Eagle Nice (International) Holdings Limited

鷹美（國際）控股有限公司*

10 Interim Report

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02368)

*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 2010 together with the comparative unaudited figures for the corresponding period in 2009 and the relevant explanatory notes.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
REVENUE	2	**661,200**	670,737
Cost of sales		**(490,907)**	(474,364)
Gross profit		**170,293**	196,373
Other income	3	**19,731**	934
Selling and distribution expenses		**(9,230)**	(6,600)
Administrative expenses		**(53,350)**	(44,370)
PROFIT BEFORE TAX	4	**127,444**	146,337
Tax	5	**(17,403)**	(19,265)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**110,041**	127,072
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	7		
Basic		**HK22.02 cents**	HK25.43 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**110,041**	127,072
Other comprehensive income:		
Exchange differences on translation of foreign operations	**122**	(5,785)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	**(11,739)**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**98,424**	121,287

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Notes	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		303,215	302,282
Prepaid land lease payments		59,914	60,818
Prepayments and deposits for property, plant and equipment		94,567	43,939
Goodwill		26,112	26,112
		483,808	433,151
CURRENT ASSETS			
Inventories		145,049	136,254
Accounts and bills receivable	8	184,862	156,567
Prepayments, deposits and other receivables		16,277	16,971
Cash and cash equivalents		326,697	328,135
		672,885	637,927
CURRENT LIABILITIES			
Accounts and bills payable	9	72,744	66,272
Accrued liabilities and other payables		73,482	58,435
Tax payable		28,242	26,548
		174,468	151,255
NET CURRENT ASSETS		498,417	486,672
TOTAL ASSETS LESS CURRENT LIABILITIES		982,225	919,823
NON-CURRENT LIABILITIES			
Deferred tax liabilities		23,163	24,207
		959,062	895,616
EQUITY			
Issued capital	10	4,997	4,997
Reserves		954,065	890,619
		959,062	895,616

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	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 1 April 2010	4,997	472,586	(229)	15,884	66,832	24,893	310,653	895,616
Profit for the period	-	-	-	-	-	-	110,041	110,041
Exchange differences on translation of foreign operations	-	-	-	-	122	-	-	122
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	-	-	-	-	(11,739)	-	-	(11,739)
Total comprehensive income for the period	-	-	-	-	(11,617)	-	110,041	98,424
Release upon deregistration of subsidiaries	-	-	-	(4,757)	-	-	4,757	-
Final 2010 dividend	-	-	-	-	-	-	(34,978)	(34,978)
At 30 September 2010	4,997	472,586	(229)	11,127	55,215	24,893	390,473	959,062

For the six months ended 30 September 2009

	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 1 April 2009	4,997	472,586	(229)	13,821	73,219	20,107	287,989	872,490
Profit for the period	–	–	–	–	–	–	127,072	127,072
Exchange differences on translation of foreign operations	–	–	–	–	(5,785)	–	–	(5,785)
Total comprehensive income for the period	–	–	–	–	(5,785)	–	127,072	121,287
Final 2009 dividend	–	–	–	–	–	–	(59,962)	(59,962)
At 30 September 2009	4,997	472,586	(229)	13,821	67,434	20,107	355,099	933,815

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow from operating activities	**102,516**	124,458
Net cash outflow from investing activities	**(104,154)**	(64,675)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,638)**	59,783
Cash and cash equivalents at beginning of period	**324,692**	285,226
Effect of change in foreign exchange rate, net	**200**	(2,356)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**323,254**	342,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**323,254**	313,012
Non-pledged time deposits	**3,443**	33,050
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**326,697**	346,062
Excluding:		
Non-pledged time deposits with original maturity of over three months	**(3,443)**	(3,409)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	**323,254**	342,653

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND IMPACT OF NEW OR 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 2010, except in relation to the following new or 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.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs

The adoption of the new/revised HKFRSs, except for the Improvements to HKFRSs 2009 as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognized.

The Improvements to HKFRSs 2009 consist of further amendments to existing standards, including an amendment to HKAS 17 Leases. The amendment to HKAS 17 requires the land element of a property lease to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. Before amendment, HKAS 17 stated that the land element of a property lease would normally be classified as an operating lease unless title to the land was expected to pass to the lessee at the end of the lease term. On adoption of the amendment, the Group has assessed its leases in Hong Kong and Mainland China and has reclassified the land element of its property leases in Hong Kong from operating leases to finance leases. In addition, the amortisation of the prepaid land lease expense has been reclassified to depreciation. The effect of the adoption of the amendment on the consolidated statement of financial position at 1 April 2010 is that property, plant and equipment has increased by HK$11,733,000 with a corresponding reduction in prepaid land lease payments. The depreciation charge for the current period has increased by HK$155,000 with a corresponding reduction in the amortisation charge. To conform with the current period's presentation, there were an increase of HK$155,000 in the depreciation charge in prior period and a corresponding reduction in the amortisation charge for that period. The consolidated statement of financial position at 31 March 2010 has been restated to reflect the reclassifications.

2. SEGMENT INFORMATION

The Group is solely engaged in manufacture and trading of sportswear and garments. The Group determines that there are five operating segments, based on location of customers (the destination of sales), including Mainland China, Europe, USA, Japan and others. These segments are managed separately as each segment is subject to risks and returns that are different from each other. Due to the adoption of revised presentations as explained in note 4, certain comparative amounts have been reclassified to conform with the current period's presentation.

The revenue and the result of each operating segment for the six month ended 30 September 2010 are as follows:

	Revenue Six months ended 30 September (Unaudited)		**Segment result Six months ended 30 September (Unaudited)**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China	198,197	270,919	39,791	62,130
Europe	183,419	134,903	42,451	37,663
USA	120,409	97,053	26,387	29,643
Japan	56,346	74,957	13,292	18,368
Others	102,829	92,905	21,182	26,585
	661,200	670,737	143,103	174,389
Other income			19,731	934
Unallocated corporate expenses			(35,390)	(28,986)
Profit before tax			127,444	146,337
Tax			(17,403)	(19,265)
Profit for the period			110,041	127,072

3. OTHER INCOME

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income	**809**	752
Rental income	**187**	102
Gain on deregistration of subsidiaries, net	**18,405**	–
Others	**330**	80
	19,731	934

4. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation	**18,347**	17,543
Amortisation of prepaid land lease payments	**904**	904

The above amounts included the adjustments arising from adoption of amendment to HKAS 17.

In the prior period, certain of the Group's employee benefits expenses for administrative staff and the depreciation of the leasehold improvements of factory buildings for production use are included as "cost of sales" and "administrative expenses", respectively. During the period, the Group changed the presentation, as in the opinion of the directors, it is more appropriate to include these employee benefits expenses as "administrative expenses" while the depreciation as "cost of sales". To conform with the current period's presentation, the amounts of cost of sales and administrative expenses in prior period decreased by HK$3,334,000 and increased by HK$3,334,000, respectively.

5. TAX

Hong Kong profits tax for the six months ended 30 September 2010 has been provided at the rate of 16.5% (2009: 16.5%) 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.

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge for the period:		
Hong Kong	**11,141**	11,800
Elsewhere	**7,822**	5,151
Over-provision in prior years	**(3,596)**	–
Withholding tax on repatriation of earnings from the subsidiaries in the PRC	**1,712**	2,314
Deferred	**324**	–
Total tax charge for the period	**17,403**	19,265

The over-provision of HK$3,596,000 during the period represents write-back of tax charges upon the deregistration of a subsidiary.

6. INTERIM DIVIDEND

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim dividend declared of HK$0.12 per share (2009: HK$0.13 per share)	**59,962**	64,958

The Board resolved that an interim dividend of HK$0.12 per share for the six months ended 30 September 2010 to be paid to the shareholders whose names appear on the Company's register at the close of business on 9 December 2010. The interim dividend was declared after the period ended 30 September 2010, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the period of HK$110,041,000 (2009: HK$127,072,000) and the weighted average of 499,680,000 (2009: 499,680,000) 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.

8. 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 to 45 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. The accounts and bills receivable are non-interest-bearing.

An aged analysis of the accounts and bills receivable as at the end of reporting period, based on the invoice date, is as follows:

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Within 30 days	**137,773**	109,414
31 to 60 days	**44,629**	40,101
61 to 90 days	**1,364**	6,480
Over 90 days	**1,096**	572
	184,862	156,567

The above balance is neither past due nor impaired. The financial assets included in the above balance relate to receivable for which there was no recent history of default.

9. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the end of reporting period, based on the invoice date, is as follows:

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Within 90 days	69,053	62,400
91 to 180 days	1,416	1,396
181 to 365 days	758	189
Over 365 days	1,517	2,287
	72,744	66,272

The accounts and bills payable are non-interest-bearing and are normally settled on 45-day terms. The carrying amount of accounts and bills payable approximate to their fair values.

10. ISSUED CAPITAL

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Authorised:		
10,000,000,000 (31 March 2010: 10,000,000,000) ordinary shares of HK$0.01 each	100,000	100,000
Issued and fully paid:		
499,680,000 (31 March 2010: 499,680,000) ordinary shares of HK$0.01 each	4,997	4,997

11. CAPITAL COMMITMENTS

The Group had the following capital commitment at the end of reporting period:

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Contracted, but not provided for:		
Construction of a factory	83,093	–
Renovation of factories	4,906	1,956
Purchases of machineries	2,819	1,954
Leasehold improvements	868	–
Purchases of computer equipment	–	55
	91,686	3,965
Authorised, but not contracted for:		
Investment project in Yifeng County, the Jiangxi Province, the PRC	60,547	81,502
Investment project in Indonesia	59,504	65,951
	120,051	147,453

12. RELATED PARTY TRANSACTIONS

(a) Transactions and balances with related parties

		Transactions			Balances	
		Six months ended 30 September			As at 30 September	As at 31 March
	Notes	2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000	Notes	2010 (Unaudited) HK$'000	2010 (Audited) HK$'000
Subcontracting fee payable to related companies	(i)	6,148	18,615	(ii)	1,172	1,755

Notes:

(i) All the transactions were made on similar terms with other non-related parties of the Group.

(ii) The balances due with related parties are repayable on similar terms with other non-related parties of the Group. All amounts are unsecured, interest-free and payable under normal trade credit terms.

(b) Key management compensation

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Salaries and allowances	**3,015**	4,036
Others	**141**	167
	3,156	4,203

13. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 11 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Global economic conditions have stabilised since 2009 but a full recovery in real terms has yet to be seen. Unemployment rates in Europe and the United States remain high and consumers' confidence has yet to fully pick up. The PRC government has made strong efforts to stimulate domestic demand by encouraging domestic consumption since 2009, but the economy remains in a stage of transition at the moment. Manufacturers were facing an ever-more challenging business environment. Sportswear brands strived to enhance price competitiveness by demanding price cuts on one end, while on the other end, raw material costs and production costs, in particular labour costs, had risen during the past year.

The PRC manufacturers are generally facing rising production costs and increasing competition among market players. The management believes that to emulate the traditional role of the PRC manufacturers as being limited to merely providing manufacturing function, the Group has to shift from an operation-oriented approach that emphasises volume to a development-oriented approach that emphasises quality. The Group is distinguished from its peers by its ability to offer product innovation and upgrades, enhance economies of scale and operate low-carbon production so as to achieve both cost saving and environmental protection.

R&D innovations: towards a high value added business

The ability to introduce innovation within a short time span is crucial to the success of any sportswear manufacturers in the rapidly changing consumer market. The Group will continue to commit more resources to R&D, design and optimisation of production technology in active response to the PRC government's policy of encouraging transition to industries based on advanced technologies and high value added businesses, facilitated through concessions in tax regimes and labour policies.

Our R&D team liaises and works with major fabric suppliers on a regular basis to keep abreast of market trends and provide customers with the latest information. In connection with product designs, the Group is committed to upgrading traditional products with high-quality fabrics, fashionable designs and diversified product ranges, as well as enhanced functions such as bacteria resistance, warmth, water resistance and UV protection. The optimisation of our production technologies was focused on the streamlining of production procedures, minimisation of errors and shortening of production lead-time, aiming at cost reductions and improvements in profit margin. Meanwhile, the Group continues to commit resources to the purchase of advanced equipment such as the Ultrasonic Seam Cutting Machine and the Heating & Cooling PU Zipper Seam Sealing Press Machine for the production of high-end products, in order to further optimise its production technologies and foster capabilities for product diversification. This would enable the Group to increase the selling prices and improve its profit margin in the long run.

Low-carbon economy presenting business opportunities as well as cost reductions

With the advent of the age of low-carbon economy, textile manufacturers have come under closer public scrutiny for strict compliance with environmental regulations in terms of raw materials and production processes, while the call for energy conservation and reduction of waste discharge is also gathering momentum. In tandem with its emphasis on environmental protection, the management has introduced low-carbon and environmentally friendly elements in terms of design, fabric and production technology since recent years.

In recent years, the Group has been conducting researches on the use of recyclable materials, bio-degradable materials and other low-hazard or environmentally friendly materials, such as environment-friendly fibre and organic cotton, etc, in the manufacture of sportswear. In comparison to traditional materials, the aforesaid materials typically discharge a lower level of carbon dioxide during degradation. The Group conducts proper disposal of pollutants in strict compliance with the PRC environmental laws and regulations and relevant standards promulgated by the Ministry of Environmental Protection of the PRC. Moreover, the operation of lean manufacturing implemented by the Group, which aims at "delivering maximum value with minimum resources," represents an efficient measure in the development of low-carbon economy that has contributed to the effective use of resources with less wasteful consumption.

Environment-friendly products are set to become a new trend in apparel given their wide recognition by the public. Therefore, the development of low-carbon economy should be perceived as presenting opportunities to enterprises rather than putting them under pressure. As a company with firm social commitment, the Group will seek to achieve balance between environment protection, business growth and social responsibility in making business decisions.

MARKET REVIEW

According to the report of Global Industry Analysts, the United States is currently the world's largest consumer nation for sports and fitness apparel accounting for a global market share of approximately 60% since 2006, followed by Europe and the Asia Pacific. In the past, the Group used to focus on developing the Asia Pacific market, deriving over 90% of its sales from the region with special emphasis on Mainland China, which accounted for more than half of the sales from the Asia Pacific. Since gaining access to Europe and the United States two years ago to tap their enormous consumer markets, the Group has established firm foundations in these regions. Sales from Europe and the United States for the period under review grew by 36% and 24%, respectively, as compared to the corresponding period of last year, accounting for 28% and 18%, respectively, of the Group's total sales. In Mainland China, competition is intense with numerous international and domestic brands vying for market shares in this growing market, leaving little room for sportswear brands to raise their prices. Sales to Mainland China decreased by 27% as compared to the corresponding period of last year and decreased to 30% as a percentage of the Group's total sales for the period. This reflects increased sales of high-end products and adjustments to the Group's development strategy calling for greater exposure to Europe and the United States. The management believes that the strategy of market diversification not only presents opportunities for new market development, but also mitigates the market risks of the Group by enabling it to diversify its market exposures, so that the Group will be able to maintain stability in turnover even in the time of economic slowdown.

OUTLOOK

Driven by revived enthusiasm in sports and fitness in recent years, the sportswear market has enjoyed booming development, showing remarkable resilience even amid the global economic crisis. According to a report of The NPD Group Inc., sportswear sales in the United States slightly grew by 0.7% during the third quarter of 2008 while garment sales were declining. In the PRC, fashionable sportswear has become increasingly popular as the Chinese continue to grow in affluence. Demand for sportswear will be further driven by active government support for and promotion of nationwide fitness programmes, substantial boost of the minimum wage level and the successful hosting of a series of international sporting events by the nation in recent years, resulting in enormous opportunities for the retail sales of sportswear.

While the domestic sportswear market has been growing rapidly, competition is also fierce as a host of international brands have been focusing their efforts to tap the PRC market in recent years. Numerous domestic sportswear brands are also emerging, leaving little room for sportswear brands to negotiate price hikes. Moreover, a number of brands are diverting their focus to third- to fourth-tier cities where medium- to low-end products are expected to become more popular, which means that profit margins for sportswear brands and sportswear manufacturers will be crimped. In this connection, the management of Eagle Nice has further reinforced the Group's competitiveness by making pre-emptive moves to establish manufacturing facilities in Jiangxi Province, the PRC, in tandem with its customers' marketing strategy to reach out to inland cities.

Following years of rapid growth, the Group's existing production facilities are now operating at nearly full capacity. New niche for development needs to be identified if the Group is to outdo its competitors with breakthroughs from its current level of performance. In this connection, the Group has drawn up business development plans for the future, which call for the production of high-margin and high-end functional products through R&D, as well as the development of ODM businesses, in a bid to further enhance its competitive edge. Meanwhile, there are also plans for capacity expansion in Jiangxi Province, the PRC and Banten Province, Indonesia, which are relatively cost-competitive regions with abundant labour supply. Upon the completion and full commissioning of these two projects, the Group's production capacity is expected to more than double so that we are able to further explore different customers to mitigate the impact of seasonal factors on the Group. The Group could also benefit from the positions of these two areas in global market to have more flexibility in cost control to enhance its competitiveness. Domestic businesses could also be developed for more effective cost control, stability in production capacity and opportunities for expansion.

The China-ASEAN Free Trade Area (CAFTA) has quickly grown into one of the three largest economies in the world. As a CAFTA member with a huge population, Indonesia is an ideal location for building production bases, while its domestic market also holds out enormous potential. China and ASEAN could form partnerships with significant complementary benefits, as each claims advantages in different areas such as raw material resources, technology and labour cost. As of now, duty-free trade between China and ASEAN has been realised for 90% of the products traded. With the exemption of custom duties, manufacturers are allowed more flexibility in production arrangements among the member states, while lower costs and prices of products may stimulate demand in the region. As such, the Group will next be looking at the expansion of its production and sales in ASEAN.

The Group currently owns cash of HK$326.7 million with no outstanding borrowings. However, the Group is required to commit substantial capital for the aforesaid investments, which are not expected to generate strong returns in the start-up period. Consequently, the Group's cash flow and profit for the coming years will inevitably come under pressure. Nevertheless, the Group is convinced that its present investments will result in lucrative rewards for the shareholders in future as they lay the solid foundation for scaling new heights in the Group's performance. During the transitional period, the management will use its best effort to minimise the negative impact of such investments and continue to provide reasonable return, based on the Group's current profit, to investors who have rendered their support to Eagle Nice.

REVIEW OF FINANCIAL PERFORMANCE

During the period under review, the revenue of the Group declined slightly by 1.4% to HK$661.2 million for the six month ended 30 September 2010 (2009: HK$670.7 million). Gross profit decreased by 13.3% to HK$170.3 million for the six month ended 30 September 2010 (2009: HK$196.4 million). Gross profit margin dropped by 3.5% from 29.3% to 25.8% during the period.

The Group's ability to maintain stable revenue amid a volatile economic environment was attributable to its successful strategy of market diversification. During the period, the Group successfully diverted its focus on Asia (especially Mainland China) to more evenly distributed exposures to Asia, Europe and the United States and mitigated the risk of a narrow regional base. The decline in gross profit margin was mainly attributable to the drastic rise in raw material costs and labour costs during the period. The Group's gross profit was directly affected by rising wages in the Guangdong Province, the PRC amid increasing labour shortage in the region, coupled with the mandatory rise in minimum wages with effect from 1 May 2010, as announced by the Human Resources and Social Security Department of Guangdong Province, the PRC, which resulted in an average growth of 21% in minimum wages.

Among other income, an amount of HK$18.4 million was derived from the deregistration of two subsidiaries. The Group's selling and distribution costs increased by HK$2.6 million (or 39.8%), which was mainly attributable to the increase in export freight costs in tandem with a 15.8% growth in export sales. The increase of HK$9.0 million (or 20.2%) in general and administrative expenses was largely due to an increase in staff costs resulting from recruitment of additional staff for the Group's expansion plans in Jiangxi and Indonesia. The implementation of the two investment plans aforesaid also resulted in the increase in certain items under general and administrative expenses. In connection with taxation, profit before tax declined by HK$18.9 million (or 12.9%) and the Group's overall tax expenses decreased by HK$1.9 million (or 9.7%), which mainly reflected the write-back of tax charges for a deregistered subsidiary offsetting the effect of the annual increment of the preferential income tax rates for certain PRC subsidiaries up to the standard tax rate of 25% under the new tax law that became effective in 2008. Excluding the effect of write-back of tax charges, effective tax rate rose by 3.3% from 13.2% to 16.5% during the period.

Profit attributable to owners of the Company was HK$110.0 million for the six months ended 30 September 2010, decreasing by 13.4% compared to HK$127.1 million for the corresponding period of last year. Basic earnings per share amounted to HK22.0 cents for the current period compared to HK25.4 cents for the corresponding period of last year. The Board proposed to declare an interim dividend of HK12 cents per share for the six months ended 30 September 2010, compared to HK13 cents per share for the corresponding period of last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group continued to maintain a healthy liquidity position. The Group generally finances its operations with internally generated resources and banking facilities. As at 30 September 2010, the Group had cash and cash equivalents amounting to HK$326.7 million mainly denominated in Hong Kong dollars, Renminbi and US dollars (31 March 2010: HK$328.1 million). As at 30 September 2010, the Group had aggregate banking facilities of HK$46.0 million (31 March 2010: HK$46.0 million) which were secured by (i) corporate guarantees executed by the Company; and (ii) unlimited corporate guarantees executed by subsidiaries of the Company. No banking facilities were utilised by the Group as at 30 September 2010 and 31 March 2010.

The management believes that the existing financial resources will be sufficient to meet existing and future expansion plans and, if necessary, the Group will be able to obtain additional financing on favourable terms. There is no material effect of seasonality on the Group's borrowing requirements.

As at 30 September 2010, the Group's gearing ratios represented by total liabilities as a percentage of the Group's total assets amounted to 17.1% (31 March 2010: 16.4%).

For the six months ended 30 September 2010, 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 2010, the Group did not have any significant contingent liabilities (31 March 2010: nil) and the Company had given corporate guarantee to banks to the extent of HK$46.0 million (31 March 2010: HK$46.0 million) for banking facilities granted to certain subsidiaries of the Company.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group has transactional currency exposures. Such exposures arise from substantial portion of sales or purchases by operating units in US dollars and RMB. The Group is exposed to foreign exchange risk arising from the exposure of RMB and US dollars. As the foreign currency risks generated from the sales and purchases can be set off with each other, the Group believes its exposure to exchange rate risk is minimal. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency.

The Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange exposures and will consider hedging the significant foreign currency exposures should the need arise.

SIGNIFICANT INVESTMENTS

As at 30 September 2010, there was no significant investment held by the Group (31 March 2010: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2010, the Group employed a total of approximately 7,100 employees including directors (31 March 2010: approximately 6,700).

The employees including directors are remunerated based on their working 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 2010, except that two subsidiaries of the Group were deregistrated during the period.

OTHER INFORMATION

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

As at 30 September 2010, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company (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 directors or chief executive were 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

The Company:

Name of director	Capacity	Number of shares held Long position	Number of shares held Short position	Percentage of issued share capital of the Company
Mr. Chung Yuk Sing	Interest in a controlled corporation	72,650,000 (Note)	–	14.54
	Beneficial owner	200,000	–	0.04
Mr. Chen Hsiao Ying	Beneficial owner	25,328,800	–	5.07
Mr. Kuo Tai Yu	Beneficial owner	1,680,000	–	0.34

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.

Save as disclosed above, as at 30 September 2010, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to 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 2010, the interests and short positions of the following persons, other than the directors and the 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 and which have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity	Number of shares held Long position	Number of shares held Short position	Percentage of issued share capital of the Company
Time Easy	Beneficial owner	72,650,000 (Note 1)	–	14.54
Pou Chen Corporation ("PCC")	Interest in a controlled corporation	192,000,000 (Note 2)	–	38.42
Wealthplus Holdings Limited ("Wealthplus")	Interest in a controlled corporation	192,000,000 (Note 2)	–	38.42
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest in a controlled corporation	192,000,000 (Note 2)	–	38.42
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest in a controlled corporation	192,000,000 (Note 2)	–	38.42
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner	192,000,000 (Note 2)	–	38.42

Notes:

1. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing.

2. The 192,000,000 shares were held by Great Pacific which was wholly-owned by Pou Hing. The entire issued share capital of Pou Hing was held by Yue Yuen in which Wealthplus and Win Fortune Investment Ltd. ("Win Fortune") held an interest of 46.89% and 3.09% respectively. Wealthplus and Win Fortune are in turn wholly-owned by PCC. Accordingly, Pou Hing, Yue Yuen, Wealthplus, Win Fortune and PCC are all deemed to be interested in the 192,000,000 shares held by Great Pacific.

Save as disclosed above, as at 30 September 2010, 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
Ms. Chen Fang Mei, Christina ("Ms. Chen")	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. Ms. Chen has been nominated to the board of directors of Yuen Thai to represent the interest of the Yue Yuen Group since July 2009.

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 Ms. Chen'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 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 2010.

As at 30 September 2010, 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 2010.

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 was not for any part of the six months ended 30 September 2010 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 deviation in respect of the service term of the non-executive directors set out in Code Provision A.4.1 of the CG Code.

Code Provision 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules 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 2010.

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 2010 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK12 cents per share for the six months ended 30 September 2010 (2009: HK13 cents) to be payable to shareholders whose names appear on the register of members of the Company on 9 December 2010. The interim dividend will be payable on 16 December 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 December 2010 to 9 December 2010, 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, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 December 2010.

DISCLOSURE OF INFORMATION ON THE COMPANY'S AND THE STOCK EXCHANGE'S WEBSITE

This interim report is published on the websites of the Company (http://www.eaglenice.com.hk) and the Stock Exchange (http://www.hkex.com.hk).

On Behalf of the Board
Chung Yuk Sing
Chairman

Hong Kong, 11 November 2010

As at the date of this report, the Board comprised four executive directors, namely, Mr. Chung Yuk Sing (Chairman), Mr. Chen Hsiao Ying (Chief Executive Officer), Mr. Kuo Tai Yu and Ms. Chen Fang Mei, Christina and three independent non-executive directors, namely, Mr. Chan Cheuk Ho, Mr. Li Chi Chung and Mr. Cheng Yung Hui, Tony.