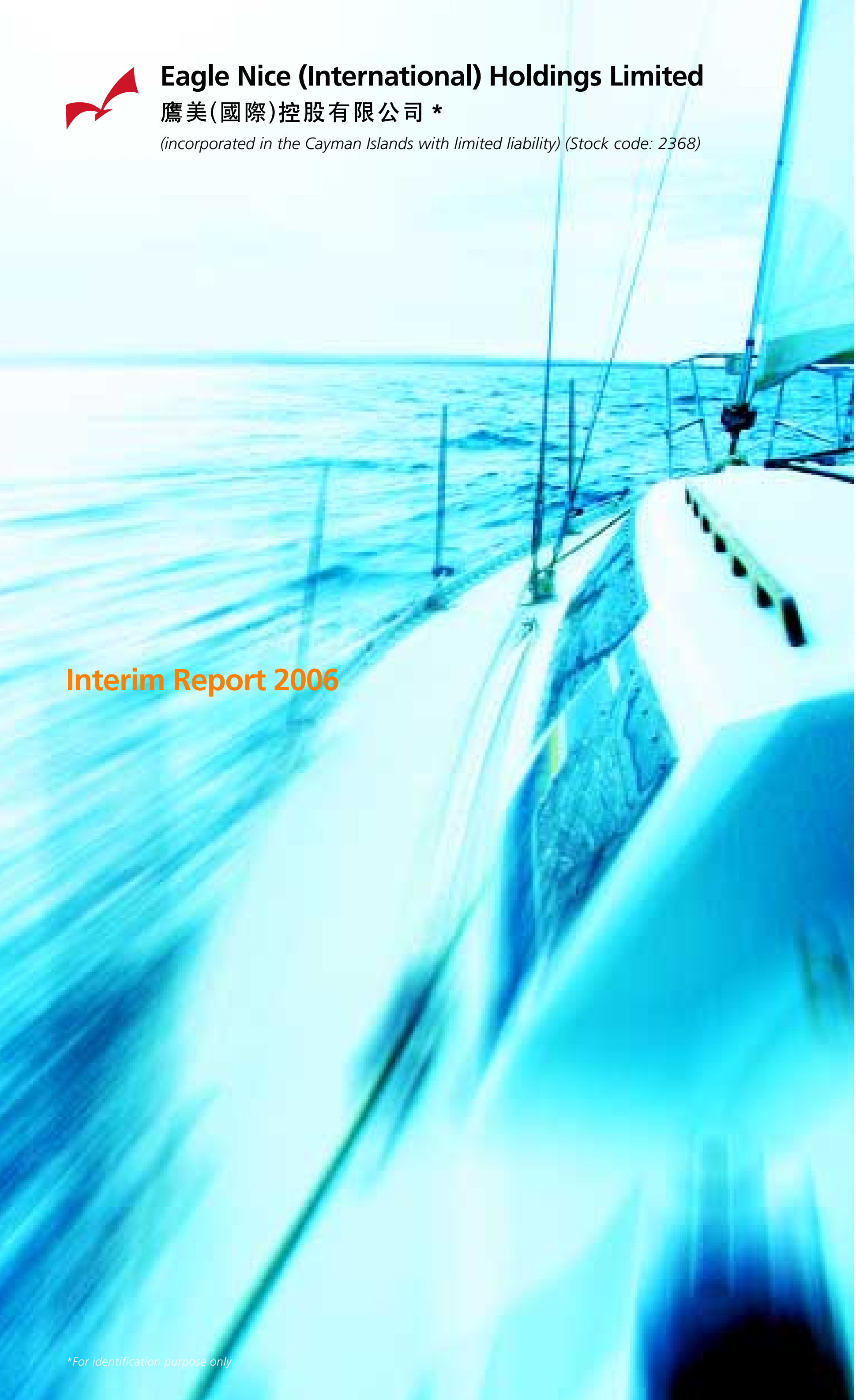
Eagle Nice (International) Holdings Limited

鷹美(國際)控股有限公司 *

(incorporated in the Cayman Islands with limited liability) (Stock code: 2368)



Interim Report 2006

**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 30 September 2006 together with the comparative unaudited figures for the corresponding period in 2005 and the relevant explanatory notes.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**247,576**	300,790
Cost of sales		**(186,943)**	(227,945)
Gross profit		**60,633**	72,845
Other income	*4*	**3,765**	3,100
Selling and distribution expenses		**(2,259)**	(2,636)
Administrative expenses		**(21,833)**	(15,709)
PROFIT BEFORE TAX	*5*	**40,306**	57,600
Tax	*6*	**(7,352)**	(6,144)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**32,954**	51,456
DIVIDENDS			
Interim dividend	*7*	**25,620**	25,620
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*8*		
Basic		**HK7.72 cents**	HK12.05 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 September 2006 (Unaudited) *HK$'000***	As at 31 March 2006 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**198,109**	197,010
Prepaid land lease payments		**65,907**	58,093
Prepayments and deposits for property, plant and equipment		**–**	12,141
Deferred tax assets		**359**	–
		264,375	267,244
CURRENT ASSETS			
Inventories		**69,721**	31,445
Accounts and bills receivable	*9*	**67,962**	51,845
Prepayments, deposits and other receivables		**10,442**	3,293
Pledged deposits		**–**	10,105
Cash and cash equivalents		**203,864**	215,117
		351,989	311,805
CURRENT LIABILITIES			
Accounts and bills payable	*10*	**28,814**	13,285
Accrued liabilities and other payables		**20,801**	16,422
Tax payable		**25,884**	17,202
		75,499	46,909
NET CURRENT ASSETS		**276,490**	264,896
TOTAL ASSETS LESS CURRENT LIABILITIES		**540,865**	532,140
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**185**	1,802
		540,680	530,338
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company:			
Issued capital	*11*	**4,270**	4,270
Reserves		**510,790**	500,448
Proposed dividend		**25,620**	25,620
		540,680	530,338

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	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 1 April 2006	4,270	359,932	(229)	5,731	1,737	3,469	129,808	25,620	530,338
Final 2006 dividend	–	–	–	–	–	–	–	(25,620)	(25,620)
Exchange realignment	–	–	–	–	3,008	–	–	–	3,008
Profit for the period	–	–	–	–	–	–	32,954	–	32,954
Interim dividend *(Note 7)*	–	–	–	–	–	–	(25,620)	25,620	–
At 30 September 2006	4,270	359,932	(229)	5,731	4,745	3,469	137,142	25,620	540,680

For the six months ended 30 September 2005

	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 1 April 2005	4,270	359,932	(229)	5,396	(2,616)	7,218	102,677	25,620	502,268
Prior years adjustment: HKAS 17 – Leases	–	–	–	–	–	(6,261)	1,295	–	(4,966)
As restated	4,270	359,932	(229)	5,396	(2,616)	957	103,972	25,620	497,302
Final 2005 dividend	–	–	–	–	–	–	–	(25,620)	(25,620)
Exchange realignment	–	–	–	–	4,787	–	–	–	4,787
Change in fair value of available-for-sale investments	–	–	–	–	–	189	–	–	189
Profit for the period	–	–	–	–	–	–	51,456	–	51,456
Interim dividend *(Note 7)*	–	–	–	–	–	–	(25,620)	25,620	–
At 30 September 2005	4,270	359,932	(229)	5,396	2,171	1,146	129,808	25,620	528,114

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**8,878**	7,210
Net cash inflow / (outflow) from investing activities	**(21,380)**	110,179
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(12,502)**	117,389
Cash and cash equivalents at beginning of period	**215,117**	91,479
Effect of change in foreign exchange rate, net	**1,249**	4,787
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**203,864**	213,655
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**203,864**	213,655

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 31 March 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a lease

There was no material impact on the basis of preparation of the condensed consolidated interim financial statements arising from the adoption of the above-mentioned new and revised accounting standards.

2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, which have been issued but not yet effective, in these interim financial statements. The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and segment results by geographical segments is as follows:

	Revenue Six months ended 30 September (Unaudited)		Contribution to profit before tax Six months ended 30 September (Unaudited)	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China (the "PRC")	**123,785**	143,498	**26,950**	38,616
Japan	**69,874**	90,484	**20,499**	19,846
South Korea	**13,090**	24,509	**3,289**	6,129
Hong Kong	**7,664**	9,134	**2,240**	1,480
Others	**33,163**	33,165	**7,655**	6,774
	247,576	300,790	**60,633**	72,845
Other income			**3,765**	3,100
Unallocated expenses			**(24,092)**	(18,345)
Profit before tax			**40,306**	57,600

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

4. OTHER INCOME

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**3,619**	2,768
Rental income	**134**	237
Others	**12**	95
	3,765	3,100

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	**12,634**	6,922
Amortisation of prepaid land lease payments	**776**	320

6. TAX

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax charge for the period:		
Hong Kong	**3,750**	3,299
Elsewhere	**79**	2,845
Underprovision of current tax in respect of a prior year	**5,500**	–
Deferred tax credit	**(1,977)**	–
Total tax charge for the period	**7,352**	6,144

Hong Kong profits tax for the six months ended 30 September 2006 has been provided at the rate of 17.5% (six months ended 30 September 2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Company's subsidiaries in the PRC were granted tax relief under which they are exempted from the 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.

7. INTERIM DIVIDEND

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend declared of HK$0.06 per share (2005: HK$0.06 per share)	**25,620**	25,620

At the meeting on 17 November 2006, the Board resolved that an interim dividend of HK$0.06 per share for the six months ended 30 September 2006 to be paid to the shareholders whose names appear on the Company's register at the close of business on 5 December 2006.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period of approximately HK$32,954,000 (six months ended 30 September 2005: approximately HK$51,456,000) and the weighted average of 427,000,000 (six months ended 30 September 2005: 427,000,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for both periods have not been disclosed as no diluting events existed during these periods.

9. ACCOUNTS AND BILLS RECEIVABLE

The Group's accounts receivable mainly relate to a few recognised and creditworthy customers. The credit period is generally for a period of 30 days. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are regularly reviewed by the management of the Group. Trade receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

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

	As at 30 September 2006 (Unaudited) *HK$'000*	As at 31 March 2006 (Audited) *HK$'000*
Within 30 days	**53,584**	45,075
31 to 60 days	**14,256**	6,100
61 to 90 days	**22**	14
Over 90 days	**100**	656
	67,962	51,845

10. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	As at 30 September 2006 (Unaudited) *HK$'000*	As at 31 March 2006 (Audited) *HK$'000*
Within 90 days	**26,693**	12,533
91 to 180 days	**1,776**	524
181 to 365 days	**263**	50
Over 365 days	**82**	178
	28,814	13,285

11. SHARE CAPITAL

	As at 30 September 2006 (Unaudited) *HK$'000*	As at 31 March 2006 (Audited) *HK$'000*
Authorised:		
10,000,000,000 (31 March 2006: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
427,000,000 (31 March 2006: 427,000,000) ordinary shares of HK$0.01 each	**4,270**	4,270

12. CAPITAL COMMITMENTS

The Group had the following capital commitment at the balance sheet date:

	As at 30 September 2006 (Unaudited) *HK$'000*	As at 31 March 2006 (Audited) *HK$'000*
Contracted, but not provided for:		
Purchase of computer equipment	**570**	1,861
Leasehold improvements	**1,582**	–
Acquisition of a property in the PRC	**–**	5,346
	2,152	7,207
Authorised, but not contracted for:		
Leasehold improvements	**–**	2,223

13. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 17 November 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of the Group's Results and Operation

For the six months ended 30 September 2006, revenue of the Group dropped approximately 18% to approximately HK$248 million. Gross profit decreased to approximately HK$61 million, corresponding to a decrease of approximately 17%, but with the management's best devotion of industrial expertise and cost control, the Group was able to maintain the gross profit margin at approximately 24%. Net profit of the Group dropped by approximately 36% to approximately HK$33 million for the period ended 30 September 2006. The retrograde performance of the Group reflects the ever challenging operating environment that the Group operates in.

On one hand, the management has taken a proactive view in preparing the Group to take up new opportunities with a broader customer base. While the new production plant (the "New Production Plant") in Shantou, the People's Republic of China (the "PRC") will enable the Group to take up new orders and product categories that are more technically demanding, it does present an upward cost structure in the meantime. On the other hand, such continuously tough business environmental factors as appreciation of Renminbi and higher labour cost are having a further negative impact on the Group's profitability.

Value Creation

To enhance its competitive power, the Group shall continue its focus on the core values of design and development of innovative products, product diversification, widening of the customer base, and penetration into new markets. The management takes this "Value Creation" strategy with the best effort and resources available.

With more and more emphasis and resources put in designing and research and development, the Group aims to improve the profitability by extending the business into an ODM business (an acronym for "original design manufacturer", which owns and/or designs in-house products that are branded by the customers). The management believes that the provision of value-added services to our customers is the best way to improve the diminishing profit margin of the Group. To facilitate that, the Group has established a research and development centre known as "Commercialisation Centre" in the New Production Plant which is well-equipped with advanced computer and production equipment like 3D Pattern Design System, Tensile Test Machine and Laser Cutting Machine. In addition, a research and development team has been formed with expertise in the apparel industry so as to advance the Group's production technology, expand the product range, and develop innovative designs and high-valued products using innovative materials and advanced technology for our customers. The Commercialisation Centre has commenced operation since July 06. With the advancement of our production technology, the Group is now more capable in engaging in the production of high-valued products such as seam-seal and multi dress and expanding our product range (in particular the knitted products which at present only constitutes a small proportion of our sales). As a matter of fact, during the period under review, the Group has successfully developed the production of down jackets with trial orders received. The management expects the Commercialisation Centre to give rise to steady sales growth and contribute to a better profitability of the Group in the near future.

At the same time, in order to diversify the Group's sources of income, it has devoted great effort in broadening our customer base and opening up new markets. At present, most of our sales are derived from a few branded sportswear customers and are confined mainly to the Asian markets. To reduce the risks of a narrow customer base, a new sales team has been set up during the period under review. The new sales team has extensive experience and expertise in sales and marketing and the apparel manufacturing industry. It will focus on expanding our customer base, exploring new markets with particular emphasis on the United States ("US") and Europe and diversifying the existing product lines to new categories such as tape sealed garment, welded garment and outer wear. In addition to the commencement of operation of the Commercialisation Centre, advanced production technology as well as unique product design shall greatly enhance the capability of the Group in penetrating into the US and European markets. It is expected that the new sales team will contribute to the sales of the Group in the coming years.

Future Plan and Prospects

After rapid growth in the past few years, the Group has entered into a consolidation and transformation stage. Although the commencement of operation of the New Production Plant increases the productivity of the Group, the Group has to tackle problems arising from rising labour costs, quota, appreciation of Renminbi and increasing material costs.

In essence, the management is aiming at equipping the Group to engage in ODM business and hence producing more innovative and high-valued products with better pricing and profit margin. To achieve such goal, the Group shall continue to commit its resources and effort in labour training, advancement of production technology, and research and development. The management shall continue to take this proactive role in planning and to ensure the process is carried out as diligently planned, so that the investment would bring growth to the Group's business in the long run.

Liquidity and Financial Resources

During the period under review, the Group continued to maintain a strong liquidity position. The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. As at 30 September 2006, the Group had cash and cash equivalents amounted to approximately HK$204 million mainly denominated in Hong Kong dollars and US dollars (31 March 2006: approximately HK$215 million). As at 30 September 2006, the Group had no outstanding borrowings (31 March 2006: nil), and an aggregate banking facilities of approximately HK$136 million (31 March 2006: approximately HK$160 million) secured by corporate guarantees executed by the Company and unlimited corporate guarantees executed by three subsidiaries of the Company. No banking facilities were utilised by the Group as at 30 September 2006 (31 March 2006: nil).

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. There is no material effect of seasonality on the Group's borrowing requirements.

As at 30 September 2006, the Group's gearing ratio represented by total liabilities as a percentage of the Group's total assets amounted to approximately 12.3% (31 March 2006: approximately 8.4%).

For the six months ended 30 September 2006, the Group was not subject to any significant exposures to foreign exchange rate risk. Hence, no financial instrument for hedging was employed.

As at 30 September 2006, the Group did not have any significant contingent liabilities (31 March 2006: nil). As at 30 September 2006, the Company had given corporate guarantee to banks to the extent of approximately HK$140 million (31 March 2006: approximately HK$164 million) for banking facilities granted to certain subsidiaries of the Company, which had not been utilised at the balance sheet date.

Significant Investments

As at 30 September 2006, there was no significant investment held by the Group (31 March 2006: nil).

Employees and Remuneration Policies

As at 30 September 2006, the Group employed a total of approximately 5,060 employees including directors (31 March 2006: approximately 4,900).

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 PRC.

Material Acquisition or Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies during the six months ended 30 September 2006 (31 March 2006: nil).

OTHER INFORMATION

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

As at 30 September 2006, the interests and short positions of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or 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") 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

The Company:

Name of director	Capacity/Nature of interest	Number of shares held Long position	Number of shares held Short position	Approximate percentage of issued share capital of the Company
Chung Yuk Sing	Interest of a controlled corporation/ Corporate	117,150,000 *(Note)*	–	27.44%
Chung Tung Sau	Beneficial owner/ Personal	4,500,000	–	1.05%
Kuo Tai Yu	Beneficial owner/ Personal	1,680,000	–	0.39%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.35%
Chen Zhen Hao	Beneficial owner/ Personal	1,350,000	–	0.32%
Lin Pin Huang, Otto	Beneficial owner/ Personal	1,043,000	–	0.24%
Tsai Nai Kun	Beneficial owner/ Personal	777,000	–	0.18%

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 Yuk Sing and Ms. Tsang Yuk Ni, the spouse of Mr. Chung Yuk Sing, in the proportion of 90% and 10% respectively.

Save as disclosed above, as at 30 September 2006, none of the directors or chief executive had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register that was 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2006, 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 as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares held		Approximate percentage of issued share capital of the Company
		Long position	Short position	
Time Easy	Beneficial owner/ Personal	117,150,000 *(Note 1)*	–	27.44%
Pou Chen Corporation ("PCC")	Interest of a controlled corporation/ Corporate	192,000,000 *(Note 2)*	–	44.96%
Wealthplus Holdings Limited ("Wealthplus")	Interest of a controlled corporation/ Corporate	192,000,000 *(Note 2)*	–	44.96%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of a controlled corporation/ Corporate	192,000,000 *(Note 2)*	–	44.96%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of a controlled corporation/ Corporate	192,000,000 *(Note 2)*	–	44.96%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 *(Note 2)*	–	44.96%

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 turns owns an interest of approximately 47.4% in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing, which in turn owns the entire interest in Great Pacific.

Save as disclosed above, as at 30 September 2006, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Interest of the director of the Company in a competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules is 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") *(Note)*	Garment manufacturing	As a director

Note: Yuen Thai is a company incorporated in Hong Kong on 24 September 2003 and is held as to 50% by Yue Yuen and its subsidiaries (the "Yue Yuen Group") and 50% by a subsidiary of Luen Thai Holdings Limited, a company listed on the Stock Exchange since 2004. 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 businesses of the Group.

SHARE OPTION SCHEME

On 6 August 2003, the Company has conditionally adopted a 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 whom the Company's board of directors (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. Details of the share option scheme are set out in note 26 to the financial statements of the Company for the year ended 31 March 2006.

As at 30 September 2006, 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 30 September 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the directors of the Company are aware of any information that would reasonably indicate that the Company is not or was for any part of the six months ended 30 September 2006 in compliance with the Code Provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviations in respect of the service term and rotation of directors under Code Provisions A.4.1 and A.4.2 of the CG Code.

A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election. All independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

A.4.2 of the CG Code also stipulates every director should be subject to retirement by rotation at least once every three years. In order to comply with Code Provision A.4.2 of the CG Code, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders at the Annual General Meeting of the Company held on 22 August 2006. Accordingly, Code Provision A.4.2 of the CG Code has been complied with thereafter.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct for dealing in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 September 2006.

AUDIT COMMITTEE

The Company has an audit committee which was established on 6 August 2003 and in compliance with Rule 3.21 of the Listing Rules for the purpose 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 unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2006 have been reviewed by the Company's audit committee.

REMUNERATION COMMITTEE

A remuneration committee of the Company was established pursuant to the requirements of the Listing Rules. The remuneration committee comprises two independent non-executive directors, namely, Mr. Chan Cheuk Ho and Mr. Li Chi Chung and one executive director, namely, Mr. Chung Yuk Sing.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 December 2006 to 7 December 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement of the proposed interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars and transfer office in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 5 December 2006.

On Behalf of the Board
Chung Yuk Sing
Chairman

Hong Kong, 17 November 2006

As at the date hereof, the board of directors of the Company comprises eight executive directors, namely, Mr. Chung Yuk Sing, Mr. Tsai Nai Kun, Mr. Chung Tung Sau, Mr. Kuo Tai Yu, Mr. Lin Pin Huang Otto, Ms. Tsang Sau Fan, Mr. Ku Yu Sun Edward, and Mr. Chen Zhen Hao and three independent non-executive directors, namely, Mr. Chan Cheuk Ho, Mr. Li Chi Chung and Mr. Cheng Yung Hui Tony.