KINGMAKER

KINGMAKER FOOTWEAR HOLDINGS LIMITED

信星鞋業集團有限公司

Stock Code : 1170

KINGMAKER

Interim Report 2007

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.[Δ]
Tam King-ching, Kenny*
Chan Mo-po, Paul, MH, J.P.*
Yung Tse-kwong, Steven*

Principal Bankers

Calyon
Standard Chartered Bank
Hang Seng Bank
Bank of Tokyo-Mitsubishi UFJ

Solicitors

Peter C. Wong, Chow & Chow

Principal Place of Business

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

Δ *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

Tricor 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 2007, which were reviewed by the Company's audit committee, as follows:

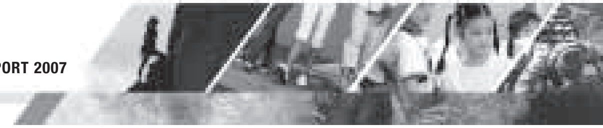
CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th September	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**712,344**	588,365
Cost of sales		**(627,541)**	(523,177)
Gross profit		**84,803**	65,188
Other income and gains		**7,621**	5,935
Distribution and selling costs		**(10,750)**	(12,739)
Administrative expenses		**(39,630)**	(31,665)
Finance costs		**(52)**	(48)
PROFIT BEFORE TAX	*3*	**41,992**	26,671
Tax	*4*	**(6,609)**	(3,576)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**35,383**	23,095
Dividends	*5*	**9,826**	6,550
Earnings per share	*6*		
– Basic		**HK5.40 Cents**	HK3.53 Cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at		
		30th September 2007 (Unaudited)	30th September 2006 (Unaudited)*	31st March 2007 (Audited)
	Notes	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment		**335,546**	360,488	342,758
Prepaid land lease payments		**73,262**	75,119	74,208
Investment properties		**3,060**	2,973	3,060
Investments in club memberships		**1,030**	1,045	1,030
Available-for-sale equity investments		**2,433**	1,089	1,693
Total non-current assets		**415,331**	440,714	422,749
Current assets				
Inventories		**104,039**	146,401	156,570
Accounts and bills receivable	7	**146,109**	160,132	137,085
Derivative financial instruments		**166**	–	–
Prepayments, deposits and other receivables		**16,425**	8,333	15,553
Tax recoverable		**178**	111	178
Cash and cash equivalents		**308,452**	217,584	216,228
Total current assets		**575,369**	532,561	525,614
Current liabilities				
Accounts and bills payable	8	**113,357**	83,381	114,174
Accrued liabilities and other payables		**69,797**	85,629	70,921
Derivative financial instruments		**2,096**	–	–
Interest-bearing bank borrowings		**125**	1,912	–
Dividends payable		**13,101**	52,403	–
Tax payable		**98,689**	90,161	92,041
Total current liabilities		**297,165**	313,486	277,136
NET CURRENT ASSETS		**278,204**	219,075	248,478
NET ASSETS		**693,535**	659,789	671,227
EQUITY				
Issued share capital	9	**65,505**	65,505	65,505
Reserves		**618,204**	594,284	592,621
Proposed dividends		**9,826**	–	13,101
Total equity		**693,535**	659,789	671,227

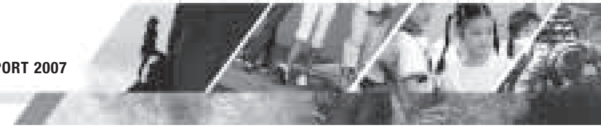
* *For reference only.*



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2007

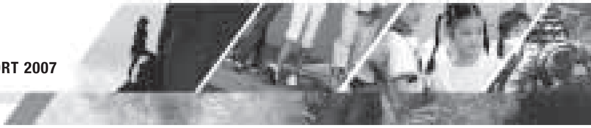
	Six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**94,285**	3,030
Net cash used in investing activities	**(2,775)**	(10,982)
Net cash used in financing activities	**–**	(18,228)
Net increase/(decrease) in cash and cash equivalents	**91,510**	(26,180)
Cash and cash equivalents at beginning of period	**216,228**	240,520
Effect of foreign exchange rate changes, net	**714**	3,244
Cash and cash equivalents at end of period	**308,452**	217,584
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**308,452**	217,584



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Share Capital	Share Premium	Capital Redemption Reserves	Share Option Reserves	Exchange Reserves	Investment Reserves	Retained Profits	Proposed Dividends	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2007	65,505	71,497	53	4,196	9,362	723	506,790	13,101	671,227
Exchange reserve arising on consolidation of subsidiaries	–	–	–	–	(714)	–	–	–	(714)
2007 final dividend approved	–	–	–	–	–	–	–	(13,101)	(13,101)
Change in fair value of available-for-sale equity investments	–	–	–	–	–	740	–	–	740
Profit for the period	–	–	–	–	–	–	35,383	–	35,383
Proposed interim dividend	–	–	–	–	–	–	(9,826)	9,826	–
At 30th September 2007	**65,505**	**71,497***	**53***	**4,196***	**8,648***	**1,463***	**532,347***	**9,826**	**693,535**
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)
Profit for the period	–	–	–	–	–	–	23,095	–	23,095
Proposed interim dividend	–	–	–	–	–	–	(6,550)	–	(6,550)
At 30th September 2006	65,505	71,497*	53*	–	13,420*	119*	509,195*	–	659,789

* *These reserve accounts comprise the consolidated reserves of HK$618,204,000 (30th September 2006: HK$594,284,000) 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 2007, 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 1st April 2007. 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.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions

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 the Standards, Amendments or INT will have no material impact on the results and financial position of the Group.

HKAS 23 (Revised)	Borrowing costs[(1)]
HKFRS 8	Operating segments[(1)]
HK(IFRIC) – INT 12	Service concession arrangements[(2)]
HK(IFRIC) – INT 13	Customer loyalty programmes[(3)]
HK(IFRIC) – INT 14	HKAS19 – The limited on a defined benefit asset, minimum funding requirements and their interaction[(2)]

(1) Effective for accounting periods beginning on or after 1st January 2009.
(2) Effective for accounting periods beginning on or after 1st January 2008.
(3) Effective for accounting periods beginning on or after 1st July 2008.

Derivative financial instruments

The Group uses derivative financial instruments for example, as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or loss arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2. Segment 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*

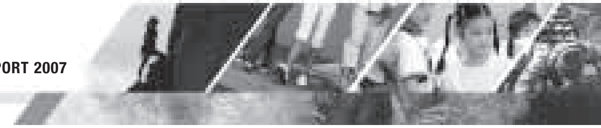
The following tables present revenue, results and certain expenditure information for the Group's business segments.

	(Unaudited) For the six months ended 30th September 2007				
	Rugged footwear	Casual footwear	Baby and children's footwear	Sportswear and sport shoes	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	**76,034**	**387,497**	**248,813**	**–**	**712,344**
Segment results	**5,123**	**24,776**	**10,489**	**–**	**40,388**
Unallocated income					**7,621**
Unallocated expenses					**(5,965)**
Finance costs					**(52)**
Profit before tax					**41,992**
Tax					**(6,609)**
Profit for the period					**35,383**

2. Segment Information *(CONT'D)*

(a) Business Segments (CONT'D)

	(Unaudited) For the six months ended 30th September 2006				
	Rugged footwear *HK$'000*	Casual footwear *HK$'000*	Baby and children's footwear *HK$'000*	Sportswear and sport shoes *HK$'000*	Consolidated *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. Segment Information *(CONT'D)*

(b) Geographical Segments

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

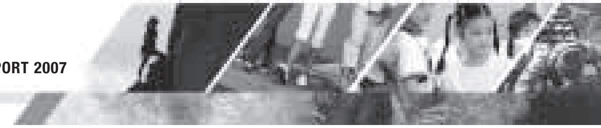
	(Unaudited) For the six months ended 30th September 2007			
	United States of America *HK$'000*	**Europe** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:				
Sales to external customers	**373,451**	**300,407**	**38,486**	**712,344**

	(Unaudited) For the six months ended 30th September 2006			
	United States of America *HK$'000*	Europe *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	309,373	246,546	32,446	588,365

3. Profit Before Tax

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

	For the six months ended 30th September	
	2007 **(Unaudited)** ***HK$'000***	2006 (Unaudited) *HK$'000*
Cost of inventories sold	**475,031**	389,056
Depreciation	**17,010**	19,155
Amortization of prepaid land lease payments	**946**	945
Interest cost on bank borrowings	**52**	48
Interest income	**(6,659)**	(5,518)
Staff cost and wages (excluding directors remuneration)	**123,225**	94,829
Write off of items of property, plant and equipment	**2,141**	–



4. Tax

	For the six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**97**	340
Elsewhere	**6,512**	3,236
Tax charge	**6,609**	3,576

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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. Dividends

	For the six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend of HK1.5 cents (2006: HK1 cent) per ordinary share	**9,826**	6,550

The Board resolved to declare an interim dividend of HK1.5 cents (2006: HK1 cent) per ordinary share for the six months ended 30th September 2007 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on 16th January 2008. The dividend is expected to be paid on 29th January 2008.

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$35,383,000 (2006: HK$23,095,000), and the weighted average number of 655,046,445 (2006: 655,046,445) 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 issuance, 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$44,572,000 (31st March 2007: HK$66,780,000) 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	**Between 91-180 days**	**Between 181-365 days**	**Over 365 days**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Unaudited)					
As at 30th September 2007	**141,484**	**–**	**484**	**4,141**	**146,109**
(Audited)					
As at 31st March 2007	131,721	30	4,692	642	137,085

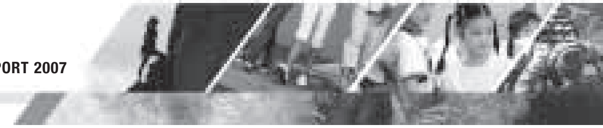
8. Accounts and Bills Payable

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

	Within 90 days	Between 91-180 days	Between 181-365 days	Over 365 days	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Unaudited)					
As at 30th September 2007	**109,195**	**3,962**	**117**	**83**	**113,357**
(Audited)					
As at 31st March 2007	113,009	1,065	17	83	114,174

9. Share Capital

	30th September 2007 (Unaudited)	31st March 2007 (Audited)
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares at HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
655,046,445 ordinary shares at HK$0.10 each	**65,505**	65,505



10. Related Party Transactions

Compensation of key management personnel of the Group

	For the six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term employee benefits	**3,242**	3,202
Post-employment benefits	**6**	6
Total compensation paid to key management personnel	**3,248**	3,208

During the period, the Group paid rental expenses of HK$502,656 (for the six months ended 30th September 2006: HK$495,600) to Kingmaker Footwear Company Limited, a related company of which Mr. Chen Ming-hsiung, Mickey, Mr. 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.

11. Commitments

The commitments were as follows:

	30th September	31st March
	2007	2007
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Commitments contracted but not provided for in respect of:		
Acquisition of plant and machinery and construction of factory building	**12,371**	20,065
Investment in wholly-foreign-owned enterprise	**453,609**	455,881
Management fee		
– Within one year	**310**	310
– In the second to fifth years, inclusive	**1,900**	1,900
– After 5 years	**18,896**	19,179

12. 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 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th September 2007 (Unaudited) ***HK$'000***	31st March 2007 (Audited) *HK$'000*
Within one year	**303**	296
In the second to fifth years, inclusive	**51**	198
	354	494

(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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th September 2007 (Unaudited) ***HK$'000***	31st March 2007 (Audited) *HK$'000*
Within one year	**1,059**	1,154
In the second to fifth years, inclusive	**250**	750
	1,309	1,904

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the period under review, the Group was able to revive growth momentum with substantial orders from a number of key customers; this despite the ongoing anti-dumping investigations initiated since early 2005 by the European Commission for factories in China and Vietnam, which have resulted in market and industry uncertainties and caused delays in orders for most name-brand footwear. The Group's turnover for the first half of fiscal 2007/08 grew 21.07% year on year to HK$712 million (2006: HK$588 million). This was mainly attributable to the Group's strategy of diversifying its market portfolio by achieving early penetration of European markets.

Support from European customers has not only driven revenue growth, but also enabled the Group to maintain a more balanced geographical customer spread conducive to continued healthy development. Orders from Europe increased to account for 42.17% of total turnover for the six-month period, as compared with 41.90% of the previous period, while shipments to the US market scaled back from 52.58% to 52.43% of total turnover.

Turnover growth was also assisted by a mild 3% increase year on year in average selling price (ASP) as the Group continued to enhance its product mix to include a higher proportion of premium-casual footwear which commands a higher ASP and margin. This improvement in ASP has helped mitigate the continuing cost increments faced by most footwear manufacturers. Net profit attributable to Group equity holders therefore increased by 53.21% to HK$35 million (2006: HK$23 million).

Administrative expenses increased mainly due to the increment in salaries while selling expenses were kept at stable levels. Earnings per share was HK5.40 cents (2006: HK3.53 cents).

In the expectation of continuing strong cash flow, the Group has decided to maintain its dividend policy of sharing its results with, and in appreciation of the continued support of, the shareholders.

Business Strategies

The Group continues to strengthen its core competence in the original design manufacturing (ODM) and original equipment manufacturing (OEM) of footwear, and supplement it by customized one-stop services, to cater to demand from and the individual requirements of name-brand customers worldwide. Leveraging on its strong production and product development edge, the Group is now focusing on the development of superior-quality premium-casual footwear, with a view to advancing its product mix towards the upper end of the line.

As a result of the Group's strategy of establishing a multi-location production base, it is able to maintain a niche geographical reach, enabling it to enjoy healthy revenue contributions from the US, as well as growth momentum of the European market. The Group will continue to augment its production centers in Southeast Asia, including Vietnam and Cambodia, to complement its China production base.

To leverage off its production strength and longstanding network of relationships in the footwear industry, the Group will pursue selective opportunities in China's wholesale and retail segments. In view of China's ascent as an economic powerhouse, management believes that the Mainland market has become the new success imperative. However, this will be a longer-term development plan for the Group and management will work with prudence in proceeding further downstream.

While the Group sets its sights high, its business plans rely on the long-term availability of funding. With the sound financial management principle at the heart of all operations, the Group is able to ensure that cash flow from businesses remains sufficient to fund dividends to shareholders and potential new investments. The Group closely monitors cash and resources in order to sustain a strong financial position.

Operational Performance

On a positive note, despite constant trade disputes between countries of origin and destination, global outsourcing remains an irreversible trend, in particular for the footwear industry. At the same time, manufacturers continue to witness mounting challenges at the production end, especially in China. As footwear manufacturing is highly labor intensive, continuous increases in the cost of and the shortage of skilled and experienced workers in the Pearl River Delta have added to the already difficult operating environment, which is mired in escalating electricity, material and transportation costs.

Operational Performance *(CONT'D)*

The core profitability of the Group took into account increasing cost elements in several areas. First, rising crude oil prices have driven up the cost of outsoles and of related inward freight costs, resulting in a mild increase in material costs. In addition, insufficient experienced labor in the Pearl River Delta still imposes pressures on producers in the area, caused by a rise in wages and staff salaries, although partly offset by the Group's implementation of the "lean manufacturing system". Operational efficiency and optimum utilization of production facilities were also affected.

Cost control disciplines have long been embedded in the Group's operations. Even though it reported improved results, benefiting from a more balanced geographical market reach and enhanced product mix, the Group is nevertheless constantly enhancing and innovating its production processes to raise efficiency. The introduction of the "lean manufacturing system" a few years ago was one of the measures implemented to raise efficiency by shortening production lead times. Continuing efforts were also made to control and reduce costs of sales and administration.

During the reporting period, the Group enhanced its product mix by further penetrating the higher-margin premium-casual category, which accounted for 54.40% (2006: 47.00%) of group turnover, while contributions from the baby and children category narrowed to 34.93% of the total turnover.

During the period under review, orders from US, EU and other customers contributed 52.43% (2006: 52.58%), 42.17% (2006: 41.90%) and 5.40% (2006: 5.52%) respectively of Group turnover. This market portfolio incorporated a steady US component which continued to contribute a stable stream of revenue despite the appreciation of the RMB, as well as a growing European segment which provided a driver of growth in turnover and an increased ASP. A major part of the results of the European segment was generated by Group facilities in Vietnam and Cambodia. The Group believes that the diversification of production bases will help build in flexibility in both production and export market development.

During the reporting period, the Group's major customers included Skechers, Clarks, Stride Rite, Elefanten, G-star and Pediped, with a turnover aggregating to 98% of total turnover.

Future Plans and Prospects

The Group will continue to solicit new customers to further expand the premium-casual segment. With a number of prospective customers now under negotiation, the Group is confident that this premium product line will be one of the major engines of future growth. To strengthen its capability of serving both existing and tapping potential new customers, the Group will invest in enhancing productivity and efficiency for premium-casual products. This strategy was validated by the increased ASP and turnover achieved during the reporting period.

The Group expects the premium-casual line to be the major category over the next few years. Amidst prevailing market and operating uncertainties, the continual shift to higher-margin product segments is expected to deliver sustained improvement in the Group's core profitability in the future.

The performance of the Vietnam factory continues to meet management expectations, with 14.25% and 18.95% growth respectively in terms of output and value. Following successful commissioning and first phase of operations, the Group also expects further development of the Cambodian factory to serve both existing and new demand. The Group will continue to upgrade its production arrangements in Cambodia to better serve European customers. It is expected that by the end of 2008 a total of 3 production lines will become operational in Cambodia. The factories in Cambodia and Vietnam will continue to complement each other. As for China, there are also plans to set up plants in the interior provinces where labor and operating costs are lower. Feasibility studies are ongoing.

With the introduction of the "lean manufacturing system", together with consistent efforts to maintain a good working environment conducive to staff retention and motivation, the Group continues to witness improvements in production efficiency. The Group's core production capability comprises a network of factories with a total of 38 production lines, of which 13 are located in Vietnam and Cambodia, 9 in Zhongshan and 16 in Zhuhai.

Enhancement of existing facilities is one of the Group's ongoing commitments, and the sample centers in Zhongshan, Zhuhai and Taiwan have also been upgraded to facilitate more advanced product development work.

Future Plans and Prospects *(CONT'D)*

The Group remains optimistic about future growth, which is expected to be led by demand from the European market, and from the premium-casual category. The expansion plans to cope with anticipated demand growth, together with the regular upgrading, repair and maintenance of production lines, will increase the Group's capital expenditure in the next few years. The Group will continue to maintain conservative cash flow management to sustain a strong cash position. The Group's cash flow remained strong and, as at 30th September, 2007, the Group had no significant borrowings and maintained a cash position of HK$308 million (31st March 2007: HK$216 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2007, the Group has a cash position of HK$308 million (31st March 2007: HK$216 million). The Directors are of the opinion that with the consideration of the major expansion plan including Cambodia and PRC in the next 2 – 3 years, the available banking facilities, approximately HK$274 million (31st March 2007: HK$352 million), together with the current cash position will provide sufficient working capital to facilitate its operations and expansion.

As at 30th September 2007, the Group has the total indebtedness amounted to approximately HK$125,000 (31st March 2007: Nil), representing 0.02% of the shareholders equity (31st March 2007: Nil). The current ratio was approximately 1.94 (31st March 2007: approximately 1.90) based on current assets of approximately HK$575 million and current liabilities of approximately HK$297 million and the quick ratio was approximately 1.59 (31st March 2007: approximately 1.33).

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's activities involve currencies such as Renminbi ("RMB"), 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 Inter-Bank Offered Rate.

As a measure of additional prudence, the Group uses different derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

The fair value of the Group's outstanding derivative instruments as at 30th September 2007 represents the net amount the Group would receive/pay if these contracts were closed out at 30th September 2007. The fair value of these outstanding derivatives has been recognized as assets or liabilities.

The exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options. Speculative currency transactions are strictly prohibited. The management of currency risk is centralised in the headquarter of the Group in Hong Kong.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$694 million as at 30th September 2007 from approximately HK$671 million as at 31st March 2007. As at 30th September 2007, there are short-term interest-bearing debts of approximately 0.02% to shareholders' equity (31st March 2007: Nil).

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 30th September 2007, 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				
	Directly beneficially owned	Through spouse or minor children *	Through controlled corporation **	Total	% of the Company's issued share capital
Chen Ming Hsiung, Mickey	7,906,250	21,731,250	269,704,752	299,342,252	45.70%
Huang Hsiu Duan, Helen	21,731,250	7,906,250	269,704,752	299,342,252	45.70%
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	1,000,000	–	–	1,000,000	0.15%

* 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 2007, 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 2007, 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
	13th October 2006	550,000	1.01	13th October 2006 to 27th August 2012
Huang Hsiu Duan, Helen	14th January 2004	100,000	3.225	14th January 2004 to 27th August 2012
	13th October 2006	100,000	1.01	13th October 2006 to 27th August 2012
Lee Kung, Bobby	14th January 2004	400,000	3.225	14th January 2004 to 27th August 2012
	13th October 2006	600,000	1.01	13th October 2006 to 27th August 2012
Chan Ho Man, Daniel	14th January 2004	500,000	3.225	14th January 2004 to 27th August 2012
	13th October 2006	600,000	1.01	13th October 2006 to 27th August 2012
Kimmel, Phillip Brian	14th January 2004	500,000	3.225	14th January 2004 to 27th August 2012
	13th October 2006	600,000	1.01	13th October 2006 to 27th August 2012
Tam King Ching, Kenny	13th October 2006	200,000	1.01	13th October 2006 to 27th August 2012
Chow Wing Kin, Anthony	13th October 2006	200,000	1.01	13th October 2006 to 27th August 2012
Chan Mo Po, Paul	13th October 2006	200,000	1.01	13th October 2006 to 27th August 2012
Yung Tse Kwong, Steven	13th October 2006	200,000	1.01	13th October 2006 to 27th August 2012
		5,300,000		

SHARE OPTION SCHEME *(CONT'D)*

	Date of grant	Number of options	Exercise price *HK$*	Exercise period
Other employees in aggregate	14th January 2004	7,020,000	3.225	1st January 2005 to 27th August 2012
	14th January 2004	6,550,000	3.225	14th January 2004 to 27th August 2012
	13th October 2006	9,990,000	1.01	13th October 2006 to 27th August 2012
		23,560,000		
Total		28,860,000		

Apart from the existing share option scheme and the outstanding options as fully described in the 2006/07 annual report, no new share option was granted during the period.

Total 460,000 share options granted to other employees on 13th October 2006 with exercise price of HK$1.01 and exercise period from 13th October 2006 to 27th August 2012 under the Share Option Scheme were forfeited during the period.

Movements in the number of share options outstanding are as follows:

	For the six months ended 30th September 2007 (Unaudited) Number of options
At 1st April 2007	29,320,000
Granted	–
Forfeited	(460,000)
Exercised	–
At 30th September 2007	28,860,000

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

At 30th September 2007, 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%
Commonwealth Bank of Australia *(Note 2)*	Investment Manager	65,483,400	10.00%
Aberdeen Asset Management Plc and its associates	Investment Manager	52,782,000	8.06%
DJE Investment S.A. *(Note 3)*	Investment Manager	33,240,000	5.07%

Notes:

(1) 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%.

(2) The following is a breakdown of the interests in shares of Commonwealth Bank of Australia:

Controlled corporation	Controlling shareholder	Total interest in shares: % of control	Total interest in shares: Direct interest	Total interest in shares: Deemed interest	Approximate % of the issued share capital
First State Investment Management (UK) Ltd.	SI Holdings Ltd.	100.00	65,483,400	–	10.00%

First State Investment Management (UK) Limited is the wholly-owned subsidiary of Commonwealth Bank of Australia.

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

(3) The following is a breakdown of the interests in shares of DJE Investment S.A.:

		Total interest in shares			Approximate % of the issued
Controlled corporation	Controlling shareholder	% of control	Direct interest	Deemed interest	share capital
DJE Investment S.A.	Dr. Jens Ehrhardt Kapital AG	81.00	33,240,000	–	5.07%

Save as disclosed above, as at 30th September 2007, 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 2008 to 16th January 2008, 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, Tricor 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 2008.

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 Cambodia employed approximately 13,000 employees as at 30th September 2007. 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 2007 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.

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.

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 2007.

On behalf of the Board
Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 13th December 2007