KINGMAKER

KINGMAKER FOOTWEAR HOLDINGS LIMITED
信 星 鞋 業 集 團 有 限 公 司

Stock Code: 01170

Interim Report **2008**

CORPORATE INFORMATION

Board of Directors

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

Company Secretary

Mr. Chan Ho-man, Daniel

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

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

Solicitors

Peter C. Wong, Chow & Chow

Δ *Non-executive director*
* *Independent non-executive director*

Auditors

Ernst & Young
Certified Public Accountants

Bermuda Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

Company website

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

Stock Code

01170

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Kingmaker Footwear Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008, together with the comparative figures for the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

		For the six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**795,319**	712,344
Cost of sales		**(700,476)**	(627,541)
Gross profit		**94,843**	84,803
Other income and gains, net	*4*	**16,975**	7,621
Distribution and selling costs		**(15,637)**	(10,750)
Administrative expenses		**(61,035)**	(39,630)
Finance costs		**(244)**	(52)
PROFIT BEFORE TAX	*5*	**34,902**	41,992
Tax	*6*	**(5,933)**	(6,609)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**28,969**	35,383
Dividends	*7*	**9,723**	9,826
Earnings per share attributable to equity holders of the Company	*8*		
– Basic		**HK4.45 cents**	HK5.40 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2008

	Notes	30 September 2008 (Unaudited) HK$'000	As at 30 September 2007 (Unaudited)* HK$'000	31 March 2008 (Audited) HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment		**379,598**	335,546	369,094
Prepaid land lease payments		**75,763**	73,262	76,379
Investment properties		**4,310**	3,060	4,310
Deposits paid		**–**	–	2,367
Investments in club memberships		**1,017**	1,030	1,017
Available-for-sale investments		**1,459**	2,433	1,886
Total non-current assets		**462,147**	415,331	455,053
CURRENT ASSETS				
Inventories		**153,222**	104,039	134,292
Accounts and bills receivable	9	**209,116**	146,109	166,912
Prepayments, deposits and other receivables		**21,068**	16,425	16,644
Derivative financial instruments	10	**11,650**	166	15,405
Tax recoverable		**111**	178	111
Structured deposit		**11,700**	–	11,700
Cash and cash equivalents		**280,411**	308,452	281,177
Total current assets		**687,278**	575,369	626,241
CURRENT LIABILITIES				
Accounts and bills payable	11	**161,692**	113,357	131,482
Accrued liabilities and other payables		**92,360**	69,797	90,972
Tax payable		**112,034**	98,689	105,901
Derivative financial instruments	10	**2,214**	2,096	13,628
Dividend payable		**13,021**	13,101	50
Interest-bearing bank borrowings		**1,750**	125	1,121
Total current liabilities		**383,071**	297,165	343,154
NET CURRENT ASSETS		**304,207**	278,204	283,087
Net assets		**766,354**	693,535	738,140
EQUITY				
Issued share capital	12	**64,973**	65,505	65,355
Reserves		**691,658**	618,204	659,764
Proposed dividends		**9,723**	9,826	13,021
Total equity		**766,354**	693,535	738,140

* *For reference only.*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**13,731**	94,285
Net cash used in investing activities	**(1,090)**	(2,775)
Net cash used in financing activities	**(2,819)**	–
Net increase in cash and cash equivalents	**9,822**	91,510
Cash and cash equivalents at beginning of period	**193,180**	216,228
Effect of foreign exchange rate changes, net	**3,554**	714
Cash and cash equivalents at end of period	**206,556**	308,452
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**206,556**	308,452

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Issued Share Capital	Share Premium	Capital Redemption Reserves	Share Option Reserves	Exchange Fluctuation Reserves	Available-for-sale Investments Revaluation 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 1 April 2008	**65,355**	**70,183**	**203**	**7,872**	**46,399**	**916**	**534,191**	**13,021**	**738,140**
Exchange reserve arising from consolidation of overseas subsidiaries recognised directly in equity	**–**	**–**	**–**	**–**	**16,143**	**–**	**–**	**–**	**16,143**
2008 final dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,021)**	**(13,021)**
Change in fair value of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**(428)**	**–**	**–**	**(428)**
Share repurchased	**(382)**	**(3,066)**	**382**	**–**	**–**	**–**	**–**	**–**	**(3,066)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**28,586**	**–**	**28,586**
Proposed interim dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(9,723)**	**9,723**	**–**
At 30 September 2008	**64,973**	**67,117***	**585***	**7,872***	**62,542***	**488***	**553,054***	**9,723**	**766,354**
At 1 April 2007	65,505	71,497	53	4,196	9,362	723	506,790	13,101	671,227
Exchange reserve arising from consolidation of overseas subsidiaries recognised directly in equity	–	–	–	–	(714)	–	–	–	(714)
2007 final dividend declared and paid	–	–	–	–	–	–	–	(13,101)	(13,101)
Change in fair value of available-for-sale investments	–	–	–	–	–	740	–	–	740
Profit for the period	–	–	–	–	–	–	35,383	–	35,383
Proposed interim dividend	–	–	–	–	–	–	(9,826)	9,826	–
At 30 September 2007	65,505	71,497*	53*	4,196*	8,648*	1,463*	532,347*	9,826	693,535

* *These reserve accounts comprise the consolidated reserves of HK$691,658,000 (30 September 2007: HK$618,204,000) in the consolidated balance sheet.*

NOTES:

1. Basis of Preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 September 2008 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This unaudited condensed consolidated interim financial information should be read in conjunction with the financial statements of the Company for the year ended 31 March 2008 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Significant Accounting Policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those financial statements.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The following new interpretations are mandatory for the first time for the financial year ending 31 March 2009 but are not currently relevant for the Group:

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2. Significant Accounting Policies *(CONT'D)*

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[1]

[1] Effective for annual period beginning on 1 April 2009.
[2] Effective for annual period beginning on 1 April 2010.

The Group is in the process of assessing the impact of these new/revised standards, amendments to standards and interpretations and is not yet in a position to state the potential impact of all these new standards, amendments to standards and interpretations would have a material impact on its result of operations and financial position.

3. 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 30 September 2008				
	Casual footwear *HK$'000*	**Baby and children's footwear** *HK$'000*	**Rugged footwear** *HK$'000*	**Footwear retailing** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:					
Sales to external customers	424,065	347,508	17,668	6,078	795,319
Segment results	20,372	11,140	824	(3,810)	28,526
Unallocated income					14,387
Unallocated expenses					(7,767)
Finance costs					(244)
Profit before tax					34,902
Tax					(5,933)
Profit for the period					28,969

3. Segmental Information *(CONT'D)*

(a) Business segments (CONT'D)

	Unaudited For the six months ended 30 September 2007				
	Casual footwear *HK$'000*	Baby and children's footwear *HK$'000*	Rugged footwear *HK$'000*	Footwear retailing *HK$'000*	Consolidated *HK$'000*
Segment revenue:					
Sales to external customers	387,497	248,813	76,034	–	712,344
Segment results	24,776	10,489	5,123	–	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

(b) Geographical segments

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

	Unaudited For the six months ended 30 September 2008			
	United States of America ***HK$'000***	**Europe** ***HK$'000***	**Others** ***HK$'000***	**Consolidated** ***HK$'000***
Segment revenue:				
Sales to external customers	**435,351**	**286,868**	**73,100**	**795,319**

	Unaudited For the six months ended 30 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

4. **Revenue, Other Income and Gains, Net**

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of intra-group transactions.

An analysis of revenue, other income and gains, net is as follows:

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**795,319**	712,344
Other income and gains, net		
Bank interest income	**3,315**	4,947
Interest income for accounts receivable	**1,970**	1,712
Fair value gain/(loss) on derivative financial instruments, net	**7,659**	(1,930)
Gain on disposal of items of property, plant and equipment	**16**	–
Gross rental income	**121**	228
Foreign exchange differences, net	**1,954**	780
Excess of cost over business combination	**634**	–
Others	**1,306**	1,884
	16,975	7,621

5. Profit Before Tax

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

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**503,507**	475,031
Depreciation	**18,529**	17,010
Amortisation of prepaid land lease payments	**946**	946
Interest cost on bank borrowings	**244**	52
Interest income	**(5,285)**	(6,659)
Staff cost and wages (excluding directors remuneration)	**153,070**	123,225
Write off of items of property, plant and equipment	**93**	2,141
Gain on disposal of items of property, plant and equipment	**(16)**	–
Excess of cost over business combination	**(634)**	–

6. Tax

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**157**	97
Elsewhere	**5,776**	6,512
Tax charge	**5,933**	6,609

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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.

7. **Dividends**

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend of HK1.5 cents (2007: HK1.5 cents) per ordinary share	**9,723**	9,826

The Board resolved to declare an interim dividend of HK1.5 cents (2007: HK1.5 cents) per ordinary share for the six months ended 30 September 2008 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on 16 January 2009. The dividend is expected to be paid on 4 February 2009.

8. **Earnings Per Share Attributable to Equity Holders of the Company**

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$28,969,000 (2007: HK$35,383,000), and the weighted average number of 651,348,522 (2007: 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.

9. **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$134,658,000 (31 March 2008: approximately HK$90,312,000) which bears interest at a rate of 0.5% for a fixed period of 60 days.

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on the date of goods delivered, is as follows:

	Within 90 days *HK$'000*	**Between 91-180 days** *HK$'000*	**Between 181-365 days** *HK$'000*	**Over 365 days** *HK$'000*	**Total** *HK$'000*
(Unaudited)					
As at 30 September 2008	**209,116**	**–**	**–**	**–**	**209,116**
(Audited)					
As at 31 March 2008	166,831	71	10	–	166,912

10. **Derivative Financial Instruments**

	As at 30 September 2008 (Unaudited)		At as 31 March 2008 (Audited)	
	Assets *HK$'000*	**Liabilities** *HK$'000*	Assets *HK$'000*	Liabilities *HK$'000*
Forward currency contracts	**11,650**	**2,214**	15,405	13,628

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$7,659,000, net, were credited to the income statement during the period (2007: net debit of HK$1,930,000).

11. Accounts and Bills Payable

An aged analysis of the accounts and bills payable as at the balance sheet date, based on the date of goods received, 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 30 September 2008	**152,972**	**4,399**	**3,666**	**655**	**161,692**
(Audited)					
As at 31 March 2008	128,669	1,730	127	956	131,482

12. Share Capital

	30 September 2008 (Unaudited)	31 March 2008 (Audited)	**30 September 2008 (Unaudited)**	31 March 2008 (Audited)
	Number of ordinary shares of HK$0.10 each		***HK$'000***	
Authorised:				
Balance at beginning and end of period	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
Balance at beginning of period	**653,546,445**	655,046,445	**65,355**	65,505
Repurchased	**(3,818,000)**	(1,500,000)	**(382)**	(150)
Balance at end of period	**649,728,445**	653,546,445	**64,973**	65,355

13. Business Combination

On 16 April 2008, the Group acquired the entire interest in Star (1) Limited, Star (2) Limited, Star (3) Limited and Viewexcel Limited (collectively known as “MOCCA”) for a cash consideration of HK$3,672,000 (the “Acquisition”). MOCCA is engaged in footwear, bags and accessories trading, distribution and retailing businesses in Hong Kong.

The fair values of the identifiable assets and liabilities of MOCCA as at the date of acquisition and the corresponding carrying amounts immediately before the Acquisition were as follows:

	Previous carrying amount	**Fair value recognised on acquisition**
	HK$'000	*HK$'000*
Cash and cash equivalents	172	172
Trade and other receivables	1,676	1,676
Inventories	3,482	3,482
Plant and equipment	562	562
Trade and other payables	(1,586)	(1,586)
	4,306	4,306
Excess of cost over business combination recognised in the income statement		(634)
Satisfied by cash		3,672

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

Cash consideration	(3,672)
Cash and cash equivalents acquired	172
Net outflow of cash and cash equivalents in respect of the Acquisition	(3,500)

Since its acquisition, MOCCA contributed revenue of approximately HK$6 million to the Group’s turnover for the six months ended 30 September 2008.

Had the business combination taken place at the beginning of the period, consolidated revenue and consolidated net profit would have been approximately HK$796 million and approximately HK$29 million respectively.

14. Related Party Transactions

Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term employee benefits	**3,359**	3,242
Post-employment benefits	**6**	6
Total compensation paid to key management personnel	**3,365**	3,248

During the period, the Group paid rental expenses of HK$502,656 (for the six months ended 30 September 2007: HK$502,656) 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.

15. Commitments

The commitments were as follows:

	30 September 2008	31 March 2008
	(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	**13,112**	463
Acquisition of prepaid land lease	**–**	2,956
Investment in wholly-foreign-owned enterprises	**78,819**	97,071
Establishment of production plants in Mainland China	**285,730**	297,024
Management fee		
– Within one year	**566**	502
– In the second to fifth years, inclusive	**2,263**	2,263
– After fifth years	**18,717**	18,906
	21,546	21,671

16. Lease Arrangements

(a) As lessor

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

At 30 September 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 September 2008 (Unaudited) ***HK$'000***	31 March 2008 (Audited) *HK$'000*
Within one year	**367**	–
In the second to fifth years, inclusive	**1,335**	–
	1,702	–

(b) As lessee

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

At 30 September 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2008 (Unaudited) ***HK$'000***	31 March 2008 (Audited) *HK$'000*
Within one year	**11,817**	979
In the second to fifth years, inclusive	**15,013**	36
	26,830	1,015

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Board is delighted to report that during the first half of fiscal year 2008/09, the Group was able to achieve a turnover growth period-on-period of approximately 11.65% to approximately HK$795 million (2007: approximately HK$712 million), on the back of a healthy order book. Business volume growth, as highlighted by the approximately 6.79% increase in total production to approximately 7.8 million pairs, was accompanied by an improvement in the average selling price (ASP) of approximately 3.80%, reflecting the success of the Group's ongoing efforts to move further away from price-sensitive mass-market products and into the niche premium fashion category. In response to the rapidly changing macro environment, the Group will constantly review and adjust its product mix to make it relevant to the market needs and current trends.

The improvement in ASP has slightly mitigated the continuing inflation in wages despite the net profit attributable to equity holders of the Company down by approximately 18.13% to approximately HK$29 million (2007: approximately HK$35 million). During the period, administrative expenses increased mainly due to the increment in salaries while selling expenses went up as a result of the increasing delivery expenses for the initial production in Cambodia. The Group has also taken measure to keep production costs under control, partly helped by the topping out of the fuel and raw materials prices during the first half of the fiscal year, and with the implementation of its 'lean manufacturing system', production efficiency has been effectively improved. Earnings per share for the period was approximately HK4.45 cents (2007: approximately HK5.40 cents).

The Group continues to maintain healthy product and market portfolios to sustain a stable income base while enabling it to tap into higher-margin and growth segments. With its world-class manufacturing expertise and cost advantages, the Group was able to drive up sales to the United States ("US") despite the subprime mortgage debacle and the subsequent international financial crisis. This reflects the Group's business acumen and ability to work closely with clients to develop premium and fashionable footwear products that cater for the shifting market landscape.

In anticipation of the continuing strong cash flow, the Group is pleased to maintain its dividend policy of sharing results with the shareholders, whose support is much valued.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONT'D)*

Business Strategies

The enhancement of the Group's core production competence is a top priority, and is the subject of the Group's constant efforts as it seeks to cement working relationships with its clients through the provision of customer-centric, one-stop original design manufacturing (ODM) services. It is particularly important as brand name customers increasingly seek partnerships with reliable producers who can respond to their ever more stringent cost-effectiveness and quality requirements resulting from the global economic turmoil and safety issues.

Leveraging its strong production and product development edge, the Group continues to focus on the development of premium-quality casual fashion footwear, which helps to further advance its product mix towards the upper end of the line. The ongoing strategy is to further enhance the Group's capabilities in developing novel premium casual footwear items to capture new orders from both existing and prospective customers.

As a result of the Group's strategy of anchoring into the premium arena and establishing a multi-location production base, it is able to maintain an excellent geographical reach, enabling it to enjoy healthy, diversified revenue contributions from the US and the European market. The Group will continue to augment its production centers in Southeast Asia, including Vietnam and Cambodia, to complement its production base in the People's Republic of China (the "PRC").

The Group is not only in an economic downturn, but also under a serious banking crisis. However, supported by a sound financial position as a result of consistent and prudent cash flow management, the Group is much better placed than its counterparts to survive the global economic downturn.

To sustain its cost competitiveness, the Group has adopted a lean manufacturing system, under which the operation and production flow is realigned to achieve higher efficiency, shorter production lead time and reduced materials and labour wastage. These, the Directors believe, are the attributes necessary to sustain resilience during a slowing market.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONT'D)*

Operational Performance

The footwear industry has been locked in another round of problems induced by the present global financial tsunami, adding to the difficulties already faced by the PRC manufacturers amidst a string of new government policies, such as tougher labour regulations and tightened environmental protection rules.

The shoe industry in the Pearl River Delta region, as elsewhere in the PRC, has been weathering a very difficult time attributable to the financial turmoil in the US and the European Union (the "EU"), the appreciation of the Renminbi, and the rise of production costs as accentuated by the implementation of the new Labour Contract Law in the PRC. Customs statistics indicate that in the first nine months of 2008, the PRC's shoe exports in terms of volume were slightly down compared with the previous year, pointing to an overall weakening of momentum. While the Group is encouraged by its latest set of resilient results against such a backdrop, it is nevertheless alert to the operating difficulties and trade issues that are straining shoemakers.

To take a closer look at the various cost elements: material costs decreased slightly as a result of stabilized crude oil prices and the implementation of the lean manufacturing system; salary expenses increased in line with the requirements of the PRC's new Labour Contract Law, albeit to some extent alleviated by reduced labour input under the Group's efficiency improvement program; administrative and selling expenses inevitably increased for the reasons of depreciation expenses edged up with the commissioning of new factory facilities in Jiangxi Province, the PRC and Cambodia; and finally rental expenses were also on the rise as the Group made its first foray into retailing of women's fashion footwear in Hong Kong. Overall, cost control disciplines continued to be embedded in the Group's operations to keep overheads down.

The Group has always exercised a prudent financial management approach paralleled with its expansion plan and no speculative transaction was encouraged.

During the reporting period, the Group accomplished a higher ASP despite a drop in the proportionate contribution of the higher-margin premium casual category to overall turnover, against robust sales in the babies' and children's footwear category. In the first six months of the fiscal year, the premium casual category represented approximately 53.32% (2007: approximately 54.40%) of total turnover; whereas the babies' and children's and rugged categories accounted for approximately 43.69% (2007: approximately 34.93%) and approximately 2.22% (2007: approximately 10.67%) respectively of Group turnover. The shift in the product mix was partly led by demand growth for babies' and children's shoes in the EU market.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONT'D)*

Operational Performance *(CONT'D)*

The Group's balanced geographical customer spread is conducive to its long-term healthy development. In the first half of the fiscal year, orders from the US, the EU and other countries contributed approximately 54.74% (2007: approximately 52.43%), approximately 36.07% (2007: approximately 42.17%) and approximately 9.19% (2007: approximately 5.40%) respectively of Group turnover. It is notable that shipments to the US market recorded a slight increase against market turbulence and an appreciating Renminbi.

The Group's core production capability comprises a network of factories with a total of 39 production lines, of which 14 are located in Vietnam and Cambodia, and 25 in the PRC, including 9 in Zhongshan and 16 in Zhuhai. This multi-location production base has continued to support the Group's business and product development initiatives across various market fronts, while enabling the Group to mitigate potential political and market risks.

During the period, the Group's major customers included Skechers, Clarks, Stride Rite, Camper and G-Star, which in aggregate contributed approximately 93.11% (2007: approximately 98.83%) of total turnover.

On 16 April 2008, the Group entered into a sale and purchase agreement with independent third parties to acquire a 100% equity interest in Star (1) Limited, Star (2) Limited, Star (3) Limited and Viewexcel Limited (collectively known as "MOCCA"), which were engaged in footwear, bags and accessories trading, distribution and retailing businesses in Hong Kong. The consideration of HK$3,672,000 for the acquisition was in the form of cash and was paid in May 2008.

The Group took forward a diversification initiative with a view to securing long-term growth momentum.

After its acquisition of the MOCCA fashion footwear chain in Hong Kong, the Group has embarked on an active rollout of shop openings in the territory. Management is encouraged by positive customer response, but will exercise caution in deliberating the next steps to tap further into the retail sector in the PRC and Hong Kong. The initial set-up costs of the shops resulted in an interim segment loss of approximately HK$3.8 million, but the Board is confident that this business unit will grow into a major income stream for the Group.

Future Plans and Prospects

While it is inevitable that the global credit crunch will result in slackening demand, and volatilities in commodity prices will add to the uncertainties faced by manufacturers, the Group nevertheless maintains a cautious outlook for its business prospects. The current order book although sluggish in the early part of 2009, still points to solid demand for the Group's products, particularly in its core premium casual and children's categories. As indicated in the previous historical downturns, the footwear industry is expected to demonstrate resilience to economic cycles as footwear is a daily necessity.

With the credit tightening weighing on industry activity, the PRC manufacturers are on the other hand expected to benefit from the series of measures introduced by the PRC government to maintain economic and social stability following the financial crisis. Governments around the world are also taking forward fiscal stimulus plans to boost their economies. The resulting downward spiral of interest rates, coupled with the slowing of the rising trend of the Renminbi, will, to a certain extent, provide relief to manufacturers.

The PRC government's other incentives to help exporters include a holdover on the implementation of certain requirements under the new Labour Contract Law, and an increase in the export value-added tax rebate. This combination of policy moves underscores the PRC authorities' determination to restore confidence in the nation's economy among investors, consumers and business. Such government efforts, together with the expected relief in the supply of skilled labour in the country and the stabilization of material costs, will be conducive to a more favorable operating environment for the labour-intensive footwear industry.

The Group's compelling vision to strengthen its core competence has resulted in a robust product and market profile, and the way forward is to continue to advance its lead in the development and manufacturing of premium quality footwear products. Aspirations to excellence are matched with the Group's relentless efforts to maintain its cost competitiveness, as well as active rollouts of business development efforts on various fronts.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONT'D)*

Future Plans and Prospects *(CONT'D)*

The Group's future profitability lies firmly in its ability to further develop the premium casual footwear category to anchor its foothold further in the high-end arena. To achieve this, the Group will continue to advance its offerings and manufacturing acumen in order to secure existing and prospective clientele. To this end, the Group remains on the lookout for synergistic partnership opportunities that will add value to its existing business.

Demand-driven capacity expansion efforts in the past years have brought to the Group a diversified and robust production base comprising facilities in the PRC, Vietnam and Cambodia. Expansion of facilities in Vietnam and Cambodia has progressed as scheduled, and the new manufacturing plant in Jiangxi Province, the PRC, is expected to commence operation in the first half of 2009.

The Group will also continue to upgrade its existing sample centers in Zhongshan and Zhuhai to strengthen its product research and development capability as part of its customer retention and cultivation efforts.

The Group aims to step up the expansion of production capacity to achieve greater economies of scale, as well as the capability to enhance its product offerings. In addition to pursuing organic expansion, the Group is also riding on its strong financial fundamentals to actively seek a faster pace of growth through mergers and acquisitions as more opportunities emerge during the market downturn.

The Group will continue to maintain conservative cash flow management to sustain a strong cash position. As at 30 September 2008, the Group had no significant borrowings, and maintained cash, bank deposits and structured deposit of approximately HK$292 million (31 March 2008: approximately HK$293 million). With all the business plans in its development blueprint, the Group will continue to apply sound financial management principles to ensure the long-term availability of funding.

Overall, the Group remains optimistic about its long-term prospects. It has the competence and foundation to ensure business vigor and to constantly add value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally and generated cashflow and banking facilities provided by its bankers.

Prudence financial management and selective investment criteria have enabled the Group to maintain a strong financial position. As at 30 September 2008, the Group's cash balances, bank deposits and structured deposit were approximately HK$292 million (as at 31 March 2008: approximately HK$293 million).

The Group is substantially debt-free. As at 30 September 2008, the Group had banking facilities amounted to an aggregate sum of approximately HK$261 million (as at 31 March 2008: approximately HK$267 million) with various banks. Out of trade and overdraft banking facilities of approximately HK$206 million (as at 31 March 2008: approximately HK$187 million) in Hong Kong granted to the Group, approximately HK$2 million (as at 31 March 2008: approximately HK$1 million) had been utilized as at 30 September 2008.

For the six months ended 30 September 2008, the current ratio was approximately 1.79 (as at 31 March 2008: approximately 1.82) based on current assets of approximately HK$687 million and current liabilities of approximately HK$383 million and the quick ratio was approximately 1.39 (as at 31 March 2008: approximately 1.43).

As at 30 September 2008, the total indebtedness amounted to approximately HK$2 million (as at 31 March 2008: approximately HK$1 million), representing approximately 0.23% of the shareholders equity (as at 31 March 2008: approximately 0.15%).

The Group will continue to maintain conservative cash flow management to sustain a strong cash position. After a consideration on the major expansion plans, including Cambodia and the PRC in the next 2 – 3 years, the Directors are of the opinion that the Group has adequate liquidity to meet its current and future working capital requirements on its operations and expansion.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenue and expenditure are denominated in Hong Kong dollars, the Renminbi, Taiwan dollars and the US dollars ("USD"). It is the Group's policy to adopt a conservative approach on foreign exchange exposure management.

However, 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.

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimize the Group's financial risks. As a measure of additional prudence, the Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's receivables and payables.

The fair value of the Group's outstanding derivative instruments as at 30 September 2008 represents the net amount the Group would receive/pay if these contracts were closed out at 30 September 2008. 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$766 million as at 30 September 2008 from approximately HK$738 million as at 31 March 2008. As at 30 September 2008, the short-term interest-bearing debts to shareholders' equity was approximately 0.23% (as at 31 March 2008: approximately 0.15%).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be 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 executive of the Company were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to 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	Percentage of the Company's issued share capital
Mr. Chen Ming Hsiung, Mickey *(Note 1)*	7,906,250	21,731,250	269,704,752 *(Note 2)*	299,342,252	46.07%
Mdm. Huang Hsiu Duan, Helen *(Note 1)*	–	277,611,002	21,731,250 *(Note 3)*	299,342,252	46.07%
Mr. Chan Ho Man, Daniel	3,200,000	–	–	3,200,000	0.49%
Mr. Kimmel, Phillip Brian	1,000,000	–	–	1,000,000	0.15%

Notes:

(1) Mdm. Huang Hsiu Duan, Helen is the spouse of Mr. Chen Ming Hsiung, Mickey.

(2) These shares are beneficially owned by King Strike Limited. The issued share capital of King Strike Limited is beneficially owned by Mr. Chen Ming Hsiung, Mickey as to 75.80%, Mdm. Huang Hsiu Duan, Helen as to 22.07% and Mr. Lee Kung, Bobby as to 2.13%.

(3) These shares are beneficially held by Fat Tat Assets Limited, which was 100% beneficially held by Mdm. Huang Hsiu Duan, Helen.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(CONT'D)*

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

Save as disclosed above, as at 30 September 2008, to the best knowledge of the Directors, none of the Directors or chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be 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 30 September 2008, 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				
Mr. Chen Ming Hsiung, Mickey	14 January 2004	550,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	550,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	550,000	0.85	2 January 2008 to 27 August 2012
Mdm. Huang Hsiu Duan, Helen	14 January 2004	100,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	100,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	100,000	0.85	2 January 2008 to 27 August 2012
Mr. Lee Kung, Bobby	14 January 2004	400,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	600,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	600,000	0.85	2 January 2008 to 27 August 2012
Mr. Chan Ho Man, Daniel	14 January 2004	500,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	600,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	600,000	0.85	2 January 2008 to 27 August 2012
Mr. Kimmel, Phillip Brian	14 January 2004	500,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	600,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	600,000	0.85	2 January 2008 to 27 August 2012
Mr. Tam King Ching, Kenny	13 October 2006	200,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	200,000	0.85	2 January 2008 to 27 August 2012
Mr. Chow Wing Kin, Anthony	13 October 2006	200,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	200,000	0.85	2 January 2008 to 27 August 2012
Mr. Chan Mo Po, Paul	13 October 2006	200,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	200,000	0.85	2 January 2008 to 27 August 2012
Mr. Yung Tse Kwong, Steven	13 October 2006	200,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	200,000	0.85	2 January 2008 to 27 August 2012
		8,550,000		

SHARE OPTION SCHEME *(CONT'D)*

	Date of grant	Number of options	Exercise price *HK$*	Exercise period
Other employees in aggregate	14 January 2004	7,020,000	3.225	1 January 2005 to 27 August 2012
	14 January 2004	6,550,000	3.225	14 January 2004 to 27 August 2012
	13 October 2006	9,730,000	1.01	13 October 2006 to 27 August 2012
	2 January 2008	11,010,000	0.85	2 January 2008 to 27 August 2012
		34,310,000		
Total		42,860,000		

Apart from the existing share option scheme and the outstanding options as fully described in the 2007/08 annual report, no new share option was granted during the period.

150,000 share options, granted on 13 October 2006 and 640,000 share options granted on 2 January 2008 to other employees with exercise price of HK$1.01 and HK$0.85 and exercise period from 13 October 2006 to 27 August 2012 and 2 January 2008 to 27 August 2012 respectively 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 30 September 2008 (Unaudited) Number of options
At 1 April 2008	43,650,000
Granted	–
Forfeited	(790,000)
Exercised	–
At 30 September 2008	42,860,000

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

So far as is known to the Directors, as at 30 September 2008, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
King Strike Limited *(Note 1)*	Beneficial owner	269,704,752	41.51%
Commonwealth Bank of Australia	Through controlled corporations	65,323,400 *(Note 2)*	10.05%
Aberdeen Asset Management Plc and its associates	Investment Manager	45,794,000	7.05%
Yeo Seng Chong *(Note 3)*	Beneficial owner	1,350,000	0.21%
	Through spouse or minor children	1,304,000	0.20%
	Through controlled corporation	39,334,000	6.05%
Lim Mee Hwa *(Note 3)*	Beneficial owner	1,304,000	0.20%
	Through spouse or minor children	1,350,000	0.21%
	Through controlled corporation	39,334,000	6.05%
DJE Investment S.A.	Investment Manager	39,206,000 *(Note 4)*	6.03%

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

Notes:

(1) The issued share capital of King Strike Limited is beneficially owned by Mr. Chen Ming Hsiung, Mickey, as to 75.80%, Mdm. Huang Hsiu Duan, Helen as to 22.07% and Mr. Lee Kung, Bobby as to 2.13%.

(2) These shares are held by First State Investment Management (UK) Limited, which is indirectly 100% controlled by Commonwealth Bank of Australia.

(3) Yeo Seng Chong and Lim Mee Hwa are spouse. 39,334,000 shares are held by Yeoman Capital Management Pte. Ltd., a corporation controlled by Yeo Seng Chong and Lim Mee Hwa.

(4) These shares are held as investment manager by DJE Investment S.A., a corporation controlled by Dr. Jens Ehrhardt Kapital AG, which is ultimately controlled by Ehrhardt Dr. Jens Alfred Karl.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 2008.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 12 January 2009 to 16 January 2009, 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 9 January 2009.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period, the Company repurchased 3,818,000 of its ordinary shares (2007: nil) of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$3,448,000 excluding transaction cost. These shares were cancelled by the Company during the period and subsequent to the balance sheet date. The repurchase of the Company's shares during the period was effected by the Board, pursuant to the repurchase mandate granted by the shareholders, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Details of the shares repurchase during the period under review are as follows:

Month/year	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregated consideration (excluding transaction cost)**
		HK$	*HK$*	*HK$'000*
April 2008	1,374,000	0.99	0.90	1,334
May 2008	626,000	0.97	0.94	595
June 2008	500,000	1.01	0.96	490
September 2008	1,318,000	0.82	0.77	1,029
	3,818,000			3,448

The premium paid on the repurchase of the shares of HK$3,066,000 has been debited to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

Except as disclosed above, 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, the PRC, Vietnam and Cambodia employed approximately 14,000 employees as at 30 September 2008. 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 30 September 2008 in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the 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 of the Company (the "Committee") comprises three independent non-executive Directors and one non-executive Director. The primary duty of the Committee is to review and supervise the Group's financial reporting process and internal control.

The Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed the Group's auditing, internal control and financial reporting matters during the period. The Group's unaudited consolidated results for the six months ended 30 September 2008 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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 to 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 30 September 2008.

On behalf of the Board
Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 19 December 2008