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: 02368)

2014 INTERIM REPORT

* For identification purposes 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 2014 together with the comparative unaudited figures for the corresponding period in 2013 and the relevant explanatory notes.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2014

	Notes	**Six months ended 30 September 2014 (Unaudited) HK$'000**	Six months ended 30 September 2013 (Unaudited) HK$'000 (restated)
REVENUE	2	**885,297**	867,880
Cost of sales		**(721,918)**	(731,922)
Gross profit		**163,379**	135,958
Other income	3	**3,649**	1,881
Fair value changes on derivative financial instruments		**(7,672)**	–
Fair value changes on structured bank deposits		**13**	–
Selling and distribution expenses		**(9,395)**	(12,153)
Administrative expenses		**(61,509)**	(65,127)
Finance costs	4	**(1,920)**	(2,591)
PROFIT BEFORE TAX	5	**86,545**	57,968
Income tax expense	6	**(22,835)**	(15,760)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**63,710**	42,208
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		**HK12.75 cents**	HK8.45 cents
Diluted		**HK12.75 cents**	HK8.45 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Six months ended 30 September 2014 (Unaudited) HK$'000	Six months ended 30 September 2013 (Unaudited) HK$'000 (restated)
PROFIT FOR THE PERIOD	63,710	42,208
Other comprehensive income:		
Item that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	2,054	13,826
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	65,764	56,034

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	Notes	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		735,787	755,797
Prepaid land lease payments		74,337	74,678
Goodwill		26,112	26,112
		836,236	856,587
CURRENT ASSETS			
Inventories		210,965	260,275
Accounts and bills receivable	9	269,639	134,263
Prepayments, deposits and other receivables		24,276	27,862
Structured bank deposits	12	39,164	–
Cash and cash equivalents		222,204	276,565
		766,248	698,965
CURRENT LIABILITIES			
Accounts and bills payable	10	91,633	96,112
Accrued liabilities and other payables		93,454	81,366
Interest-bearing bank borrowings	11	285,244	339,620
Derivative financial instruments	12	7,672	–
Tax payable		27,538	9,538
		505,541	526,636
NET CURRENT ASSETS		260,707	172,329
TOTAL ASSETS LESS CURRENT LIABILITIES		1,096,943	1,028,916
NON-CURRENT LIABILITIES			
Pension scheme obligation		3,080	2,425
Deferred tax liabilities		16,182	14,574
TOTAL NON-CURRENT LIABILITIES		19,262	16,999
		1,077,681	1,011,917
EQUITY			
Issued capital	13	4,997	4,997
Reserves		1,072,684	1,006,920
		1,077,681	1,011,917

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	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 2014	4,997	472,586	(229)	37,728	111,397	–	385,438	1,011,917
Profit for the period	–	–	–	–	–	–	63,710	63,710
Exchange differences on translation of foreign operations	–	–	–	–	2,054	–	–	2,054
Total comprehensive income for the period	–	–	–	–	2,054	–	63,710	65,764
At 30 September 2014	4,997	472,586	(229)	37,728	113,451	–	449,148	1,077,681

For the six months ended 30 September 2013

	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 2013								
As previously reported	4,997	472,586	(229)	33,748	102,142	127,136	402,099	1,142,479
Prior year adjustment	–	–	–	–	(4,154)	(127,136)	4,293	(126,997)
As restated	4,997	472,586	(229)	33,748	97,988	–	406,392	1,015,482
Profit for the period (restated)	–	–	–	–	–	–	42,208	42,208
Exchange differences on translation of foreign operations	–	–	–	–	13,826	–	–	13,826
Total comprehensive income for the period (restated)	–	–	–	–	13,826	–	42,208	56,034
Final 2013 dividend	–	–	–	–	–	–	(19,987)	(19,987)
At 30 September 2013 (restated)	4,997	472,586	(229)	33,748	111,814	–	428,613	1,051,529

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash flows from operating activities	**47,098**	22,177
Net cash flows used in investing activities	**(41,310)**	(4,781)
Net cash flows used in financing activities	**(54,376)**	(15,625)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(48,588)**	1,771
Cash and cash equivalents at beginning of period	**276,565**	309,352
Effect of change in foreign exchange rate, net	**(5,773)**	2,244
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**222,204**	313,367
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**222,204**	313,367

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. (a) 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 2014, 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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the new/revised HKFRSs 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.

(b) CHANGES IN ACCOUNTING POLICIES

Due to the changes to (i) the accounting for the Group's defined benefit plan upon the adoption of HKAS 19 (2011) and (ii) the Group's accounting policy on leasehold land and buildings to follow the cost model under HKAS 16 in the financial year ended 31 March 2014, the comparative amounts for the corresponding period in 2013 have been restated accordingly.

Details of the effects of the changes in accounting policies as described above are disclosed in note 2.2 to the Company's annual report for the year ended 31 March 2014. The effects to the consolidated income statement (extracts) for the six months ended 30 September 2013 are as follows:

The effects of the changes to the accounting for the Group's defined benefit plan:

	Six months ended 30 September 2013 (Unaudited) HK$'000
Increase in costs of sales	(580)
Increase in administrative expenses	(101)
Decrease in profit and total comprehensive income for the period attributable to owners of the Company	(681)
Decrease in earnings per share attributable to owners of the Company	
Basic	(HK0.14 cent)
Diluted	(HK0.14 cent)

The effects of the change in accounting policy for leasehold land and buildings:

	Six months ended 30 September 2013 (Unaudited) HK$'000
Decrease in costs of sales	1,690
Decrease in administrative expenses	1,184
Increase in profit and total comprehensive income for the period attributable to owners of the Company	2,874
Increase in earnings per share attributable to owners of the Company	
Basic	HK0.58 cent
Diluted	HK0.58 cent

2. SEGMENT INFORMATION

The Group is solely engaged in manufacture and trading of sportswear and garments. For management purposes, the Group determines that there are five operating segments, based on location of customers (the destination of sales), including USA, Mainland China, Europe, Japan and others. These segments are managed separately as each segment is subject to risks and returns that are different from each other.

The revenue and the result of each operating segment for the six month ended 30 September 2014 are as follows:

	Revenue Six months ended 30 September (Unaudited)		Segment result Six months ended 30 September (Unaudited)	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000 (restated)
USA	**275,608**	286,935	**39,798**	34,274
Mainland China	**190,913**	186,843	**31,624**	23,228
Europe	**183,590**	136,863	**28,591**	11,021
Japan	**59,330**	85,175	**7,378**	6,429
Others	**175,856**	172,064	**23,682**	15,003
	885,297	867,880	**131,073**	89,955
Other income			**3,649**	1,881
Unallocated expenses			**(48,177)**	(33,868)
Profit before tax			**86,545**	57,968
Tax			**(22,835)**	(15,760)
Profit for the period attributable to owners of the Company			**63,710**	42,208

3. OTHER INCOME

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income	**666**	625
Gain on derivative financial instruments	**1,237**	–
Others	**1,746**	1,256
	3,649	1,881

4. FINANCE COSTS

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**1,920**	2,591

5. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(restated)
Depreciation	**31,945**	30,891
Amortisation of prepaid land lease payments	**1,171**	1,169

6. TAX

Hong Kong profits tax for the six months ended 30 September 2014 has been provided at the rate of 16.5% (2013: 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge for the period:		
Hong Kong	**7,586**	8,620
Elsewhere	**14,081**	6,570
Deferred	**1,168**	570
Total tax charge for the period	**22,835**	15,760

7. INTERIM DIVIDEND

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim dividend declared of HK$0.06 per share (2013: HK$0.04 per share)	**29,980**	19,987

The Board resolved that an interim dividend of HK$0.06 per share for the six months ended 30 September 2014 to be paid to the shareholders whose names appear on the Company's register at the close of business on 5 December 2014. The interim dividend was declared after the period ended 30 September 2014, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the period of HK$63,710,000 (2013: HK$42,208,000 (restated)) and 499,680,000 (2013: 499,680,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 September 2014 and 2013 as the Group had no potentially dilutive ordinary shares in issue during those 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 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 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
Within 30 days	192,178	81,222
31 to 60 days	47,153	34,793
61 to 90 days	22,228	10,193
Over 90 days	8,080	8,055
	269,639	134,263

The above balances are 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.

10. 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 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
Within 90 days	82,297	89,207
91 to 180 days	1,729	1,469
181 to 365 days	2,281	578
Over 365 days	5,326	4,858
	91,633	96,112

The accounts and bills payable are non-interest-bearing and are normally settled on 45-day terms.

11. INTEREST-BEARING BANK BORROWINGS

	Effective Interest rate %	Maturity	As at 30 September 2014 (Unaudited) HK$'000	Effective Interest rate %	Maturity	As at 31 March 2014 (Audited) HK$'000
Current						
Bank loans – unsecured	1.10% to 1.69%	On demand	285,244	1.01% to 1.60%	On demand	339,620

As at 30 September 2014, HK$211,619,000 (31 March 2014: HK$122,396,000) of the bank borrowings of HK$285,244,000 (31 March 2014: HK$339,620,000) were supported by corporate guarantees executed by the Company and a subsidiary of the Company, and an undertaking of the Group not to charge one of the Group's buildings.

Since the Group's and the Company's bank loans contain repayment to on-demand clauses, the loans are included within current interest-bearing bank borrowings and analysed into bank loans repayable on demand.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the Group's and the Company's bank loans are analysed as follows:

	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
Analysis into:		
Within one year	284,723	145,040
In the second year	521	194,580
	285,244	339,620

12. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

During the period, the Group had entered into certain financial instruments which mainly were structured bank deposits and foreign currency structured forward contracts. They are measured at fair value as at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable. For valuation technique using discounted cash flows, the discount rates used take into consideration the credit risk of the relevant counterparties of the Group, as appropriate.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value		
	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000	**Fair value hierarchy**
Financial assets at fair value through profit or loss			
Structured bank deposits (Note a)	**39,164**	–	Level 3
Financial liabilities at fair value through profit or loss			
Derivative financial instruments (not under hedge accounting) (Note b)	**7,672**	–	Level 2

Notes:

(a) During the current interim period, the Group entered into two structured bank deposits with aggregate amount of RMB31,000,000 (equivalent to HK$39,151,000) (31 March 2014: nil) which will mature in April 2015. The structured bank deposits are designated as fair value through profit or loss at initial recognition. The fair value of the structured bank deposits as at 30 September 2014 was based on their redemption prices from the bank, where a significant key input in the valuation model is the fixed interest rate of 4.6% per annum as agreed with the issuing bank. Both the issuing bank and the Group can only early terminate the structured bank deposits upon redemption dates.

The following table presents the reconciliation of Level 3 measurements of the Group's structured bank deposits for the six months ended 30 September 2014.

	Structured bank deposits HK$'000
At 1 April 2014 (Audited)	–
Purchase	39,151
Fair value changes, recognized in profit or loss	13
At 30 September 2014 (Unaudited)	39,164

(b) Derivative financial instruments are foreign currency structured forward contracts. The amount represents the fair value of the outstanding contracts with aggregate monthly notional amount of US$5 million at the end of the reporting period (31 March 2014: nil). The Group entered into the contracts for the purpose of managing its exposure to foreign exchange risks. Its valuation techniques include discount cash flow and option pricing model. Key inputs to the valuation model include forward exchange rates, contracted exchange rates, discount rates, counterparties' credit risk and volatility of exchange rate of RMB vs US$. The major terms of the contracts are as follows:

(i) The Group shall sell US$1 million or US$0.5 million (31 March 2014: n/a) for RMB at the contracted rates ranging from US$1 for RMB6.30 to 6.41 (31 March 2014: n/a) or receive the gain where the spot rate on the fixing date is below the contracted rate.

(ii) Where the spot rate on the fixing date is above the upper contract rates ranging from US$1 for RMB6.35 to 6.46 (31 March 2014: n/a), the Group shall sell double the amount of US$ for RMB at the contracted rate or pay for the loss.

(iii) Where the spot rate on the fixing date falls within the upper contract rates and contracted rates, no settlement will be required.

(iv) The contracts are settled on a monthly interval from July 2014 to September 2016 (31 March 2014: n/a).

(v) The contracts will be terminated when either (i) the cumulative positive gain reaches a specific amount at any fixing date set out in the relevant agreements; or (ii) the spot rate on the fixing date is equal to or below the lower contract rates ranging from US$1 for RMB6.12 to 6.186 in the period specified in the relevant agreements (31 March 2014: n/a).

13. ISSUED CAPITAL

	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
Authorised:		
10,000,000,000 (31 March 2014: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
499,680,000 (31 March 2014: 499,680,000) ordinary shares of HK$0.01 each	**4,997**	4,997

14. CAPITAL COMMITMENTS

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

	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
Contracted, but not provided for:		
Construction of factories and purchases of machinery and equipment for the investment in Jiangxi Province, the PRC (the "Jiangxi Project")	**767**	122
Renovation of factories for the investment in Indonesia (the "Indonesia Project")	**1,164**	2,120
Purchases of items of equipment	**43**	101
Renovation of factories	**20**	58
	1,994	2,401
Authorised, but not contracted for:		
Investment in the Jiangxi Project	**1,553**	38,610
Investment in the Indonesia Project	**6,903**	7,811
	8,456	46,421

15. COMPARATIVE AMOUNTS

Due to the reasons as detailed in note 1(b), certain prior period adjustments have been made and certain comparative amounts have been restated to conform to the current period's presentation and accounting treatment.

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 14 November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Significant recovery in the global economy was yet to materialise in 2014, as the economies of various countries recovered at different paces. In its latest "World Economic Outlook" report published on 7 October 2014, the International Monetary Fund (IMF) lowered its global economic growth forecast for the year to 3.3%, being the third downward adjustment made for the year's forecast. IMF anticipated stable and healthy economic growth for the PRC, while maintaining a positive outlook for U.S. economic growth. The economic outlooks for the Euro zone and Japan were significantly downgraded, however, indicating increasingly complex global economic conditions.

The market for sportswear products, as consumer goods, was inevitably affected by global economic conditions. Meanwhile, major sportswear brands continued to exercise vigorous inventory control and clear off slow-moving stock, while domestic sportswear brands of the PRC remained in a transition period and a cautious approach was adopted for plans to open new stores in the country. All in all, sportswear manufacturers were facing a more austere business environment.

Changes in the demographic structure of the PRC and the career aspirations of Chinese citizens have made workforce recruitment increasingly difficult for manufacturers. Meanwhile, the government's move to raise the minimum wage level each year contributed to rising labour costs. As a result, in recent years, there has been a trend of manufacturers moving out of the PRC and relocating their factories to Southeast Asia where there is abundant labour supply at lower costs than in the PRC, even though such locations are not as well-equipped as the PRC in terms of supporting facilities.

BUSINESS REVIEW

Balance of regional risks through globalised sales

The Group has been focusing on the manufacturing of weaved sportswear for international brands. The products are exported to global destinations, including Europe, the U.S., the PRC and Southeast Asia. As a major destination for global apparel suppliers enjoying gradual economic recovery in recent years, the U.S. market continued to claim the lion's share of the Group's sales for the period, accounting for 31.1% of its total sales. The PRC, underpinned by healthy and stable economic development, was the second largest export market of the Group, accounting for 21.6% of its total sales. Sales to Europe for the period increased by over 30%, accounting for 20.7% of the Group's total sales.

Since recent years, the Group has been vigorously expanding its European and U.S. markets while expanding domestic sales in the PRC, in a bid to drive market diversification and seek a balance between risks arising in different regions to safeguard the interests of the Group and the investors.

Business restructuring and new product development

Unyielding production cost and intense competition have compelled manufacturers to increase their focus on quality and manufacturing of high-end fashionable products with strong functionality. The Group's R&D Centre has been making ongoing efforts to drive and enhance product design and R&D innovation, with a view to improving product quality and highlighting their strengths and functionality.

During the period under review, the two production bases located in developing regions in Jiangxi Province, the PRC and Banten Province, Indonesia (the "Production Plants") of the Group were operating on considerably stable and sophisticated production technologies. The management adjusted the business positioning of the Group's four plants to focus on orders for the manufacturing of functional sportswear which commanded higher profit margins and to increase the production for orders with high added value, such as those for adhesive stripe sealing, laser cutting and draping. There was notable growth in orders for down/down-like feather products during the period. The Group will continue to enhance its technologies and increase the production of the mid- to high-end sportswear.

Optimising production processes to enhance efficiency

During the period under review, the Group rearranged the production among the four plants in the PRC and Indonesia on the basis of production efficiency, points of sales and strengths in production technologies, with the aim of maximising the efficiency of each plant to increase their profit contributions to the Group.

The Board redeployed the management personnel and trainers of the plants in Guangdong Province to the Production Plants to provide more customised training in tune with local cultures and to pass on our corporate values and replicate our longstanding lean production process. As a result, we succeeded in improving our production efficiency during the period.

Enhancing profit through cost control

Over the past years, rising labour costs and inadequate labour supply in the PRC have been the prime issues facing domestic manufacturers. The Group started to build the Production Plants in Jiangxi, the PRC and Banten, Indonesia, with relatively low labour costs, in 2012. During the early stage of operation, overall labour costs of the Production Plants were not significantly lower comparing with the plants in Guangdong Province, as the level of workers' skills and efficiency of the Production Plants was not at par with the plants in Guangdong Province. In early 2014, the management reorganised the Group structure and terminated the lease of a 8-storey factory in Shantou, the PRC. The staff and machinery equipment were consolidated and transferred to other plants to assist in the recruitment and training of workers at the Production Plants. This initiative has contributed to cost reductions while effectively enhanced our efficiency.

Meanwhile, the Group implemented a range of cost-saving measures to increase the overall profit margin of the Group. The management also streamlined the structures of the headquarters and various plants to expedite policy execution and response.

REVIEW OF FINANCIAL PERFORMANCE

In pursuit of a modified marketing strategy against the backdrop of conservative sales tactics adopted by the Group's major sportswear brand customers, the Group was engaged in vigorous development of value-added products, while striving for orders commanding higher margin. During the period under review, the Group managed a moderate 2.0% growth in total sales to HK$885.3 million (2013: HK$867.9 million) for the six months ended 30 September 2014.

The significant increase in production costs owing to rising minimum wage level and ongoing RMB appreciation has been eroding profitability of the manufacturing sector. In response thereto, the Group has vigorously adopted a range of resource-tapping and cost-saving measures to enhance its profit. Such measures include: (i) business reformation to focus on manufacturing higher margin products; (ii) improvement of production flow to enhance efficiency; and (iii) effective cost control including restructuring and streamlining of the Group's organizational structure, termination of leasing a factory premises in Shantou, the PRC, disposal of under-utilised assets, and enhancement of treasury functions to reduce financial expenses, etc. As a result, the Group succeeded in increasing its gross profit for the period by 20.2% to HK$163.4 million, while its gross profit margin also increased from 15.7% (restated) to 18.5%, an improvement by 2.8%. Profit before taxation increased by 49.3% to HK$86.5 million for the six months ended 30 September 2014 (2013: HK$58.0 million (restated)). The Group's profit before tax margin increased by 3.1% from 6.7% (restated) to 9.8%.

The Group recorded other income of HK$1.2 million derived from foreign currency structured forward contracts purchased by the Group during the period. As at the end of the period, an unrealised loss of HK$7.7 million was incurred as a result of the change in fair value of derivative financial instruments. However, the Board believes that such unrealised loss will only have a temporary impact on the Group's profit.

The Group's selling and distribution expenses decreased by HK$2.8 million primarily as a result of optimised production management and effective allocation of production orders among the four plants of the Group, which contributed to reduction in transportation costs. Administrative expenses decreased by HK$3.6 million mainly as a result of the reorganisation and streamlining of the Group structure, as well as the negotiation of more favourable terms from financial institutions to reduce financial expenses. The decrease in finance costs for the period by HK$0.7 million or 25.9% reflected mainly a decrease in the balance of overall bank loans during the period as compared to the same period last year, following the Group's active paydown of bank borrowings in recent year. In respect of taxation, the Group's overall tax expenses increased by HK$7.1 million (or 44.9%) in line with the 49.3% increase in profit before tax. The effective tax rate for the period was 26.4% (2013: 27.2% (restated)), which was similar to last year's level.

Our results for the six months ended 30 September 2014 was encouraging, with profit attributable to owners of the Company amounting to HK$63.7 million, a substantial increase of 50.9% compared to HK$42.2 million (restated) for the same period of last year. Basic earnings per share for the period amounted to HK12.75 cents compared to HK8.45 cents (restated) for the same period of last year. The Board recommended an interim dividend of HK6 cents per share compared to HK4 cents for the same period of last year.

FUTURE PROSPECTS AND STRATEGY

Consumers' demand for professional sportswear was not very strong in the past as most people would only put on ordinary clothing for doing exercises. However, given the increased volatility in the global climate and escalating concerns for skin problems caused by UV radiation and sports trauma, more emphasis has been placed on the functionality of sportswear during recent years. For example, mountaineering requires light, warm-keeping, wind-resistant and sweat-proof outfits acclimatized to different altitudes. Skiers require light, flexible and sweat-proof apparel that keeps them warm while engaging in intense sporting activities under extreme weather. For golfers, their clothes should be UV-resistant and sweat-proof. It has become apparent that sweat-proof features are now a basic requirement for clothing used in all the above-mentioned sports. In this connection, the Group's R&D Centre has committed to supplying sportswear for different functions required by different sports by improving designs, blend of fabrics, cutting and seam sealing, with an aim to benefit customers with superior production technologies and services.

To address future challenges, the Group will focus on the development and production of more high-end and value-added products. In terms of production, we will strengthen cost control, improve product quality and operating efficiency, training up staff at the Production Plants and driving production automation and process streamlining to alleviate the pressure of inadequate labour supply and enhance production efficiency. At the same time, we will commit to enhancing the efficiency and optimising the production quality of the Production Plants to serve customers with better quality and higher stability in production capacity, for the benefit of our future business expansion.

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 2014, the Group had cash and cash equivalents amounting to HK$222.2 million mainly denominated in Hong Kong dollars, Renminbi, US dollars and Indonesian Rupiah (31 March 2014: HK$276.6 million). As at 30 September 2014, the Group had aggregate banking facilities of HK$837.0 million (31 March 2014: HK$718.0 million), out of which HK$437.0 million (31 March 2014: HK$368.0 million) were secured by corporate guarantees executed by the Company and a subsidiary of the Company. The banking facilities amounting to HK$285.2 million were utilised by the Group as at 30 September 2014 (31 March 2014: HK$339.6 million). As at 30 September 2014, the Group's total banking borrowings was HK$285.2 million (31 March 2014: HK$339.6 million). As at 30 September 2014, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spread over two years with HK$284.7 million repayable within one year, HK$0.5 million in the second year.

The management believes that the existing financial resources will be sufficient to meet the existing operations as well as the existing and 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 2014, gearing ratios of the Group is defined as the net debt (represented by bank borrowings net of cash and cash equivalents) divided by shareholders' equity is 5.8% (31 March 2014: 6.2%).

As at 30 September 2014, the Group did not have any significant contingent liabilities (31 March 2014: nil) and the Company had given corporate guarantees to banks to the extent of HK$437.0 million (31 March 2014: HK$368.0 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 US dollars and RMB. Although the Group tries to maintain the balance of its sales and purchases in the same currency, as the foreign currency risks generated from the sales and purchases can only be partly set off with each other, financial instrument was employed during the current interim period to manage the Group's exposure to the potential exchange rate risk.

The Group will continue to monitor its foreign exchange exposures and use appropriate tools to manage and minimize its foreign exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2014, the Group employed a total of approximately 8,100 employees including the directors of the Company (the "Directors") (31 March 2014: approximately 9,400).

The employees including the 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 and Indonesia.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and associated companies for the six months ended 30 September 2014 (2013: Nil).

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

As at 30 September 2014, the interests and short positions of the Directors and chief executive of the Company (the "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 ("Mr. Chung")	Interest in a controlled corporation	72,650,000 (Note)	–	14.54
	Beneficial owner	1,400,000	–	0.28
Mr. Chen Hsiao Ying	Beneficial owner	26,100,800	–	5.22
Mr. Kuo Tai Yu	Beneficial owner	1,450,000	–	0.29

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.

Save as disclosed above, as at 30 September 2014, 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 2014, the interests and short positions of the following persons, other than the Directors and the Chief Executive, 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:

		Number of shares held		Percentage of issued share capital of
Name	**Capacity**	**Long position**	**Short position**	**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
Delta Lloyd Asset Management NV	Beneficial owner	39,986,000	–	8.00

Notes:

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

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 Investments Ltd. ("Win Fortune") held an interest of 46.88% and 3.10% 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 2014, no person, other than the directors and Chief Executive, 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 Directors 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	Appointment date
Mr. Kuo Tai Yu ("Mr. Kuo")	Yue Yuen (Note 1)	Garment manufacturing	As a general manager	December 2012
Ms. Chen Fang Mei, Christina ("Ms. Chen")	Din Tsun Holding Co., Ltd. ("Din Tsun") (Note 2)	Garment manufacturing	As a director	April 2011
Mr. Kuo			As a director	April 2013
Ms. Chen Mr. Kuo	Faith Year Investments Limited ("Faith Year") (Note 2)	Garment manufacturing	As a director As a director	August 2010 April 2013
Ms. Chen Mr. Kuo	Pro Kingtex Industrial Co., (HK) Ltd. ("Pro Kingtex") (Note 2)	Garment manufacturing	As a director As a director	August 2010 April 2013

Notes:

1. Yue Yuen is a company listed on the Stock Exchange and is a substantial shareholder of the Company. The principal business activities of Yue Yuen Group are manufacturing and sales of footwear products, and retail and distribution of sportswear products. Based on the published interim report of Yue Yuen, Yue Yuen recorded total revenue of more than US$2.9 billion for its footwear manufacturing business for the six months ended 30 June 2014. As the Group is principally engaged in the manufacturing and trading of sportswear and garments, the businesses of Yue Yuen Group and the Group potentially compete with each other.

   Given that Yue Yuen Group and the Group are operated by different and separate management team, the Directors consider that the Company is capable of carrying on its business independently of, and at arms length with Yue Yuen Group. Having considered the nature and extent of Mr. Kuo's participation in business of Yue Yuen Group and the Group, the Directors believe that there is unlikely to be any significant competition caused to the business of the Group.

2. Din Tsun is a company incorporated in the British Virgin Islands on 4 January 2005 and is held as to 50% by Yue Yuen Group and 50% by two individuals. Din Tsun and Yue Yuen Group hold 70% and 30% of the issued share capital of Faith Year respectively which in turn wholly-owns Pro Kingtex. Din Tsun and its subsidiaries are investee companies of the Yue Yuen Group. The principal business activities of Din Tsun and its operating subsidiaries including Pro Kingtex are apparel manufacturing of sportswear, casual and outdoor clothes. Based on information provided by Din Tsun, it and its subsidiaries recorded over US$190 million in revenue for the year ended 31 December 2013. Both Ms. Chen and Mr. Kuo have been nominated to the board of directors of Din Tsun, Faith Year and Pro Kingtex to represent the interest of the Yue Yuen Group as an investor.

   While Ms. Chen is not involved in the operation of Din Tsun and its subsidiaries including Pro Kingtex, Mr. Kuo participates in the apparel manufacturing business of Din Tsun and its subsidiaries. Mr. Kuo has confirmed that he is mindful of his duty to avoid conflict of interest. In cases where conflict of interest situation arises, Mr. Kuo will refrain from taking part in the decision making process and will abstain from voting on the relevant resolution in board meeting. On this basis and given that the subsidiaries of Din Tsun including Pro Kingtex have its own management personnel other than Mr. Kuo and that Ms. Chen is not involved in their operations, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from Din Tsun and its subsidiaries including Pro Kingtex.

Save as disclosed above, none of the Directors 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.

PURCHASE, REDEMPTION OR SALE 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 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2014, except for the deviations set out below:

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chung Yuk Sing, who has been the Chairman of the Board since 2002, was appointed as the chief executive officer of the Company with effect from 30 June 2013. Notwithstanding the aforesaid deviation, the Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group as the Board assumes collective responsibility on the decision-making process of the Company's business strategies and operation. The principal divisions of the Group's businesses are managed by different Directors.

Code Provision A.6.7 of the Code stipulates, among other things, that the independent non-executive Directors and other non-executive Directors should attend general meetings. Two independent non-executive Directors did not attend the annual general meeting of the Company held on 21 August 2014 due to their other commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE 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 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 2014.

AUDIT COMMITTEE

The Audit Committee, comprising the three independent non-executive Directors, has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 September 2014, including the accounting principles adopted by the Group.

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. Lu Chi Chant and one executive Director, namely, Mr. Chung Yuk Sing. Mr. Chan Cheuk Ho is the chairman of the remuneration committee.

NOMINATION COMMITTEE

A nomination committee of the Company was established pursuant to the requirements of the Listing Rules. The nomination committee comprises two independent non-executive Directors, namely, Mr. Chan Cheuk Ho and Mr. Lu Chi Chant and one executive Director, namely, Mr. Chung Yuk Sing. Mr. Chung Yuk Sing is the chairman of the nomination committee.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK6 cents per share for the six months ended 30 September 2014 (2013: HK4 cents) to be payable to shareholders whose names appear on the register of members of the Company on 5 December 2014. The interim dividend will be payable on 18 December 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 December 2014 to 5 December 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 December 2014.

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

This interim report is published on the websites of the Company (www.eaglenice.com.hk) and the designated issuer website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

On Behalf of the Board
Chung Yuk Sing
Executive Director

Hong Kong, 14 November 2014

As at the date of this report, the Board comprised four executive Directors, namely, Mr. Chung Yuk Sing, Mr. Chen Hsiao Ying, Mr. Kuo Tai Yu and Ms. Chen Fang Mei, Christina and three independent non-executive Directors, namely, Mr. Chan Cheuk Ho, Mr. Lu Chi Chant and Mr. Cheng Yung Hui, Tony.