed period of 60 days.

The ageing analysis of accounts and bills receivable is as follows:

	Within 90 days <i>HK\$'000</i>	Between 91-180 days <i>HK\$'000</i>	Between 181-365 days <i>HK\$'000</i>	Over 365 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
(Unaudited)					
As at 30th September 2006	160,115	-	17	-	160,132
(Audited)					
As at 31st March 2006	90,307	2	883	-	91,192

8. Accounts and Bills Payable

The ageing analysis of accounts payable is as follows:

	Within 90 days <i>HK\$'000</i>	Between 91-180 days <i>HK\$'000</i>	Between 181-365 days <i>HK\$'000</i>	Over 365 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
(Unaudited)					
As at 30th September 2006	83,381	–	–	–	83,381
(Audited)					
As at 31st March 2006	76,250	6,101	152	513	83,016

9. Interest-bearing Bank Borrowings

	Effective interest rate (%)	30th September 2006 (Unaudited) <i>HK\$'000</i>	31st March 2006 (Audited) <i>HK\$'000</i>
Trust Receipt loans, unsecured	6.50	1,912	140
Bank Loan, unsecured	4.93	–	20,000
		1,912	20,140

During the period, the Group repaid the bank loan denominated in Hong Kong dollars of HK\$20,000,000 with the effective interest rate of approximately 4.93%.

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

10. Share Capital

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares at HK\$0.10 each	100,000	100,000
<i>Issued and fully Paid:</i>		
655,046,445 ordinary shares at HK\$0.10 each	65,505	65,505

11. Related Party Transactions

Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short-term employee benefits	3,202	4,832
Post-employment benefits	6	50
Total compensation paid to key management personnel	3,208	4,882

During the period, the Group paid rental expenses of HK\$495,600 (2005: HK\$484,000) to Kingmaker Footwear Company Limited, a related company of which Mr. Chen Ming-hsiung, Mickey, Lee Kung, Bobby and Mdm. Huang Hsiu-duan, Helen, directors and shareholders of the Company, are also directors and shareholders. The rental expenses were determined with reference to the market conditions existing at the time when the rental agreement was entered into.



12. Commitments

The commitments were as follows:

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
<hr/>		
Commitments contracted for but not provided in the financial statements in respect of:		
Acquisition of plant and machinery and construction of factory building	3,510	2,742
Investment in wholly-foreign-owned enterprise	75,865	76,105
Management fee		
– Within one year	310	310
– In the second to fifth years, inclusive	1,517	1,688
– After 5 years	19,589	19,706

13. Lease Arrangements

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits.

At 30th September 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
<hr/>		
Within one year	283	269
In the second to fifth years, inclusive	335	146
	618	415

13. Lease Arrangements (CONT'D)*(b) As lessee*

The Group leases certain of its land and buildings under operating lease arrangements, with leases negotiated for terms of two to three years.

At 30th September 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
Within one year	191	219
In the second to fifth years, inclusive	62	164
	253	383

The Company did not have any operating lease arrangements at the balance sheet date (31st March 2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Trading relationship between China and its major trading partners of the United States and European Union bears a significant impact on the Group's operating environment and efforts to retain and secure customers. The anti-dumping investigation from the European Commission concluded in October 2006 with a duty of 16.5% and 10% levied for leather footwear from China and Vietnam respectively. This means that the Group has a challenging task at hand to offset the higher costs with better production efficiency and a higher premium product mix.

Turnover for the six-month period fell 18.55% year on year to HK\$588 million (2005: HK\$722 million) as the Group's relationship with a major US customer, Timberland, ceased in March 2006. Shipments to US market dropped from 65.81% to 52.58% of Group's total turnover, but support from other major names such as Clarks and Skechers remain strong. Orders from Europe accounted for 41.90% of the turnover in the period.

Although turnover dropped, on the other hand, average selling price (ASP) slightly rose by 7% points as the Group's dedicated two-pronged efforts to maintain a greater portion of baby and children shoes products, and to increase the output of premium casual footwear with higher margin paid off. Net profit attributable to equity holders of the Group therefore fell to HK\$23 million (2005: HK\$44 million).

Administrative and finance costs remained stable. Net profit fell 47% year on year to HK\$23 million. Earnings per share were HK3.53 cents, as compared with HK6.71 cents for the same period last year.

Operational Performance

As always, the Group is combating to protect its bottom-line against the usual negative environmental factors. The cost of operating in China continues to rise, in wages, electricity, transportation and materials. While crude oil prices stabilize at around US\$60 a barrel, this level is still high and continues to drive up the cost of transportation and petrochemical materials such as outsoles.

Operational Performance (CONT'D)

Through strenuous and effective controls on new product and materials development, the Group has been able to alleviate some of the pressure on profit margin. Nevertheless, this is an ongoing effort and the volatility of crude oil prices is a constant threat.

The Group sees increasing production efficiency as key to offsetting higher cost elements and improving profit margin. The successful launch of the lean manufacturing system helps to better utilize skilled labor which is in acute shortage in China, and shorten the production lead time to improve transportation cost efficiency. The Group will continue to improve the working environment to retain the existing skilled workforce to ensure efficient utilization of the lean manufacturing system.

Meanwhile, the Group will further tighten control on administrative and selling costs.

In the reporting period, orders from US, EU and other customers contributed 52.58%, 41.90% and 5.52% respectively of group turnover.

Future Plans and Prospects

The operating environment for the Group remains challenging but thanks to the dedicated efforts of everyone, we were able to achieve a higher ASP despite the anti-dumping blow from the EC and the loss of a major customer in the US. It further re-confirms the Group's strategic direction to pursue the development of new premium products for both new customers and existing customers to complement their product portfolio expansion.

As the revenue contribution of the baby and children shoes category has been maintained at approximately 40%, it is the Group's intention to increase the contribution of premium casual footwear. The Group expects the casual premium products to be the key growth driver in the next few years.

In respect of the Group's manufacturing facilities, the principle of geographical diversification remains. Currently, the Group has a total of 37 production lines of which 10 is located in Vietnam, 10 in Zhongshan and 17 in Zhuhai. While the plant in Vietnam has been affected by less forthcoming orders from EC customers because of the duties, the Group remains cautiously positive as to its growth prospect.

Future Plans and Prospects *(CONT'D)*

Meanwhile, a new factory in Cambodia is under construction at a site very close to the Vietnam plant for efficient logistical support to EC orders. It is expected that the first two production lines of the first phase of the Cambodia factory will commence trial production in the first quarter of 2007.

The factories in Cambodia and Vietnam are designed to complement each other. In addition to the 2 more production lines in the first phase of the Cambodia factory, it is also planned that additional production facilities may be established in Vietnam and China. In addition, the manufacturing facilities in the Mainland will also be upgraded to improve the working environment to retain skilled workers.

The expansion plan, together with the regular upgrading, repair and maintenance of production lines, will increase the Group's capital expenditure in the next few years. Notwithstanding to the above, the management will continue to maintain its conservative cash-flow management to strengthen the Group's financial position. The Group's cash-flow remained strong and as at 30th September 2006, the Group had no significant borrowings and maintained a cash position of HK\$218 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2006, the Group have a cash position of HK\$218 million (31st March 2006: HK\$241 million). The Directors are of the opinion that with the completion of the major expansion plan for the last 5 years, the available banking facilities, approximately HK\$235 million (31st March 2006: HK\$292 million), together with the current cash position will provide sufficient working capital to facilitate its operations and expansion.

As at 30th September 2006, the Group has the total indebtedness amounted to approximately HK\$1.9 million (31st March 2006: HK\$20 million), representing a gearing ratio of approximately 0.29% (31st March 2006: 2.91%), 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

As at 30th September 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in 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, capacity and nature of interest			Total	% of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children *	Through controlled corporation **		
Chen Ming Hsiung, Mickey	7,906,250	19,505,250	269,704,752	297,116,252	45.36%
Huang Hsiu Duan, Helen	19,505,250	7,906,250	269,704,752	297,116,252	45.36%
Lee Kung	–	–	269,704,752	269,704,752	41.17%
Chan Ho Man, Daniel	3,200,000	–	–	3,200,000	0.49%
Kimmel, Phillip Brian	1,400,000	–	–	1,400,000	0.21%

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

** These shares represent a 41.17% 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, Bobby as to 2.13%.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES (CONT'D)

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 2006, 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 2006, the following share options were outstanding under the Company's share option scheme:

	Date of grant	Number of options	Exercise price HK\$	Exercise period
Directors				
Chen Ming Hsiung, Mickey	14th January 2004	550,000	3.225	14th January 2004 to 27th August 2012
Huang Hsiu Duan, Helen	14th January 2004	100,000	3.225	14th January 2004 to 27th August 2012
Lee Kung, Bobby	14th January 2004	400,000	3.225	14th January 2004 to 27th August 2012
Chan Ho Man, Daniel	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		
Other employees in aggregate				
	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		
Total		17,150,000		

Apart from the existing share option scheme and the outstanding options as fully described in the 2005/06 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 2006, 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 (Note 1)	Directly beneficially owned	269,704,752	41.17%
Aberdeen Asset Management Asia Ltd.	Investment Manager	42,782,000	6.53%
Commonwealth Bank of Australia (Note 2)	Investment Manager	32,777,400	5.00%

Notes:

- (1) The issued share capital of King Strike Limited is beneficially owned by Chen Ming Hsiung, Mickey, as to 75.8%. Huang Hsiu Duan, Helen as to 22.07% and Lee Kung, Bobby as to 2.13%.
- (2) The following is a breakdown of the interests in shares of Commonwealth Bank of Australia:

Controlled corporation	Controlling shareholder	% of control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
First State Investment Management (UK) Ltd.	SI Holdings Ltd.	100.00	27,163,400	–	4.14%
First State Investments International Ltd.	First State Investment Management (UK) Ltd.	100.00	5,614,000	–	0.86%

Both the First State Investment Management (UK) Limited and First State Investments International Limited are the wholly-owned subsidiaries of Commonwealth Bank of Australia.



SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONT'D)

Save as disclosed above, as at 30th September 2006, 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 notified the Company or 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 11th January 2007 to 16th January 2007, 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 10th January 2007.

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 and Vietnam employed approximately 12,000 employees as at 30th September 2006. 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 2006 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 (“Stock Exchange”), with deviation from provision A.2.1 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.

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.

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 2006.

On behalf of the Board
Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 21st December 2006