



Eagle Nice (International) Holdings Limited

鷹美（國際）控股有限公司*

(incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2003

* For identification purposes only

The Board of Directors (the “Board”) of Eagle Nice (International) Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003 (the “Period”) together with the comparative unaudited figures for the corresponding period in 2002 and the relevant explanatory notes. These interim financial statements have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		Six months ended 30th September,	
	<i>Notes</i>	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	146,103	122,420
Cost of sales		(113,333)	(94,976)
Gross profit		32,770	27,444
Other revenue	2	1,671	1,014
Selling and distribution costs		(3,364)	(829)
Administrative expenses		(12,711)	(10,528)
Profit from operating activities	3	18,366	17,101
Finance costs	4	(1,290)	(690)
Profit before tax		17,076	16,411
Tax	5	(1,766)	(1,991)
Net profit from ordinary activities attributable to shareholders		15,310	14,420
Dividends	6	6,000	7,000
Earnings per share	7		
— Basic		HK8.68 cents	HK8.48 cents
— Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		42,016	38,369
Prepayments and deposits for fixed assets		—	2,589
Long term investments		4,276	4,276
		46,292	45,234
CURRENT ASSETS			
Inventories		49,287	17,497
Accounts and bills receivable	8	26,270	18,761
Prepayments, deposits and other receivables		2,760	4,215
Pledged time deposits		6,522	6,479
Cash and bank balances		29,024	913
		113,863	47,865
CURRENT LIABILITIES			
Accounts payable	9	26,338	9,426
Accrued liabilities and other payables		4,441	5,253
Tax payable		10,365	7,974
Dividends payable		6,000	5,000
Interest-bearing borrowings, secured		36,031	19,680
		83,175	47,333
NET CURRENT ASSETS		30,688	532
TOTAL ASSETS LESS CURRENT LIABILITIES		76,980	45,766
NON-CURRENT LIABILITIES			
Interest-bearing borrowings, secured		7,645	6,964
Deferred tax		910	810
		8,555	7,774
		68,425	37,992
CAPITAL AND RESERVES			
Issued capital	10	2,000	280
Reserves		66,425	37,712
		68,425	37,992

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory surplus reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Long term investment revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2003	280	—	(229)	842	(2,712)	(93)	39,904	37,992
Capitalisation issue	1,420	(1,420)	—	—	—	—	—	—
New issue on public listing	300	29,700	—	—	—	—	—	30,000
Share issue expenses	—	(8,876)	—	—	—	—	—	(8,876)
Net profit attributable to shareholders	—	—	—	—	—	—	15,310	15,310
Exchange realignment	—	—	—	—	(1)	—	—	(1)
Dividends	—	—	—	—	—	—	(6,000)	(6,000)
At 30th September, 2003	2,000	19,404	(229)	842	(2,713)	(93)	49,214	68,425

For the six months ended 30th September, 2002

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory surplus reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Long term investment revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2002	280	—	(229)	—	(2,712)	(155)	24,915	22,099
Surplus on revaluation	—	—	—	—	—	(54)	—	(54)
Net profit attributable to shareholders	—	—	—	—	—	—	14,420	14,420
Dividends	—	—	—	—	—	—	(7,000)	(7,000)
At 30th September, 2002	280	—	(229)	—	(2,712)	(209)	32,335	29,465

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Six months ended 30th September,	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(4,492)	11,383
Net cash outflow from investing activities	(5,128)	(19,526)
Net cash inflow from financing activities	35,233	12,547
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,613	4,404
Cash and cash equivalents at beginning of periods	(3,019)	(2,689)
CASH AND CASH EQUIVALENTS AT END OF PERIODS	22,594	1,715
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	29,024	5,373
Bank overdrafts	(6,430)	(3,658)
	22,594	1,715

NOTES TO THE CONDENSED COMBINED INTERIM RESULTS

1. Basis of presentation and principal accounting policies

These unaudited condensed consolidated interim financial statements (“Interim Accounts”) have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is in compliance with Statement of Standard Accounting Practice (“SSAP”) 2.125 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation are the same as those used in the accountants’ report included in the prospectus of the Company dated 12th August, 2003 (the “Prospectus”), except that the Group has adopted SSAP 2.112 (Revised) “Income taxes” which becomes effective for the current accounting period.

SSAP 2.112 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The adoption of the revised SSAP 2.112 has had no material impact on these Interim Accounts and no prior period adjustments have been made accordingly.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9th October, 2002 under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

On 6th August, 2003, pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of its subsidiaries.

The Reorganisation involved companies under common control. The Interim Accounts and the related notes thereto have been prepared using the merger basis of accounting in accordance with SSAP 2.127 "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries. The unaudited condensed consolidated results of the Group for each of the six months ended 30th September, 2003 and 2002 include the results of the Group with effect from 1st April, 2002 or since their respective dates of incorporation, where this is a shorter period. The unaudited condensed consolidated balance sheets as at 31st March, 2003 and 30th September, 2003 have been prepared on the basis that the current group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

In the opinion of the Board, the presentation of the Interim Accounts prepared on the above basis presents more fairly the results and state of affairs of the Group as a whole.

The Company's shares were listed on the Main Board of the Stock Exchange on 22nd August, 2003. Details of the Reorganisation are set out in the Prospectus.

2. Turnover and segment information

Turnover and revenue

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenue is as follows:

	Six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
<u>Turnover</u>		
Sale of goods	146,103	122,420
<u>Other revenue</u>		
Sale of samples	1,424	893
Interest income	198	121
Others	49	—
	1,671	1,014
	147,774	123,434

Segment information

(a) *Geographical segments*

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

The principal activity of the Group is the manufacture and trading of sportswear and garments. Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

- (a) Hong Kong;
- (b) Mainland China;
- (c) Japan;
- (d) South Korea; and
- (e) Australia.

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers and segment revenue from external customers or segment assets are 10% or more of the Group's total amount. There are two asset-based geographical segments, Hong Kong and Mainland China.

(i) Geographical segments based on the location of customers

	Mainland						Consolidated (Unaudited) HK\$'000
	Hong Kong (Unaudited) HK\$'000	China (Unaudited) HK\$'000	Japan (Unaudited) HK\$'000	South Korea (Unaudited) HK\$'000	Australia (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	
Six months ended 30th September, 2003							
Segment revenue:							
Sales to external customers	9,555	35,529	54,826	25,591	5,393	15,209	146,103
Other revenue	353	—	626	—	114	331	1,424
Total	9,908	35,529	55,452	25,591	5,507	15,540	147,527
Segment results	1,682	7,750	13,755	6,114	1,102	3,792	34,195
Interest and other unallocated income							247
Unallocated expenses							(16,076)
Profit from operating activities							18,366
Finance costs							(1,290)
Profit before tax							17,076
Tax							(1,766)
Net profit from ordinary activities attributable to shareholders							15,310
As at 30th September, 2003							
Segment assets	4,726	16,595	42,612	14,937	4,645	14,109	97,624
Unallocated assets							62,531
							160,155
Segment liabilities	4,888	2,369	11,535	4,126	1,063	2,357	26,338
Unallocated liabilities							65,392
							91,730
Six months ended 30th September, 2003							
Other segment information:							
Depreciation	159	571	891	411	88	250	2,370
Unallocated amounts							1,856
							4,226
Capital expenditure	529	1,896	2,959	1,366	294	828	7,872

	Mainland						Consolidated (Unaudited) HK\$'000
	Hong Kong (Unaudited) HK\$'000	China (Unaudited) HK\$'000	Japan (Unaudited) HK\$'000	South Korea (Unaudited) HK\$'000	Australia (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	
Six months ended 30th September, 2002							
Segment revenue:							
Sales to external customers	4,679	32,933	51,703	14,036	7,321	11,748	122,420
Other revenue	320	—	286	—	142	145	893
Total	4,999	32,933	51,989	14,036	7,463	11,893	123,313
Segment results	930	6,845	12,266	2,234	2,799	3,263	28,337
Interest and other unallocated income							121
Unallocated expenses							(11,357)
Profit from operating activities							17,101
Finance costs							(690)
Profit before tax							16,411
Tax							(1,991)
Net profit from ordinary activities attributable to shareholders							14,420
As at 30th September, 2002							
Segment assets	1,628	10,002	22,975	5,821	1,814	4,679	46,919
Unallocated assets							39,605
							86,524
Segment liabilities	1,081	—	11,125	3,422	505	2,578	18,711
Unallocated liabilities							38,349
							57,060
Six months ended 30th September, 2002							
Other segment information:							
Depreciation	75	495	782	211	112	177	1,852
Unallocated amounts							551
							2,403
Capital expenditure	246	1,624	2,563	692	368	585	6,078

- (ii) Geographical segments based on the location of assets

	Hong Kong	Mainland China	Consolidated
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30th September, 2003			
Segment assets	79,008	18,616	97,624
Capital expenditure	7,553	319	7,872
Six months ended 30th September, 2002			
Segment assets	29,634	17,285	46,919
Capital expenditure	1,637	4,441	6,078

- (b)
- Business segment*

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

3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cost of inventories sold	113,333	94,976
Depreciation*	4,226	2,403
Staff costs (excluding directors' remuneration):		
Wages and salaries*	31,604	25,764
Pension contributions (defined contribution scheme)	246	193
Total staff costs	31,850	25,957
Minimum lease payments under operating leases in respect of land and buildings*	1,669	1,501
Textile quota expenses	363	162

* Included in the respective balances are the following amounts which are also included in the amounts of cost of inventories sold disclosed above:

	Six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	2,370	1,855
Staff costs — wages and salaries	27,662	23,139
Minimum lease payments under operating leases in respect of land and buildings	1,294	1,126

4. Finance costs

	Six months ended 30th September,	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Interest expense on bank loans and overdrafts wholly repayable within five years	1,290	690

5. Tax

	Six months ended 30th September,	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Current period provision:		
Hong Kong	994	1,129
Elsewhere	672	1,052
Deferred tax charge/(credit)	100	(190)
Tax charge for the Period	1,766	1,991

Hong Kong profits tax for the six months ended 30th September, 2003 has been provided at the rate of 17.5% (six months ended 30th September, 2002: 16%) on the estimated assessable profits arising in Hong Kong during the Period.

Macau Complementary Tax for the six months ended 30th September, 2003 has been calculated at the rate of 15.75% (six months ended 30th September, 2002: 15.75%) on the estimated assessable profits of three wholly-owned subsidiaries of the Company in respect of the Period.

The Company's subsidiaries in the People's Republic of China (the "PRC") were granted tax relief under which they are exempted from PRC income tax for the six months ended 30th September, 2003. Hence, no provision for PRC income tax was made.

Provision for deferred tax is made in respect of accelerated capital allowances to the extent that a liability is expected to crystallise in the foreseeable future.

6. Dividends

	Six months ended 30th September,	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Interim dividend declared of HK\$0.03 per share	6,000	—
Interim dividend declared and paid by a subsidiary of the Company to the then shareholders prior to the Reorganisation	—	7,000
	6,000	7,000

The Board resolved that an interim dividend of HK\$0.03 per share for the six months ended 30th September, 2003 to be paid to the shareholders whose names appear on the Company's register of members at the close of business on 19th December, 2003. The dividend will be paid on or about 8th January, 2004.

7. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2003 of approximately HK\$15,310,000 (six months ended 30th September, 2002: approximately HK\$14,420,000) and the pro forma weighted average of 176,429,000 shares in issue (pro forma weighted average shares in issue for the six months ended 30th September, 2002: 170,000,000 shares) on the assumption that they had been in issue throughout the periods.

There were no potential dilutive ordinary shares (2002: Nil) during the Period and, therefore, no pro forma diluted earnings per share have been presented.

8. Accounts and bills receivable

The Group generally gives credit terms of up to 30 days to its customers.

An aged analysis of the Group's accounts and bills receivable as at 30th September, 2003 based on the invoice date, is as follows:

	As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited) HK\$'000
Within 30 days	24,762	18,496
31 to 60 days	596	19
61 to 90 days	687	186
Over 90 days	225	60
	26,270	18,761

9. Accounts payable

An aged analysis of the Group's accounts payable for the six months ended 30th September, 2003 based on the invoice date is as follows:

	As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited) HK\$'000
Within 90 days	19,613	5,814
91 to 180 days	6,712	3,543
181 to 365 days	13	59
Over 365 days	—	10
	26,338	9,426

10. Share capital

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

<i>Notes</i>	Number of ordinary shares	Nominal value of shares HK\$'000
Authorised:		
On 9th October, 2002 (date of incorporation of the Company)	(a) 38,000,000	380
Increase in authorised share capital	(c) 9,962,000,000	99,620
As at 30th September, 2003	10,000,000,000	100,000

	<i>Notes</i>	Number of issued shares	Nominal value of shares issued <i>HK\$'000</i>
Issued and fully paid:			
Shares allotted and issued nil paid	(b)	1,000,000	—
On acquisition of Jespar Age Limited ("Jespar")			
— Shares issued as consideration	(d)	27,000,000	270
— Nil paid shares credited as fully paid	(d)	—	10
Pro forma issued share capital as at 31st March, 2003 and 1st April, 2003			
Capitalisation issue	(e)	28,000,000	280
New issue and placing of shares to the public	(f)	142,000,000	1,420
Issued share capital as at 30th September, 2003			
		30,000,000	300
		200,000,000	2,000

Notes:

- (a) Upon incorporation of the Company, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (b) On 28th October, 2002, 1,000,000 shares of HK\$0.01 each were allotted and issued nil paid.
- (c) On 6th August, 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 additional shares of HK\$0.01 each, ranking pari passu with the existing share capital of the Company.
- (d) On 6th August, 2003, as part of the Reorganisation, the Company issued 27,000,000 new shares of HK\$0.01 each credited as fully paid, and to credit as fully paid, at par, the existing 1,000,000 shares issued nil paid on 28th October, 2002, as set out in (b) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Jespar.

- (e) On 6th August, 2003, a total of 142,000,000 shares of HK\$0.01 each were allotted and issued as fully paid, by way of capitalisation issue of HK\$1,420,000 standing to the credit of the share premium account of the Company, to the holders of shares whose names appear on the register of members of the Company at the close of business on 11th August, 2003 in proportion to the then existing shareholdings in the Company, conditional as a result of the new issue and placing of shares as detailed in (f) below.
- (f) On 22nd August, 2003, a total of 30,000,000 new shares of HK\$0.01 each were issued at HK\$1.00 each to the public by way of new issue and placing of shares upon the listing of the Company's shares on the Main Board of the Stock Exchange.

11. Operating lease and contracted commitments

The Group leases certain of its office and factory premises under operating lease arrangement which is negotiated for terms of two to three years.

At as 30th September, 2003, the Group had total minimum lease payments under non-cancellable operating lease falling due as follows:

	As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited) HK\$'000
Within one year	3,269	3,274
In the second to fifth years, inclusive	3,833	3,430
	7,102	6,704

As at 30th September, 2003, the Group had no contracted commitments in respect of purchases of fixed assets (31st March, 2003: approximately HK\$63,000).

12. Contingent liabilities

As at 30th September, 2003, the banking facilities granted to the subsidiaries of the Company subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK\$43,270,000 (31st March, 2003: approximately HK\$11,091,000).

As at 30th September, 2003, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$11,153,000 (31st March, 2003: approximately HK\$927,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Successful Listing

The successful listing of the Company on 22nd August, 2003 on the Main Board of the Stock Exchange was a major milestone for the Group. With the issue of 30 million shares, raising net proceeds of approximately HK\$22 million, the Board is very pleased with the overwhelming support received from the Company's shareholders.

Business Review

The Group is principally engaged in the design and manufacture of sportswear for men, women and children on an OEM (an acronym for "original equipment manufacturer" which produces or customises products according to the design supplied by others) basis. The sportswear supplied by the Group can broadly be divided into the following categories: sports pants, jackets, tracksuits, sweaters and t-shirts.

The Group's products sold under OEM basis are generally manufactured according to the specifications prescribed by the customers. The Group manufactures products under international brandnames such as **Nike**.

The Group's performance was fairly strong for the six months ended 30th September, 2003 compared to the corresponding period in 2002 as the principal markets which the Group sells to, i.e. Japan, the Mainland China and South Korea, continues to enjoy economic growth despite difficult global economic conditions as a result of the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the slow down in the US economy.

The Group's marketing team continued to approach new customers and trial orders are currently taking place by the new customers. The Group continues to improve its quality and services to its existing customers and orders from its existing customers continue to grow compared to the corresponding period last year.

On the production side, the Group expanded its production capacity during the six months ended 30th September, 2003 compared to the corresponding period in 2002 by acquiring further plant and machinery, employing more labour and leasing more factory premises.

Financial Review

Results

For the six months ended 30th September, 2003, the turnover of the Group increased to approximately HK\$146.1 million compared to approximately HK\$122.4 million for the corresponding period last year, an increase of approximately 19.4%. The increase was mainly attributed to an increase in the orders placed by customers as a result of the hard work of the Group's marketing team supported by an expansion in the Group's production capacity. In terms of geographical segments, sales to the Group's major markets, i.e. Japan, the Mainland China and South Korea increased by approximately 6.7%, 7.9% and 82.3% respectively.

The gross profit of the Group for the six months ended 30th September, 2003 increased to approximately HK\$32.8 million compared to approximately HK\$27.4 million for the corresponding period last year due to an increase in the level of turnover. The gross profit margin of the Group remained relatively stable at approximately 22.4% for the six months ended 30th September, 2003 compared to the corresponding period last year.

The Group's other income for the six months ended 30th September, 2003 increased by approximately 70% to approximately HK\$1.7 million compared to approximately HK\$1.0 million for the corresponding period last year. The increase was mainly attributed to an increase in the amount of sale of samples.

The selling and distribution expenses of the Group for the six months ended 30th September, 2003 increased to approximately HK\$3.4 million compared to approximately HK\$0.8 million for the corresponding period last year, an increase of approximately 325%. The increase was mainly attributed to an increase in the transportation costs to customers due to shorter delivery time required.

The Group's administrative expenses for the six months ended 30th September, 2003 increased by approximately 21% to approximately HK\$12.7 million compared to approximately HK\$10.5 million for the corresponding period last year. The increase was mainly due to an increase in the level of salaries and general overheads to cope with the expansion of the business.

The Group's finance costs for the six months ended 30th September, 2003 increased by approximately 85.7% to approximately HK\$1.3 million compared to approximately HK\$0.7 million for the corresponding period last year. The increase was mainly attributed to an increase in the bank borrowings to finance acquisition of fixed assets and for working capital.

The Group's profit attributable to shareholders for the six months ended 30th September, 2003 increased by approximately 6.25% to approximately HK\$15.3 million compared to approximately HK\$14.4 million for the corresponding period last year. The increase was the result of an increase in the level of turnover and gross profit.

Liquidity and financial resources

As at 30th September, 2003, the Group had net current assets of approximately HK\$30.7 million (31st March, 2003: approximately HK\$0.5 million).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. Net proceeds from the initial public offer of the Company's shares will primarily be used to acquire new machinery and fixtures and fittings to support the expansion in capacity and vertical integration, to acquire additional factory building in the PRC and to expand the Group's marketing team and sales network. As at 30th September, 2003, the Group had cash and bank deposits amounted to approximately HK\$35.5 million (31st March, 2003: approximately HK\$7.4 million).

As at 30th September, 2003, the Group had outstanding borrowings of approximately HK\$43.6 million (31st March, 2003: approximately HK\$26.6 million), comprising secured bank overdrafts of approximately HK\$6.4 million (31st March, 2003: approximately HK\$3.9 million), secured trust receipt loans of approximately HK\$17.4 million (31st March, 2003: approximately HK\$8.7 million), secured packing loans of approximately HK\$7.5 million (31st March, 2003: nil), secured mortgage loans of approximately HK\$6.8 million (31st March, 2003: approximately HK\$7.9 million), other secured bank loans of approximately HK\$5.1 million (31st March, 2003: approximately HK\$6.1 million) and

obligations under finance leases of approximately HK\$0.4 million (31st March, 2003: nil). Approximately HK\$36 million of the total outstanding borrowings are repayable within one year and the remaining balance of approximately HK\$7.6 million is repayable beyond one year but within five years.

As at 30th September, 2003, the Group had aggregate banking and credit facilities of approximately HK\$92.3 million (31st March, 2003: approximately HK\$79.4 million), of which approximately HK\$43.3 million (31st March, 2003: approximately HK\$26.6 million) had been utilised and were secured by: (i) a property owned by the Group; (ii) fixed deposits owned by the Group; (iii) unlisted investment funds owned by the Group; and (iv) corporate guarantees executed by the Company and a subsidiary of the Company.

As at 30th September, 2003, the Group's gearing ratios represented by the total liabilities as a percentage of the Group's total assets amounted to approximately 57.3% (31st March, 2003: approximately 59.2%).

As at 30th September, 2003, the Group had bills discounted with recourse of approximately HK\$11,153,000 (31st March, 2003: approximately HK\$927,000).

For the six months ended 30th September, 2003, the Group was not subject to any significant exposures in foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

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

Significant Investments

As at 30th September, 2003, there was no significant investment held by the Group (31st March, 2003: nil).

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

Other than in connection with the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange on 22nd August, 2003, there were no material acquisitions or disposal of subsidiaries and affiliated companies during the six months ended 30th September, 2003.

Employees and Remuneration Policies

As at 30th September, 2003, the Group had 3,803 employees. The employees are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for the employees of the Group in Hong Kong and to the central pension scheme for the employees of the Group in the Mainland China.

Use of Proceeds

The Company was listed on the Main Board of the Stock Exchange on 22nd August, 2003 by way of placing and public offer. The net proceeds from such placement and offer were approximately HK\$22 million. The Board intends to apply such net proceeds as to approximately HK\$6 million for the acquisition of new machinery and fixtures and fittings to support the expansion in capacity and vertical integration; as to approximately HK\$10 million for the acquisition of additional factory premises in the PRC; as to approximately HK\$3 million for the expansion of the Group's marketing team and sales network; and as to the balance of approximately HK\$3 million for general working capital of the Group.

As at 30th September, 2003, the Group had not utilised any of its net proceeds. The proceeds are placed on short-term deposits with banks in Hong Kong. The Board intends to use the net proceeds in the manners as disclosed in the Prospectus.

Future Plans and Prospects

In order to enhance the Group's profitability in the long run, the Board intends to (i) expand the Group's production capacity; (ii) expand the Group's marketing force and sales network; and (iii) extend the level of vertical integration.

The Group plans to acquire additional plant and buildings in Shantou, PRC where the Group's current production facilities are situated. As at 30th September, 2003, the Group had identified premises with a total gross floor area of approximately 10,000 square metres for production and warehouse use. The Group plans to lease the premises from independent third parties. The Group expects the additional premises will increase the Group's production capacity by approximately 30%. The Group will also acquire additional machinery, fixtures and fittings to support the expansion.

The Group plans to expand its marketing force and to explore sales opportunities in its existing markets as well as in potential markets by recruiting additional experienced marketing personnel.

In order to improve its competitiveness as well as to achieve better quality control, the Group intends to extend the level of vertical integration through the expansion of its embroidery facilities.

Prospects

The Board believes that the Group's prospects are promising as the markets which the Group sells to continue to grow in particular the Mainland China. To cope with the growth, the Group will continue to expand its production capacity by acquiring new plant and machinery, expanding its labour force and acquiring its own premises. At the same time, the Group will continue to control its costs, improve its design capabilities and management efficiency to maintain competitiveness.

Based on the Group's orders on hand and indication of future orders by customers, the Group is optimistic of its prospects and is confident in generating fruitful returns to its shareholders.

OTHER INFORMATION

Directors' interests in shares

As at 30th September, 2003, the Directors had the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")) which had been 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 he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange:

(i) *The Company*

Name of Director	Capacity/ Nature of interest	Number of Shares held		Percentage of holding
		Long position	Short position	
Mr Chung Yuk Sing ("Mr. Chung")	Interest of controlled corporation/ Corporate (<i>Note</i>)	150,000,000	—	75%

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

(ii) *Associated corporations*

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number and class of shares in associated corporation held		Percentage of holding in the relevant class
			Long position	Short position	
Mr. Chung	Eagle Nice Development Limited ("Eagle Nice Development")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 1)	90%
	Far East (International) Garment Limited ("Far East")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 2)	90%
	Time Easy (Note 3)	Beneficial owner/ Personal	900 ordinary shares	—	90%
Madam Tsang	Eagle Nice Development	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 1)	10%
	Far East	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 2)	10%
	Time Easy (Note 3)	Beneficial owner/ Personal	100 ordinary shares	—	10%

Notes:

- Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung and Madam Tsang granted an option to Jespar whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Eagle Nice Development upon the terms therein provided. Further

particulars of the option agreement are set out in the paragraph headed “Summary of material contracts” under the section headed “Further information about the Business” in Appendix IV to the Prospectus. Accordingly, each of Mr. Chung and Madam Tsang will be taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.

2. Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung and Madam Tsang granted an option to Jespar whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Far East upon the terms therein provided. Further particulars of the option agreement are set out in the paragraph headed “Summary of material contracts” under the section headed “Further information about the Business” in Appendix IV to the Prospectus. Accordingly, each of Mr. Chung and Madam Tsang will be taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.
3. Time Easy is the holding company of the Company and is an associated corporation of the Company under the SFO.

Substantial Shareholders

As at 30th September, 2003, the following persons, not being a Director or chief executive of the Company, had an interest or short position in the shares and 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, 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 other member of the Group and the amount of each of such person’s interest in such securities, together with particulars of any options in respect of such capital:

Name	Name of company	Capacity/ Nature of interest	Number of Shares		Percentage of shareholding
			Long position	Short position	
Time Easy (Note)	The Company	Beneficial owner/ Personal	150,000,000	—	75%

Note: The entire issued share capital of Time Easy is held by Mr. Chung and Madam Tsang in the proportion of 90% and 10% respectively.

Share Option Scheme

On 6th August, 2003, the Company has conditionally adopted the Share Option Scheme whereby eligible participants of the Share Option Scheme, including any employee (whether full-time or part-time) and any director of the Company and/or any of its subsidiaries who the Board may think fit with reference to their respective contributions to the Group, may be granted options which entitle them to subscribe for the shares of the Company. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus.

As at 30th September, 2003, no share options had been granted under the Share Option Scheme.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the listing of the Company's shares to the date of this report.

Audit Committee

The Audit Committee was set up on 6th August, 2003 and has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30th September, 2003.

Compliance with the Code of Best Practice

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company were not appointed for specific terms, but are subject to retirement by

rotation at the annual general meeting in accordance with the Company's memorandum and articles of association at any time after the listing of the Company's shares to the date of this report.

Closure of Register of Members

The register of members of the Company will be closed from 22nd December, 2003 to 24th December, 2003, both dates inclusive. During this period, no transfer of shares of the Company will be registered.

In order to qualify for the entitlement of the proposed interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 19th December, 2003.

On Behalf of the Board
Chung Yuk Sing
Chairman

Hong Kong, 2nd December, 2003