KINGMAKER

KINGMAKER FOOTWEAR HOLDINGS LIMITED
信星鞋業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 01170)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2009	2008	Change
	HK$'000	*HK$'000*	
Revenue	**709,008**	795,319	-10.85%
Gross profit	**111,197**	94,843	+17.24%
Gross profit margin	**15.68%**	11.93%	+3.75 points
Profit for the period attributable to equity holders of the Company	**39,453**	28,969	+36.19%
Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")	**64,626**	51,306	+25.96%
Net profit margin	**5.56%**	3.64%	+1.92 points
	(HK cents)	*(HK cents)*	
Basic earnings per share	**6.17**	4.45	+38.65%
Proposed interim dividend per share	**1.6**	1.5	+6.67%

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Kingmaker Footwear Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009, together with the comparative figures for the corresponding period in 2008, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2009

		For the six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*2*	**709,008**	795,319
Cost of sales		**(597,811)**	(700,476)
Gross profit		**111,197**	94,843
Other income and gains, net		**5,778**	16,975
Distribution and selling costs		**(19,473)**	(21,305)
Administrative expenses		**(51,643)**	(55,367)
Finance costs	*3*	**(206)**	(244)
PROFIT BEFORE TAX	*4*	**45,653**	34,902
Tax	*5*	**(6,200)**	(5,933)
Profit for the period		**39,453**	28,969
Interim dividends	*6*	**10,212**	9,723
Earnings per share attributable to equity holders of the Company	*7*		
– Basic (HK cents)		**6.17**	4.45
– Diluted (HK cents)		**6.12**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**39,453**	28,969
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of overseas subsidiaries	**422**	16,143
Changes in fair value of available-for-sale investments	**785**	(428)
Total comprehensive income for the period	**40,660**	44,684

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2009

		As at	
		30 September 2009 (Unaudited)	31 March 2009 (Audited)
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**368,241**	370,526
Prepaid land lease payments		**77,905**	79,229
Investment properties		**6,003**	3,712
Goodwill		**602**	–
Deposits paid		**3,824**	4,444
Investments in club memberships		**999**	1,003
Available-for-sale investments		**1,665**	880
Total non-current assets		**459,239**	459,794
CURRENT ASSETS			
Inventories		**91,113**	110,875
Accounts and bills receivable	*8*	**138,400**	84,388
Prepayments, deposits and other receivables		**9,986**	10,111
Derivative financial instruments	*9*	**376**	6,080
Tax recoverable		**326**	326
Cash and cash equivalents		**524,959**	412,167
Total current assets		**765,160**	623,947
CURRENT LIABILITIES			
Accounts and bills payable	*10*	**163,485**	111,051
Accrued liabilities and other payables		**102,028**	89,609
Tax payable		**116,745**	110,958
Derivative financial instruments	*9*	**66**	3,984
Dividend payable		**15,974**	–
Interest-bearing bank borrowings	*11*	**34,200**	–
Total current liabilities		**432,498**	315,602
NET CURRENT ASSETS		**332,662**	308,345
Net assets		**791,901**	768,139
EQUITY			
Issued share capital		**63,890**	64,099
Reserves		**717,799**	688,066
Proposed dividends		**10,212**	15,974
Total equity		**791,901**	768,139

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial statements for the six months ended 30 September 2009 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 March 2009 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies and method of computation used in the preparation of this condensed interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 March 2009.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2009.

HKFRSs (Amendments)	Improvements to HKFRSs
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programme*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*

The adoption of the new HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 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.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer ("CEO") of the Group who makes strategic decisions.

2. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker for making strategic decisions. The segments are managed separately as each business offers different models/types of products which vary in materials used, craftsmanship and design and service which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

(1) Manufacturing and sales of footwear products

(2) Retailing and wholesaling business

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform with the requirements of HKFRS 8.

The following is an analysis of the Group's revenue and results by operating segments for the periods under review:

	Revenue		Segment profit	
	Six months ended 30 September		Six months ended 30 September	
	2009	2008	**2009**	2008
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Manufacturing and sales of footwear products	**701,843**	789,241	**59,356**	39,964
Retailing and wholesaling business	**7,165**	6,078	**(11,896)**	(3,838)
Total	**709,008**	795,319	**47,460**	36,126
Unallocated income			**339**	345
Unallocated expenses			**(1,940)**	(1,325)
Finance costs			**(206)**	(244)
Profit before tax			**45,653**	34,902

All of the segment revenue reported above is from external customers.

Segment profit represents profit attributable to each segment without allocation of corporate income, central administration costs and finance costs. This is the measure reported to the Group's CEO for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	As at	
	30 September	31 March
	2009	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Manufacturing and sales of footwear products	**1,180,175**	1,049,330
Retailing and wholesaling business	**18,275**	9,932
Unallocated assets	**25,949**	24,479
Total assets	**1,224,399**	1,083,741

3. FINANCE COSTS

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**206**	244

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**429,971**	503,507
Depreciation	**20,288**	18,529
Amortisation of prepaid land lease payments	**941**	946
Fair value loss/(gain) on derivative financial instruments	**1,786**	(7,659)
Bank interest income	**(2,461)**	(3,315)
Interest income from accounts receivable	**(1,384)**	(1,970)
Excess of cost over business combinations	**–**	(634)
Dividend income	**(7)**	(5)
Net rental income	**(261)**	(121)

5. TAX

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**200**	157
Elsewhere	**6,000**	5,776
Tax charge	**6,200**	5,933

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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 taxation prevailing in the countries in which the Group operates.

6. DIVIDENDS

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend of HK1.6 cents (2008: HK1.5 cents) per ordinary share	**10,212**	9,723

The Board resolved to declare an interim dividend of HK1.6 cents (2008: HK1.5 cents) per ordinary share for the six months ended 30 September 2009 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 15 January 2010. The interim dividend of approximately HK$10,212,000 (2008: approximately HK$9,723,000) is expected to be paid on or around 5 February 2010.

7. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (unaudited profit for the period attributable to equity holders of the Company)	**39,453**	28,969
	'000	*'000*
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**639,064**	651,349
Effect of dilutive share options	**6,104**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**645,168**	

No disclosure for diluted earnings per share for the period ended 30 September 2008 is shown as the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's ordinary shares during the relevant period and thus the share options had no dilution effect.

8. ACCOUNTS AND BILLS RECEIVABLE

The Group's accounts and bills receivable mainly related to a few recognised and creditworthy customers. Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the terms are extended to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the Group's senior management. Accounts receivable are non-interest-bearing, except for a balance due from a customer of approximately HK$101,248,000 (31 March 2009: approximately HK$30,514,000) which bears interest at a rate of 0.5% for a fixed period of 60 days and of which approximately 97% had been settled up to the date of this announcement.

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

	As at	
	30 September 2009	31 March 2009
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**138,400**	84,388
Between 91 and 180 days	**–**	–
Between 181 and 365 days	**–**	–
	138,400	84,388

9. DERIVATIVE FINANCIAL INSTRUMENTS

	As at			
	30 September 2009 (Unaudited)		**31 March 2009 (Audited)**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Forward currency contracts	**376**	**66**	**6,080**	**3,984**

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$1,786,000, net, were debited to the income statement during the period (2008: net credit of HK$7,659,000).

10. ACCOUNTS AND BILLS PAYABLE

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

	As at	
	30 September 2009 (Unaudited)	31 March 2009 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**161,858**	102,357
Between 91 and 180 days	**985**	2,301
Between 181 and 365 days	**220**	4,081
Over 365 days	**422**	2,312
	163,485	111,051

The accounts payable are non-interest bearing and are normally settled on 90-day terms.

11. INTEREST-BEARING BANK BORROWINGS

The interest-bearing bank borrowings are unsecured and are repayable as follows:

	As at	
	30 September 2009 (Unaudited)	31 March 2009 (Audited)
	HK$'000	*HK$'000*
Within one year	**34,200**	–

Bank loans as at 30 September 2009 were all denominated in RMB with fixed interest rates ranging from 1.66% to 1.68% per annum.

12. BUSINESS COMBINATION

In May 2009, the Group acquired 100% of the issued share capital of FRD Worldwide Limited and its subsidiaries (collectively known as "FRD Group") for a cash consideration of HK$1,000,000 from an independent third party (the "Acquisition"). FRD Group is principally engaged in garment trading, distribution and retailing business in the Peoples' Republic of China (the "PRC").

The fair values of the identifiable assets and liabilities of FRD Group as at the date of acquisition and the corresponding carrying amounts immediately before the Acquisition were as follows:

	Previous carrying amount	**Fair value recognised on acquisition**
	HK$'000	*HK$'000*
Plant and equipment	595	595
Inventories	1,494	1,494
Prepayments, deposits and other receivables	525	525
Cash and cash equivalents	239	239
Accounts and other payables	(2,455)	(2,455)
	398	398
Goodwill on acquisition		602
Satisfied by cash		1,000

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

	HK$'000
Cash consideration	(1,000)
Cash and cash equivalents acquired	239
Net outflow of cash and cash equivalents in respect of the Acquisition	(761)

Since its acquisition, FRD Group contributed approximately HK$625,000 to the Group's revenue and recorded a loss of approximately HK$2,914,000 to the unaudited consolidated profit during the six months ended 30 September 2009.

Had the business combination taken place at the beginning of the period, the revenue and net profit of the Group for the six months ended 30 September 2009 would have been approximately HK$709,170,000 and approximately HK$38,784,000 respectively.

13. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Despite the global backdrop set in a harsh landscape of legacies from the financial crisis, the Group achieved outperforming and encouraging results for the half year ended 30 September 2009.

During the period under review, there was an approximately 10.85% decline in turnover to approximately HK$709 million (2008: approximately HK$795 million). However, the Board is encouraged to witness an approximately 36.19% improvement in net profit attributable to equity holders of the Company to approximately HK$39 million (2008: approximately HK$29 million). The earnings growth was mainly attributable to the Group's sustained efforts in growing higher-margin businesses, as well as successful cost re-engineering derived from efficiencies it has implemented in its manufacturing and administrative systems.

Business volume, as expressed in the number of pairs of shoes produced, decreased by approximately 9.70% to approximately 7 million pairs, but against a much milder drop of approximately 1.62% in the average selling price ("ASP").

The overall improvement in profitability reflected ongoing efforts to maintain a product mix with a major portion of premium items that command higher margins, as well as tight cost re-engineering disciplines. A balanced portfolio has also been built for the Group's geographical reach, with shipments to Europe continuing to grow, further reducing reliance on the market of the United States ("US"). We are confident that by maintaining a balanced and constantly fine-tuned business and product portfolio, and with the support of robust multi-country production capabilities, the Group will be able to continue its success amid the foreseeable ongoing turbulence.

Earnings per share for the period were approximately HK6.17 cents (2008: approximately HK4.45 cents). In anticipation of the continuing strong cash flow, the Group continues to implement its dividend policy of sharing results with shareholders. As such, the Board is pleased to declare an interim dividend of HK1.6 cents (2008: HK1.5 cents).

Business Strategies

The Group aims to become the long-term production partner of choice for the world's major footwear name-brands, in particular in the categories of premium fashion casual and children's footwear. We fully understand the overriding importance of maintaining the quality of our products in all respects, be it reliability, customer service or design innovations. We live up to the promise of our name – Kingmaker – by supporting our customers' success by creating exceptional value through premier manufacturing solutions.

Long-term relationships yield the Group steadiness in demand, which in turn lends support to facilities utilization and efficiency enhancements, forming another source of competitive advantage for the Group. Equipped with one-stop design manufacturing (ODM) capabilities, the Group is able to customize production to fulfill each individual brand customer's unique design and functionality features.

To sustain its production competence, the Group made persistent efforts to build and manage a multi-location production base with facilities in the People's Republic of China (the "PRC"), Vietnam and Cambodia. This has afforded the Group the capability to flexibly deliver production solutions to meet a wide range of requirements in terms of product sophistication and cost.

The diversified production base provided support for the output of a healthy mix of casual fashion and children's footwear products, which was in turn translated into a balanced portfolio of geographical markets for the Group. Diversity in terms of product, production and market mix is conducive to the Group's long-term healthy development and helps it navigate through often erratic operating conditions.

The table below shows the revenue by geographical market:

	For the six months ended 30 September				
	2009		2008		**Period**
	(Unaudited)		(Unaudited)		**on period**
	(HK$'000)	*%*	*(HK$'000)*	*%*	*% Change*
The United States of America	**355,718**	**50.2**	435,351	54.7	(18.3)
Europe	**307,341**	**43.3**	286,868	36.1	7.1
Others	**45,949**	**6.5**	73,100	9.2	(37.1)
Total	**709,008**	**100.0**	795,319	100.0	(10.9)

The notable increase in shipments to the European Union ("EU") market, despite an appreciating Renminbi, was driven by the Group's defensive measure to increase its output of the more stable, albeit lower margin, babies' and children's footwear category for the EU market as part of its efforts to safeguard resilience.

In the face of increased uncertainties in market demand, the Group will redouble its efforts in implementing the lean manufacturing system, which was designed to realign operation and production flows to achieve efficiency, shorter production lead time and reduced wastage of materials and labor.

Operational Performance

The Group continued its focus on long-term value creation through executing its disciplined growth strategy, controlling costs and capital, and strategically managing its portfolio of businesses.

Overall, the footwear industry was under the pressure of rising costs, tightened regulatory control and market uncertainties. In spite of this, the Board is delighted to report the success of the Group in holding its healthy lead in strategic segments including premium fashion casual footwear and babies' and children's shoes on the back of a strong focus on excellence in quality, customised production and one-stop solutions. The Group will continue to advance its leadership position in the development and manufacturing of superior-quality footwear products.

Highlighted below are several factors which had a bearing on the Group's financial performance in the first half of 2009/10. Firstly, the Cambodia factory, the newest member of the Group's production base, has matured after the initial phase of trial and fine-tuning, and began to contribute to the bottom line of the Group.

The lean manufacturing system also resulted in a streamlined workforce and thereby helped reduce the total labor and staff cost by approximately HK$10 million. More importantly, the introduction of this system, coupled with enhanced efficiency, helped shorten production lead times, which have increasingly become a key concern of customers. By reducing lead times, the Group was also able to relieve the pressure on transportation costs, as last-minute deliveries have been avoided as much as possible. Airfreight charges incurred during the period were reduced by approximately HK$3 million despite rising freight fees.

The increment in the PRC's export value added tax ("VAT") rebate to the current 15% brought a positive impact of approximately HK$11 million to the bottom line. However, to support the Group's growth pursuits on the retail front, rental and advertising expenses increased in line with the MOCCA chain's expansion plan in Hong Kong.

Manufacturing Business

The Group's core production capability now comprises a network of factories with a total of 38 production lines, of which 14 are located in Vietnam and Cambodia, and 24 in the PRC, including 13 in Zhongshan, 8 in Zhuhai and 3 lines in the newly set up factory in Jiangxi Province. The factory in Jiangxi, which commenced operation in the first half of 2009, is the result of the Group's initiative to establish a lower-cost base in an inland region, as the operating costs in the Pearl River Delta continue to rise.

The Group's multi-location production base has an aggregate capacity of about 20 million pairs of footwear per annum. Although the Group has slowed its plan for capacity expansion in view of the uncertain market conditions, future production line increases or realignments will continue to be market-led. The Group does not seek capacity growth alone, but rather seeks growth in performance and competence to underpin long-term value. As such, it will also remain on the lookout for potential strategic partnership opportunities that will add value to and produce synergistic benefits for the existing business portfolio.

Amid mounting inflation pressure, the slowdown of the Renminbi appreciation trend has had a positive effect on cost by partly offsetting the rise in wages, thus alleviating the pressure of labor cost surges. This, coupled with the holdover on the implementation of minimum wage requirements under the PRC's new Labor Contract Law and taking into account the effect of the lean manufacturing system, produced a positive impact on the bottom line equivalent to approximately 1.5% of the Group's gross margin. The increment in the VAT rebate brought a further upside on the gross margin of approximately 1.5%.

During the reporting period, the Group's major customers included Skechers, Clarks, Stride Rite, Elefanten and G-Star, which aggregately generated approximately 94.43% (2008: approximately 93.11%) of total turnover. The Group has succeeded in securing new orders from some major customers, and will continue to exert efforts to grow business with both existing and potential customers.

Retailing Business

While the encouraging performance and achievements of the core manufacturing business attest to the Group's concrete fundamentals, it constantly examines and renews the businesses within its portfolio with a view to sustaining long-term returns for shareholders.

This led the Group to a diversification initiative which was rolled out in May 2008 subsequent to the acquisition of the retail operations of "MOCCA" footwear, bags and accessories. In addition to "MOCCA", another house brand named "Fiona's Prince" was developed during the period to tap the infant footwear segment. Since the acquisition, the Group has grown the operation into a chain of five shops in Hong Kong and one in Macau. Preliminary plans have been drawn up to bring the operation to mainland China with the first shops to be set up in Beijing and Shanghai by 2010. Initial investments and the high rental costs in Hong Kong have caused a loss of approximately HK$9 million for this operation.

The retail business was further developed during the first half with the acquisition of an apparel operation "FRD", which carries a collection of fashionable casual menswear under the brand of "AIMS", denoting "art in motions". This business unit currently operates two shops in Guangzhou and it is expected that new points of sale will be established in other parts of Southern China in 2010. The unit incurred a loss of approximately HK$3 million during the first half.

The Group adopts a cautious attitude to investment risk. Although the retail business line will inevitably demand investments before it can contribute to the Group's earnings base, the Board is cautiously optimistic about the prospects of this new business line being developed into a major revenue and returns contributor. The progress of the operations suggests an encouraging future for this business line.

FUTURE PLANS AND PROSPECTS

As stated in our previous annual report, the year 2009/10 is set to be full of challenges and uncertainties in the wake of the global financial crisis. The need to operate in a chaotic and unpredictable business environment is the unavoidable reality of today, and the Group has prepared itself to meet every challenge ahead.

Manufacturing Business

The six months ended 30 September 2009 have been full of challenges for the Group as well as other manufacturers and exporters in Asia. However, our key markets of the US and EU have shown signs of recovery. Improvements in consumer confidence and disposable income will help foster a more favorable operating environment for the global retail and manufacturing industries.

As observed in previous historical downturns, the footwear industry has demonstrated resilience to economic cycles as footwear is a daily necessity. Looking to the second half of the fiscal year, with the initial signs of recovery for the global economy, the Board remains confident of the core premium casual and babies' and children's footwear markets.

In view of this, the Group has made plans to increase annual production output to ensure customers' demand will be met, while keeping a tight rein on product quality, craftsmanship, production costs and production efficiency. The Board is confident that our competitive edge will continue to set us apart from other industrial players and help us weather the current market downturn.

Retailing Business

Going forward, our retail business will have an increasingly important role to play in the Group's overall development. The Group plans to further develop the "MOCCA" and "Fiona's Prince" brands by expanding their networks and strengthening their market positions in a prudent manner. The Group will also explore opportunities for the development of new brands to widen our customer base. In view of this, we will continue to look out for potential strategic partnership opportunities.

Mainland China is a vast market with diverse customer segments, and as such we plan to establish an additional brand in the country to approach the mass footwear segment. Besides, the Group will keep exploring new sales channels and business models through strategic collaboration with existing self-owned retail outlets to increase our presence and market penetration in mainland China.

In Hong Kong and Macau, the Group will adopt a cautious approach in the face of the challenging operating environment but will continue to look for suitable locations with reasonable rents for setting up new outlets.

While growing the business in a prudent manner, the Group has implemented stringent controls on operating costs in order to stay competitive. It endeavors to streamline existing operations and structures to control back-office expenses. The Group will continue to review the performance of self-owned operations on a regular basis. Retail outlet consolidation will continue in order to enhance profitability.

Despite the short-term negative impact on the profitability of the Group, we will continue to invest in the retailing and wholesaling business segment for the long-term benefit of shareholders.

Overall

Looking forward, the Group expects to see comparatively more promising prospects, underpinned in particular by growth opportunities in the mainland market. The Group is well positioned to grasp the upcoming market opportunities in China while tackling the unveiled challenges by implementing strategic and timely measures to optimise operations.

Overall, the Group remains optimistic about its long-term prospects. It has the competence and firm foundation to ensure business vigor and to constantly add value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Group to maintain a strong financial position. As at 30 September 2009, the Group's cash and cash equivalents were approximately HK$525 million (as at 31 March 2009: approximately HK$412 million).

As at 30 September 2009, the Group had trade, overdraft and loan banking facilities amounted to an aggregate sum of approximately HK$252 million (as at 31 March 2009: approximately HK$256 million) with various banks in Hong Kong and the PRC. Out of trade and overdraft banking facilities of approximately HK$195 million (as at 31 March 2009: approximately HK$226 million) in Hong Kong granted to the Group, approximately HK$1 million (as at 31 March 2009: approximately HK$3 million) had been utilised as at 30 September 2009. During the period under review, the Group obtained and had drawn down two new PRC bank loans amounted to approximately HK$34 million.

For the six months ended 30 September 2009, the current ratio was approximately 1.77 (as at 31 March 2009: approximately 1.98) based on current assets of approximately HK$765 million and current liabilities of approximately HK$432 million and the quick ratio was approximately 1.56 (as at 31 March 2009: approximately 1.63).

As at 30 September 2009, the total indebtedness, mainly including two PRC bank loans, amounted to approximately HK$34 million (as at 31 March 2009: nil), representing approximately 4.30% of the shareholders equity (as at 31 March 2009: nil).

The Group will continue to maintain conservative cash flow management to sustain a strong cash position. The Directors are of the opinion that the Group shall have sufficient financial resources to meet its current and future working capital requirements on its operations and expansion after due consideration of the net cash position and the availability of the existing banking facilities.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenue and expenditure are denominated in Hong Kong dollars, the RMB and the US dollars ("USD"). It is the Group's policy to adopt a conservative approach on foreign exchange exposure management.

However, the Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Group generally finances its operation with internal resources and bank facilities provided by banks in Hong Kong and the PRC. Interest rates of borrowings are mainly fixed by reference to the USD London Inter-Bank Offered Rate or the RMB individual prime rate.

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimise the Group's financial risks. As a measure of additional prudence, the Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's receivables and payables.

The fair value of the Group's outstanding derivative instruments as at 30 September 2009 represented the net amount the Group would receive/pay if these contracts were closed out at 30 September 2009. The fair value of these outstanding derivatives has been recognised as assets or liabilities.

The exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options, if considered necessary. The management of currency risk is centralised in the headquarter of the Group in Hong Kong.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$792 million as at 30 September 2009 from approximately HK$768 million as at 31 March 2009. As at 30 September 2009, the Group have an interest-bearing bank borrowings of approximately HK$34 million (as at 31 March 2009: nil), representing approximately 4.30% (as at 31 March 2009: nil) of the shareholders equity.

INTERIM DIVIDEND

On 7 December 2009, the Board has resolved to declare the payment of an interim dividend of HK1.6 cents per ordinary share in respect of the six months ended 30 September 2009 to shareholders registered on the register of members on 15 January 2010, resulting in an appropriation of approximately HK$10,212,000. The interim dividend will be payable on or before 5 February 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 January 2010 to 15 January 2010, both days inclusive, during which period no transfer of shares shall be effected. To qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 January 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period, the Company repurchased 2,742,000 of its ordinary shares (2008: 3,818,000) of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$1,852,000 excluding transaction cost. These shares were cancelled by the Company during the period and subsequent to the balance sheet date. The repurchase of the Company's shares during the period was effected by the Board, pursuant to the repurchase mandate granted by the shareholders, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Details of the shares repurchase during the period under review are as follows:

Month/year	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregated consideration (excluding transaction cost)**
		HK$	*HK$*	*HK$'000*
April 2009	2,014,000	0.67	0.59	1,275
July 2009	68,000	0.85	0.83	57
August 2009	30,000	0.85	0.84	25
September 2009	630,000	0.81	0.76	495
Total	2,742,000			1,852

The premium paid on the repurchase of the shares of approximately HK$1,578,000 has been debited to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

EMPLOYMENT AND REMUNERATION POLICIES

The Group, including its subsidiaries in Hong Kong, Taiwan, the PRC, Vietnam and Cambodia had a total number of employees of approximately 11,500 as at 30 September 2009 (2008: approximately 14,000). The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Share options may also be granted in accordance to the terms of the Group's approved share option scheme.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not during the six months ended 30 September 2009, in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except the deviation from provision A.2.1 as explained below.

Under the code provision A.2.1, the roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Chen Ming Hsiung, Mickey. The Board believes that vesting the roles of the Chairman and the CEO in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operation of the Board which comprises experienced and high calibre individuals with a substantial number thereof being non-executive directors. The Board would still consider segregation of the roles of Chairman and CEO if and when appropriate.

AUDIT COMMITTEE

The audit committee of the Company (the "Committee") comprises three independent non-executive Directors and one non-executive Director. The primary duties of the Committee are to review and supervise the Group's financial reporting process and internal control systems.

The Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed the Group's auditing, internal control and financial reporting matters during the period. The Group's unaudited consolidated results for the six months ended 30 September 2009 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed their compliance with the required standard set out in the Model Code during the six months ended 30 September 2009.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The interim report containing all the information required by Appendix 16 to the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

On behalf of the Board
Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 7 December 2009

As of the date of this announcement, the Board consists of five executive Directors Mr. Chen Ming Hsiung, Mickey, Mdm. Huang Hsiu Duan, Helen, Mr. Phillip Brian Kimmel, Mr. Lee Kung, Bobby and Mr. Wong Hei Chiu; two non-executive Directors Mr. Chow Wing Kin, Anthony and Mr. Chan Ho Man, Daniel; three independent non-executive Directors Mr. Tam King Ching, Kenny, Mr. Chan Mo Po, Paul and Mr. Yung Tse Kwong, Steven.

* *For identification purposes only*