

Interim Report 2004

2004



Eagle Nice (International) Holdings Limited
鷹美（國際）控股有限公司*
(incorporated in the Cayman Islands with limited liability)

** For identification purpose only*

The board of directors (the "Board") of Eagle Nice (International) Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2004 (the "Period") together with the comparative unaudited figures for the corresponding period in 2003 and the relevant explanatory notes. These interim financial statements have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30th September,	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
	<i>Notes</i>		
Turnover	2	242,168	146,103
Cost of sales		(176,458)	(113,333)
		<hr/>	<hr/>
Gross profit		65,710	32,770
Other revenue	2	2,407	1,671
Selling and distribution costs		(4,702)	(3,364)
Administrative expenses		(13,267)	(12,711)
		<hr/>	<hr/>
Profit from operating activities	3	50,148	18,366
Finance costs	4	(170)	(1,290)
		<hr/>	<hr/>
Profit before tax		49,978	17,076
Tax	5	(6,650)	(1,766)
		<hr/>	<hr/>
Net profit from ordinary activities attributable to shareholders		43,328	15,310
		<hr/>	<hr/>
Dividend	6	15,300	6,000
		<hr/>	<hr/>
Earnings per share	7		
– Basic		HK13.19 cents	HK8.68 cents
		<hr/>	<hr/>
– Diluted		HK10.61 cents	N/A
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		50,877	50,056
Prepayments and deposits for fixed assets		-	1,630
Long term investments		4,500	4,500
		55,377	56,186
CURRENT ASSETS			
Inventories		40,626	44,520
Accounts and bills receivable	8	60,082	33,469
Prepayments, deposits and other receivables		3,161	3,297
Pledged deposits		5,518	5,518
Cash and cash equivalents		364,126	31,358
		473,513	118,162
CURRENT LIABILITIES			
Accounts payable	9	18,497	21,146
Accrued liabilities and other payables		20,132	12,272
Tax payable		16,500	10,432
Interest-bearing bank borrowings, secured		-	32,556
Finance lease payables		461	730
		55,590	77,136
NET CURRENT ASSETS		417,923	41,026
TOTAL ASSETS LESS CURRENT LIABILITIES		473,300	97,212

		As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings, secured		-	4,468
Finance lease payables		916	1,172
Convertible note	10	207,060	-
Deferred tax liabilities		1,210	1,210
		<hr/> 209,186 <hr/>	<hr/> 6,850 <hr/>
		264,114	90,362
CAPITAL AND RESERVES			
Issued capital	11	3,400	2,000
Reserves		245,414	76,462
Proposed dividend		15,300	11,900
		<hr/> 264,114 <hr/>	<hr/> 90,362 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2004

	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	Asset revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2004	2,000	19,354	(229)	1,716	(2,712)	5,117	53,216	-	78,462
Issue of subscription shares	1,050	110,250	-	-	-	-	-	-	111,300
Issue of placing shares	350	36,750	-	-	-	-	-	-	37,100
Share issue expenses	-	(6,076)	-	-	-	-	-	-	(6,076)
Net profit attributable to shareholders	-	-	-	-	-	-	43,328	-	43,328
Dividend (Note 6)	-	-	-	-	-	-	(15,300)	15,300	-
At 30th September, 2004	3,400	160,278	(229)	1,716	(2,712)	5,117	81,244	15,300	264,114

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	Asset 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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th September, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	25,405	(4,492)
Net cash outflow from investing activities	(4,472)	(5,128)
Net cash inflow from financing activities	319,226	35,233
NET INCREASE IN CASH AND CASH EQUIVALENTS	340,159	25,613
Cash and cash equivalents at beginning of periods	23,967	(3,019)
CASH AND CASH EQUIVALENTS AT END OF PERIODS	364,126	22,594
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	364,126	29,024
Bank overdrafts	-	(6,430)
	364,126	22,594

NOTES TO THE CONDENSED CONSOLIDATED INTERIM RESULTS

1. Basis of presentation, principal accounting policies and corporate information

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”) 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation are consistent with those used in the annual accounts of the Company for the year ended 31st March, 2004.

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 27 “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, 2004 and 2003 include the results of the Group with effect from 1st April, 2003 or since their respective dates of incorporation, where this is a shorter period.

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 of the Company dated 12th August, 2003 (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 other revenue is as follows:

	Six months ended 30th September, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover		
Sale of goods	242,168	146,103
Other revenue		
Sale of samples	2,093	1,424
Interest income	234	198
Others	80	49
	2,407	1,671
	244,575	147,774

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

	Hong Kong (Unaudited) HK\$'000	Mainland China (Unaudited) HK\$'000	Japan (Unaudited) HK\$'000	South Korea (Unaudited) HK\$'000	Australia (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Six months ended 30th September, 2004							
Segment revenue:							
Sales to external customers	9,095	71,184	108,046	28,171	6,296	19,376	242,168
Other revenue	336	81	539	-	347	790	2,093
Total	9,431	71,265	108,585	28,171	6,643	20,166	244,261
Segment results	2,611	35,501	20,087	3,038	1,206	5,360	67,803
Interest and other unallocated income							314
Unallocated expenses							(17,969)
Profit from operating activities							50,148
Finance costs							(170)
Profit before tax							49,978
Tax							(6,650)
Net profit from ordinary activities attributable to shareholders							43,328
As at 30th September, 2004							
Segment assets	11,910	56,546	41,654	7,553	1,088	9,807	128,558
Unallocated assets							400,332
							528,890
Segment liabilities	668	5,830	8,086	2,069	456	1,388	18,497
Unallocated liabilities							246,279
Six months ended 30th September, 2004							264,776
Other segment information:							
Depreciation	184	1,391	2,120	550	130	394	4,769
Unallocated amount							746
							5,515
Capital expenditure	245	1,848	2,816	731	172	523	6,335

	Hong Kong (Unaudited) HK\$'000	Mainland China (Unaudited) HK\$'000	Japan (Unaudited) HK\$'000	South Korea (Unaudited) HK\$'000	Australia (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (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

(ii) Geographical segments based on the location of assets

	Hong Kong (Unaudited) <i>HK\$'000</i>	Mainland China (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Six months ended 30th September, 2004			
Segment assets	97,624	30,934	128,558
Capital expenditure	3,928	2,407	6,335
Six months ended 30th September, 2003			
Segment assets	79,008	18,616	97,624
Capital expenditure	7,553	319	7,872

(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, 2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Cost of inventories sold	176,458	113,333
Depreciation*	5,515	4,226
Staff costs (excluding directors' remuneration):		
Wages and salaries*	39,384	31,604
Pension scheme contributions (defined contribution scheme)	436	246
Total staff costs	39,820	31,850
Minimum lease payments under operating leases in respect of land and buildings*	2,193	1,669

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

	Six months ended 30th September, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	3,019	2,370
Staff costs – wages and salaries	35,010	27,662
Minimum lease payments under operating leases in respect of land and buildings	1,759	1,294

4. Finance costs

	Six months ended 30th September, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest expense on bank loans and overdrafts wholly repayable within five years	170	1,290

5. Tax

	Six months ended 30th September, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	5,552	994
Elsewhere	1,098	672
Deferred tax charge	–	100
Tax charge for the Period	6,650	1,766

Hong Kong profits tax for the six months ended 30th September, 2004 has been provided at the rate of 17.5% (six months ended 30th September, 2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period.

During the Period, Macau Complementary Tax has not been provided as the Group did not derive any assessable profits. During the six months ended 30th September, 2003, Macau Complementary Tax has been calculated at the rate of 15.75% on the estimated assessable profits of certain wholly-owned subsidiaries of the Company.

The Company's subsidiaries in the People's Republic of China (the "PRC") were granted tax relief under which they are exempted from PRC enterprise income tax for the first two profit-making years and a 50% reduction in the PRC enterprise income tax for the succeeding three years. Moreover, under the relevant tax laws and regulations in the PRC, the Company's subsidiaries in the PRC may set off loss incurred by them in a financial year against profits made by them in the succeeding financial year or years, subject to a maximum of five financial years. The first profit-making year of the Company's subsidiaries in the PRC is year ended 31st December 2002.

6. Dividend

Six months ended 30th September, 2004		2003
(Unaudited)		(Unaudited)
HK\$'000		HK\$'000

Interim dividend declared of HK\$0.045 per share
(2003: HK\$0.03 per share)

15,300

6,000

At a meeting on 8th November, 2004, the Board resolved that an interim dividend of HK\$0.045 per share for the six months ended 30th September, 2004 to be paid to the shareholders whose names appear on the Company's register of members at the close of business on 22nd November, 2004. The dividend will be paid on or about 2nd December, 2004.

7. Earnings per share

A reconciliation of the earnings and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

Six months ended 30th September, 2004		2003
(Unaudited)		(Unaudited)

Earnings:

Net profit for the period and earnings for the purpose
of basic and diluted earnings per share (HK\$)

43,328,000

15,310,000

Number of shares:

Weighted average number of ordinary shares in issue for
the purpose of basic earnings per share calculation

328,524,590

176,429,000

Weighted average number of ordinary shares assuming
issued at no consideration on deemed exercise of all
convertible bonds outstanding

79,868,852

N/A

Weighted average number of ordinary shares for the
purpose of diluted earnings per share

408,393,442

N/A

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, 2004, based on invoice date, is as follows:

	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
Within 30 days	54,422	28,022
31 to 60 days	1,522	3,928
61 to 90 days	53	810
Over 90 days	4,085	709
	60,082	33,469

9. Accounts payable

An aged analysis of the Group's accounts payable for the six months ended 30th September, 2004, based on invoice date, is as follows:

	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
Within 90 days	18,069	19,704
91 to 180 days	376	1,384
181 to 365 days	28	58
Over 365 days	24	—
	18,497	21,146

10. Convertible note

A zero coupon unsecured convertible note, due 2007 was issued by the Company to Great Pacific Investments Limited, a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited at a subscription price of HK\$207.06 million on 16th April, 2004. Unless otherwise converted, the convertible note is redeemable on 16th April, 2007 at 100% of its face value plus a rate of return equal to 0.75% per annum. This convertible note could be converted into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment) at any time during the 30-day period before 16th April, 2007.

11. Share capital

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

		Number of ordinary shares	Nominal value of shares <i>HK\$'000</i>
<i>Authorised:</i>			
At 31st March, 2004 and 30th September, 2004		<u>10,000,000,000</u>	<u>100,000</u>
		Number of issued shares	Nominal value of shares issued <i>HK\$'000</i>
	<i>Notes</i>		
<i>Issued and fully paid:</i>			
At 31st March, 2004		200,000,000	2,000
Subscription of new shares	(a)	105,000,000	1,050
Placement of new shares	(b)	<u>35,000,000</u>	<u>350</u>
At 30th September, 2004		<u>340,000,000</u>	<u>3,400</u>

Notes:

- (a) On 16th April, 2004, 105,000,000 new shares were issued to Great Pacific Investments Limited, a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited, at HK\$1.06 per share.
- (b) On 16th April, 2004, 35,000,000 new shares were issued at HK\$1.06 per share.

12. 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, 2004, the Group had total minimum lease payments under non-cancellable operating lease falling due as follows:

	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
Within one year	4,364	4,623
In the second to fifth years, inclusive	3,982	5,774
	8,346	10,397

As at 30th September, 2004, the Group had contracted commitments in respect of purchases of fixed assets of approximately HK\$96,480,000 (31st March, 2004: approximately HK\$130,000).

13. Contingent liabilities

As at 30th September, 2004, none of the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised (31st March, 2004: approximately HK\$35.9 million).

As at 30th September, 2004, the Group did not have any contingent liabilities (31st March, 2004: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2004 compared to the corresponding period in 2003 as the principal markets which the Group sells to, i.e. Japan, the Mainland China and South Korea, continues to enjoy economic growth.

The Group's marketing team continued to approach new customers and trial orders are constantly taking place by 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, 2004 compared to the corresponding period in 2003 by acquiring further plant and machinery and leasing more factory premises.

For the six months ended 30th September, 2004, the Group recorded a very promising double-digit percentage growth in turnover. Net profit has also increased more than doubled in the same period. This was possible as a result of increasing sales orders placed by existing customers, lower materials cost due to bulk discounts, benefits from economies of scale and cost controls measures.

In April 2004, the Group completed the issue of new shares and a convertible note of the Company to Great Pacific Investments Limited, a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen Group"). Yue Yuen Group is the largest branded athletic and casual footwear manufacturer in the world with facilities in the PRC, Vietnam and Indonesia. With such a strategic partner with expertise that complements that of the Group and strengthens the capital base of the Group, the Group is confident of its future expansion plans.

As part of the Group's expansion plans, in June 2004, the Group entered into an agreement with an independent real estate developer in the PRC to purchase a new production plant. Completion and delivery of the new production plant is expected to be in the second quarter in 2005. This new production plant will have a production capacity of approximately 750,000 dozens of sportswear per annum and will increase the Group's existing production capacity of approximately 245,000 dozens of sportswear per annum by approximately 200 per cent..

Financial Review

Results

For the six months ended 30th September, 2004, the turnover of the Group increased to approximately HK\$242.2 million compared to approximately HK\$146.1 million for the corresponding period last year, an increase of approximately 65.8%. The increase was mainly attributed to increase in orders placed by existing customers.

The gross profit of the Group for the six months ended 30th September, 2004 increased to approximately HK\$65.7 million compared to approximately HK\$32.8 million for the corresponding period last year, an increase of approximately 100.3%. The increase was mainly attributed to an increase in turnover and an increase of gross profit margin. The gross profit margin of the Group was approximately 27.1% for the six months ended 30th September, 2004, an increase of approximately 4.7% compared to approximately 22.4% for the corresponding period last year. The improvement in gross profit margin was attributed to (a) improved production efficiency as a result of (i) implementation of a more advanced production planning computer system assisted by Yue Yuen Industrial (Holdings) Limited, (ii) increase in the use of more advanced machinery, (iii) a more stable quality and timely delivery of materials, and (b) a lower percentage increase in fixed overheads.

The Group's other income for the six months ended 30th September, 2004 increased by approximately 44.1% to approximately HK\$2.4 million compared to approximately HK\$1.7 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, 2004 increased to approximately HK\$4.7 million compared to approximately HK\$3.4 million for the corresponding period last year, an increase of approximately 38.2%. The increase was mainly attributed to the increase in turnover.

The Group's administrative expenses for the six months ended 30th September, 2004 increased by approximately 4.7% to approximately HK\$13.3 million compared to approximately HK\$12.7 million for the corresponding period last year. The increase was mainly attributed to increase in salaries and related expenses due to increase in the number of staff.

The Group's finance costs for the six months ended 30th September, 2004 was approximately HK\$170,000 compared to approximately HK\$1.3 million for the corresponding period last year. The decrease was mainly attributed to the repayment of bank borrowings during the period under review.

The Group's profit attributable to shareholders for the six months ended 30th September, 2004 increased by approximately 183% to approximately HK\$43.3 million compared to approximately HK\$15.3 million for the corresponding period last year. The increase was the result of a substantial increase in the level of turnover and gross profit margin.

Liquidity and financial resources

As at 30th September, 2004, the Group had net current assets of approximately HK\$417.9 million (31st March, 2004: approximately HK\$41.0 million).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. Net proceeds from the initial public offering 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, 2004, the Group had cash and bank deposits amounted to approximately HK\$369.6 million (31st March, 2004: approximately HK\$36.9 million).

As at 30th September, 2004, the Group had outstanding borrowings of approximately HK\$1.4 million (31st March, 2004: approximately HK\$38.9 million). Details of which are as follows:

	As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
Secured bank overdrafts	-	7,391
Secured trust receipt loans	-	18,931
Secured mortgage loans	-	5,685
Other secured loans	-	5,017
Obligations under finance leases	1,377	1,902
	1,377	38,926

As at 30th September, 2004, approximately HK\$0.5 million of the total outstanding borrowings are repayable within one year and the remaining balance of approximately HK\$0.9 million is repayable after one year but within five years.

As at 30th September, 2004, the Group had aggregate banking and credit facilities of approximately HK\$156.1 million (31st March, 2004: approximately HK\$99.2 million) which 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; (iv) corporate guarantees executed by the Company; and (v) unlimited corporate guarantee executed by two subsidiaries of the Company. As at 30th September, 2004, none of these facilities was utilised (31st March, 2004: approximately HK\$38.9 million).

As at 30th September, 2004, the Group's gearing ratios represented by the total liabilities as a percentage of the Group's total assets amounted to approximately 50.1% (31st March, 2004: approximately 48.2%). A convertible note was issued by the Company to Great Pacific Investments Limited, a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited at a subscription price of HK\$207.06 million in April 2004. This convertible note could be converted into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment).

For the six months ended 30th September, 2004, 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.

Comments on Segmental Information

Segment information is presented by way of the Group's primary reporting basis, by geographical segment. No further business segment is presented as the Group is solely engaged in the manufacture and sale of sportswear and garments.

The Group's turnover by geographical segments, based on location of customers, are summarised as follows:

	Six months ended 30th September, 2004		2003		Year-on-year % change
	(Unaudited) HK\$'000	%	(Unaudited) HK\$'000	%	
Hong Kong	9,095	3.8	9,555	6.6	(4.8)
PRC	71,184	29.4	35,529	24.3	100.4
Japan	108,046	44.6	54,826	37.5	97.1
South Korea	28,171	11.6	25,591	17.5	(10.1)
Australia	6,296	2.6	5,393	3.7	(16.7)
Others	19,376	8.0	15,209	10.4	(27.4)
	242,168	100.0	146,103	100.0	65.8

Use of Proceeds from the Initial Public Offering of the Company and the Subscription and Placing of New Shares and Convertible Note of the Company

The proceeds from the issue of new shares of the Company at the time of its listing on the Stock Exchange on 22nd August, 2003, after deduction of related expenses, amounted to approximately HK\$21,074,000. As at 30th September, 2004, the Group had utilised approximately HK\$12 million for various purposes, which were in line with the proposed applications set out in the Prospectus, as follows:

	<i>HK\$</i> <i>(in million)</i>
Acquisition of additional factory building	–
Acquisition of new machinery and fixtures and fittings	6
Marketing and promotion	3
General working capital	3
	<hr/>
	12
	<hr/>

The remaining net proceeds of approximately HK\$9 million, were placed on short-term interest-bearing deposits with banks in Hong Kong. The Board intends to use the net proceeds in the manner as disclosed in the Prospectus.

The proceeds from the subscription and placing of new shares and convertible note of the Company in April 2004, after deduction of related expenses, amounted to approximately HK\$349.4 million. As at 30th September, 2004, the Group had utilised approximately HK\$40 million for various purposes, which were in line with the proposed applications set out in the circular of the Company dated 24th March, 2004 (the "Circular"), as follows:

	<i>HK\$</i> <i>(in million)</i>
Acquisition of additional factory building	–
Acquisition of new machinery and fixtures and fittings	–
Marketing and promotion	–
General working capital	40
	<hr/>
	40
	<hr/>

The remaining net proceeds of approximately HK\$309.4 million, were placed on short-term interest-bearing deposits with banks in Hong Kong. The Board intends to use the net proceeds in the manner as disclosed in the Circular.

Significant Investments

As at 30th September, 2004, there was no significant investment held by the Group (31st March, 2004: nil).

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

There were no material acquisitions or disposal of subsidiaries and affiliated companies during the six months ended 30th September, 2004.

Employees and Remuneration Policies

As at 30th September, 2004, the Group had 4,631 employees (31st March, 2004: 4,563). 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.

Future Plan and Prospects

The consumer sportswear industry in Asia, particular in the PRC, is expected to demonstrate a strong momentum in the coming future to propel the business of the Group to greater heights. The Group will also continue to expand to new markets such as Europe and the United States.

In addition to placing great efforts in securing more orders from international brandnames/companies, the Group will concentrate on improving its production capacity by automating more of its production process, acquiring further plant and machinery and leasing more factory premises in order to capture the growing demand and orders.

The Group will always have the interests of its shareholders in mind and will use its best efforts in enhancing the Group's profitability in the long run and generating fruitful returns to its supportive shareholders.

OTHER INFORMATION

Directors' Interests In Contracts

Save for the Subscription Agreement to which Time Easy Investment Holdings Limited ("Time Easy") and Mr. Chung Yuk Sing are parties, details of which are set out in the Circular, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the period under review.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th September, 2004, 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 corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) The Company

Name of director	Capacity/Nature of interest	Number of shares held		Percentage of issued share capital of the Company
		Long position	Short position	
Chung Yuk Sing	Interest of controlled corporation/ Corporate	148,500,000 (Note)	–	43.68%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.44%

Note: These shares are held by Time Easy. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni, the wife of Mr. Chung Yuk Sing, 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 issued share capital of the same class of the associated corporation
			Long position	Short position	
Chung Yuk Sing	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%
Tsang Yuk Ni	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%

Notes:

- Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni granted an option to Jespar Age Limited ("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. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.
- Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni 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. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.

Save as disclosed above, none of the directors and chief executive of the Company was interested or had any short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30th September, 2004.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30th September, 2004, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares		Percentage of shareholding
		Long position	Short position	
Time Easy	Beneficial owner/ Personal	148,500,000 (Note 1)	–	43.68%
Pou Chen Corporation ("PCC")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	56.47%
Wealthplus Holdings Limited ("Wealthplus")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	56.47%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	56.47%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	56.47%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 (Notes 2 and 3)	–	56.47%

Notes:

1. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni in the proportion of 90% and 10% respectively.
2. PCC owns the entire interest in Wealthplus which in turn owns approximately 46.6% interest in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing which in turn owns the entire interest in Great Pacific.
3. These shares comprise (i) 105,000,000 issued shares held by Great Pacific and (ii) 87,000,000 unissued shares which may fall to be issued to Great Pacific upon full conversion of the Convertible Note at the initial conversion price of HK\$2.38 per share (subject to adjustment).

Save as disclosed above, no person was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 30th September, 2004.

Directors' Interests in Competing Business

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Ku Yu Sun Edward ("Mr. Ku")	Yuen Thai Industrial Company Limited ("Yuen Thai") (<i>Note</i>)	Manufacturing of sports and active wear	As a director

Note: Yuen Thai is a company incorporated in Hong Kong on 24th September, 2003 and is held as to 50% by the Yue Yuen Group and as to 50% by a subsidiary of Luen Thai Holdings Limited. Mr. Ku has been nominated by the Yue Yuen Group to represent its interest on the board of directors of Yuen Thai.

Having considered (i) the nature, geographical market, scope and size of Yuen Thai as compared to those of the Group; and (ii) the nature and extent of Mr. Ku's interest in Yuen Thai, the directors of the Company believe that there is unlikely to be any significant competition caused to the business of the Group.

Save as disclosed above, none of the directors of the Company or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Director's Rights to Acquire Shares or Debentures

At no time during the year 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 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

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, 2004, no share options had been granted under the Share Option Scheme.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th September, 2004.

Compliance with the Code of Best Practice

In the opinion of the Board, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules of the Stock Exchange throughout the accounting period for the six months ended 30th September, 2004, except that the independent non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

Audit Committee

The Company has an audit committee which was established on 6th August, 2003 and in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee 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 Accounts for the six months ended 30th September, 2004.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors 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 as provided in Appendix 10 to the Listing Rules during the six months ended 30th September, 2004.

Closure of Register of Members

The register of members of the Company will be closed from 23rd November, 2004 to 24th November, 2004, 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, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 22nd November, 2004.

On Behalf of the Board

Chung Yuk Sing

Chairman

Hong Kong, 8th November, 2004

As at the date hereof, the Board comprises six executive directors, namely, Mr. Chung Yuk Sing, Ms. Tsang Yuk Ni, Mr. Chung Tung Sau, Ms. Tsang Sau Fan, Mr. Edward Ku Yu Sun and Mr. Kuo Tai Yu, one non-executive director, namely, Mr. Ong Chor Wei and three independent non-executive directors, namely, Mr. Chan Cheuk Ho, Mr. Li Chi Chung and Mr. Tony Cheng Yung-Hui.