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 2010

### FINANCIAL HIGHLIGHTS

| | For the six months ended 30 September | | |
|---|---|---|---|
| | **2010** | 2009 | Change |
| | ***HK$'000*** | *HK$'000* | |
| Revenue | **803,543** | 709,008 | +13.3% |
| Gross profit | **168,149** | 111,197 | +51.2% |
| Gross profit margin | **20.9%** | 15.7% | +5.2 points |
| Profit for the period attributable to equity holders of the Company | **65,385** | 39,453 | +65.7% |
| Net profit margin | **8.1%** | 5.6% | +2.5 points |
| | ***(HK cents)*** | *(HK cents)* | |
| Basic earnings per share | **10.07** | 6.17 | +63.2% |
| Proposed interim dividend per share | **3.0** | 1.6 | +87.5% |

## UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Kingmaker Footwear Holdings Limited (the "Company") is hereby pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010, together with the comparative figures for the corresponding period in 2009, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2010*

| | | **For the six months ended 30 September** | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **REVENUE** | *2* | **803,543** | 709,008 |
| Cost of sales | | **(635,394)** | (597,811) |
| Gross profit | | **168,149** | 111,197 |
| Other income and gains, net | | **8,486** | 5,778 |
| Distribution and selling costs | | **(33,649)** | (19,473) |
| Administrative expenses | | **(57,797)** | (51,643) |
| Finance costs | *3* | **(4)** | (206) |
| **PROFIT BEFORE TAX** | *4* | **85,185** | 45,653 |
| Income tax expense | *5* | **(19,800)** | (6,200) |
| **PROFIT FOR THE PERIOD** | | **65,385** | 39,453 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | *7* | | |
| – Basic *(HK cents)* | | **10.07** | 6.17 |
| – Diluted *(HK cents)* | | **9.87** | 6.12 |

Details of the dividends are disclosed in note 6 to the condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the six months ended 30 September 2010*

| | For the six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **PROFIT FOR THE PERIOD** | **65,385** | 39,453 |
| **Other comprehensive income for the period:** | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | **1,597** | 422 |
| Changes in fair value of available-for-sale investments | **243** | 785 |
| Gains on property revaluation | **10,284** | – |
| Income tax effect | **(2,571)** | – |
| | **7,713** | – |
| Other comprehensive income for the period, net of tax | **9,553** | 1,207 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | **74,938** | 40,660 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 September 2010*

| | | As at | |
|---|---|---|---|
| | | **30 September 2010 (Unaudited)** | 31 March 2010 (As restated) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **351,354** | 373,850 |
| Prepaid land lease payments | | **59,901** | 60,585 |
| Investment properties | *8* | **27,633** | 6,378 |
| Deposits paid | | **4,330** | 3,350 |
| Investments in club memberships | | **977** | 988 |
| Available-for-sale investments | | **2,428** | 2,185 |
| Total non-current assets | | **446,623** | 447,336 |
| **CURRENT ASSETS** | | | |
| Inventories | | **171,626** | 121,821 |
| Accounts and bills receivable | *9* | **150,700** | 118,846 |
| Prepayments, deposits and other receivables | | **21,538** | 10,519 |
| Derivative financial instruments | *10* | **3,219** | 1,744 |
| Tax recoverable | | **111** | 111 |
| Cash and cash equivalents | | **567,378** | 527,377 |
| Total current assets | | **914,572** | 780,418 |
| **CURRENT LIABILITIES** | | | |
| Accounts and bills payable | *11* | **180,225** | 131,276 |
| Accrued liabilities and other payables | | **129,691** | 107,316 |
| Tax payable | | **151,107** | 137,304 |
| Derivative financial instruments | *10* | **106** | 152 |
| Total current liabilities | | **461,129** | 376,048 |
| **NET CURRENT ASSETS** | | **453,443** | 404,370 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **900,066** | 851,706 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **2,571** | – |
| Net assets | | **897,495** | 851,706 |
| **EQUITY** | | | |
| Issued share capital | | **66,074** | 64,181 |
| Reserves | | **831,421** | 787,525 |
| Total equity | | **897,495** | 851,706 |

*Notes:*

## 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial statements for the six months ended 30 September 2010 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 2010 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 2010, except for adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are effective to the Group for accounting period beginning on 1 April 2010 as disclosed below:

The Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2010.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| Improvements to HKFRSs 2009 | Amendments to a number of HKFRSs |

The adoption of the new HKFRSs has no material impact on the Group's condensed consolidated financial statements except for the adoption of HKAS 17 (Amendment) "Leases".

The adoption of HKAS 17 (Amendment) "Leases" has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, the Group's interests in leasehold land were accounted for as prepaid operating leases which were amortised and recognised in the consolidated income statement over the unexpired lease terms using the straight-line method. As substantially all risks and rewards of the certain leasehold land are considered having been transferred to the Group based on HKAS 17 (Amendment), the Group's interests in certain leasehold land are now accounted for as assets held under finance leases and are stated at cost less accumulated depreciation. The amendment has been applied retrospectively. Comparative information has been restated to reflect this change in accounting policy.

**Effect of change in accounting policy on condensed consolidated statement of financial position**

| | Effect of adopting HKAS 17 (Amendment) | | |
|---|---|---|---|
| | **30 September 2010** | 31 March 2010 | 1 April 2009 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| *Increase/(decrease) in:* | | | |
| Property, plant and equipment | **15,753** | 15,994 | 16,444 |
| Prepaid land lease payments | **(15,753)** | (15,994) | (16,444) |
| | **–** | – | – |

## 2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their business activities and has two reportable operating segments as follows:

(a) manufacturing and sale of footwear products; and

(b) retailing and wholesaling business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs and other unallocated income and unallocated expenses are excluded from such measurement.

Segment assets exclude unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the periods under review:

**Group**

| | **Manufacturing and sale of footwear products For the six months ended 30 September** | | **Retailing and wholesaling business For the six months ended 30 September** | | **Consolidated For the six months ended 30 September** | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **788,676** | 701,843 | **14,867** | 7,165 | **803,543** | 709,008 |
| Intersegment sales | **5,878** | 316 | **–** | – | **5,878** | 316 |
| Total | **794,554** | 702,159 | **14,867** | 7,165 | **809,421** | 709,324 |
| Elimination of intersegment sales | | | | | **(5,878)** | (316) |
| Total | | | | | **803,543** | 709,008 |
| **Segment results** | **103,590** | 55,582 | **(18,263)** | (11,896) | **85,327** | 43,686 |
| Unallocated income and gains, net | | | | | **279** | 268 |
| Interest income | | | | | **2,890** | 3,845 |
| Unallocated expenses | | | | | **(3,307)** | (1,940) |
| Finance costs | | | | | **(4)** | (206) |
| Profit before tax | | | | | **85,185** | 45,653 |
| Income tax expense | | | | | **(19,800)** | (6,200) |
| Profit for the period attributable to equity holders of the Company | | | | | **65,385** | 39,453 |

| | **30 September 2010** | 31 March 2010 | **30 September 2010** | 31 March 2010 | **30 September 2010** | 31 March 2010 |
|---|---|---|---|---|---|---|
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Assets and liabilities** | | | | | | |
| Segment assets | **731,923** | 666,250 | **28,465** | 23,668 | **760,388** | 689,918 |
| Unallocated assets | | | | | **600,807** | 537,836 |
| Total assets | | | | | **1,361,195** | 1,227,754 |
| Segment liabilities | **287,602** | 216,467 | **3,616** | 4,197 | **291,218** | 220,664 |
| Unallocated liabilities | | | | | **172,482** | 155,384 |
| Total liabilities | | | | | **463,700** | 376,048 |

## 3. FINANCE COSTS

| | For the six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans wholly repayable within five years | **4** | 206 |

## 4. PROFIT BEFORE TAX

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

| | For the six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (As restated) |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **430,870** | 429,971 |
| Depreciation | **21,744** | 20,582 |
| Amortisation of prepaid land lease payments | **843** | 647 |
| Fair value gain on derivative financial instruments | **(3,106)** | (570) |
| Bank interest income | **(2,550)** | (2,461) |
| Interest income from accounts receivable | **(340)** | (1,384) |
| Dividend income | **(7)** | (7) |
| Net rental income | **(761)** | (261) |

## 5. INCOME TAX EXPENSE

| | For the six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **1,170** | 200 |
| Elsewhere | **18,630** | 6,000 |
| Tax charge | **19,800** | 6,200 |

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

## 6. DIVIDENDS

| | For the six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Dividends paid during the period** | | |
| Final in respect of the financial year ended 31 March 2010 – HK7.0 cents per ordinary share (2009: final in respect of the financial year ended 31 March 2009 – HK2.5 cents per ordinary share) | **45,732** | 15,974 |
| **Proposed interim dividend** | | |
| Interim – HK3.0 cents (2009: HK1.6 cents) per ordinary share | **19,919** | 10,216 |

The interim dividend was declared after the period ended 30 September 2010, and therefore has not been included as a liability in the condensed consolidated statement of financial position. The interim dividend will be paid to the shareholders whose names appear in the register of members on 31 December 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 | |
|---|---|---|
| | **2010** | 2009 |
| | **(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) | **65,385** | 39,453 |
| | ***'000*** | *'000* |
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **649,444** | 639,064 |
| Effect of dilutive share options | **13,136** | 6,104 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **662,580** | 645,168 |

## 8. INVESTMENT PROPERTIES

During the period, an owner-occupied property of the Group has been reclassified as an investment property, with the carrying amount of approximately HK$10,971,000 and its fair value of approximately HK$21,255,000 at the date of change in use. The difference of approximately HK$10,284,000 at that date between the carrying amount and the fair value of the property is dealt with as movements in the asset revaluation reserve.

## 9. 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, including certain accounts receivable covered by credit insurance. 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 nil at 30 September 2010 (31 March 2010: approximately HK$89,598,000) which bears interest at a rate of 0.5% for a fixed period of 30 days (31 March 2010: 60 days).

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 2010 (Unaudited)** | 31 March 2010 (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **150,220** | 118,788 |
| Between 91 and 180 days | **390** | 9 |
| Between 181 and 365 days | **44** | 17 |
| Over 1 year | **46** | 32 |
| | **150,700** | 118,846 |

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

| | **As at** | | | |
|---|---|---|---|---|
| | **30 September 2010 (Unaudited)** | | 31 March 2010 (Audited) | |
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Forward currency contracts | **3,219** | **106** | 1,744 | 152 |

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 approximately HK$3,106,000 were credited to the income statement during the period (2009: approximately HK$570,000).

## 11. 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 2010 (Unaudited)** | 31 March 2010 (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **171,798** | 127,650 |
| Between 91 and 180 days | **1,472** | 2,538 |
| Between 181 and 365 days | **6,319** | 365 |
| Over 1 year | **636** | 723 |
| | **180,225** | 131,276 |

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Board is delighted to report business growth during the six months ended 30 September 2010, a period of economic stagnation. Turnover during the period rose approximately 13.3% to approximately HK$804 million (2009: approximately HK$709 million), driven by increases in both the average selling price ("ASP") and business volume.

The Board is also encouraged by the interim earnings growth amidst surges in material prices. During the first half of the reporting year, net profit attributable to equity holders of the Company increased approximately 65.7% to approximately HK$65 million (2009: approximately HK$39 million) as a result of effective cost control and efficiency enhancement which helped mitigate the increases in material usage and prices.

Business volume, in terms of the number of pairs of shoes produced, increased by approximately 5.9% period on period to approximately 7.5 million pairs. There was also an approximately 5.8% increase in the ASP.

The continued shift of the product mix towards the premium end has yielded improvements in both the ASP and profit margin. Earnings per share for the period were approximately HK10.07 cents (2009: approximately HK6.17 cents), up approximately 63.2% period on period. In anticipation of continuing strong cash flow from the manufacturing segment, the Group maintains a dividend policy of sharing results with shareholders. The Board is pleased to declare an interim dividend of HK3.0 cents (2009: HK1.6 cents).

### Business Strategies

The Group's core competence was in large part built on its research and development niche, which was a result of years of dedicated input and investments. As such, the Group will continue to maintain and upgrade its client-oriented research and development centers in order to further diversify and enhance its product mix, and to engage a global portfolio of name-brand customers and to cultivate new relationships with potential clients.

The ongoing initiatives to enhance the product mix have yielded the Group a niche portfolio consisting of a high proportion of premium casual footwear. During the period, a main part of the business growth was derived from the wellness collection of footwear under the premium category, in particular the new line of *Shape-ups* fitness shoes by *Skechers*. The Group will continue to fine-tune its product portfolio to achieve full leverage of its production capabilities.

The Group's flexibility in arranging manufacturing services to cater to a wide scope of client requirements and specifications is also an important competitive advantage, contributed by its multi-country production base, which is now extended to Guangdong and Jiangxi Provinces in the PRC, Vietnam and Cambodia.

With new production facilities installed to support a further diversified production base, the Group is able to better serve the varied requirements of clients in the United States, Europe and other countries.

The Group's strategy of providing customized and competitive one-stop services, supplemented by a wide array of products, for premium brand owners effectively improves the overall net margin. This has earned us continuing support from customers and helped us maintaining reasonable margins.

**Operational Performance**

The Group proactively adjusted its product and customer portfolio during the period in order to cope with the challenges in the United States and European markets and the uncertainties in the manufacturing landscape. We are glad to report further progress in the Group's focused development of premium casual footwear, a strategic market segment that the Group has identified as providing promising growth prospects. The Group will leverage its leading position in the premium product category to further expand sales of high-quality footwear products.

During the first half of the reporting year, sales to the Untied States rebounded to approximately 65.1% of total revenue from approximately 50.2% during the last corresponding period, despite the continuing appreciation of the Renminbi and the generally soft consumption in the United States. The increase in sales to the United States was mainly driven by the strong results of the wellness category products, underlined by the success of the *Shape-ups* line. Sales in the European markets accounted for approximately 28.6% compared to approximately 43.3% in the corresponding period of the previous year.

Throughout the reporting period, the operating environment faced by the PRC manufacturers remained challenging and unstable. The increases in wages, electricity rates, shipment expenses and other costs have continued to exert pressure on the Group's profit margin.

Among the key cost factors, material cost rose only slightly due to increased material usage for the development of new samples and to accommodate the expanded production volume.

Salaries and wages increased due to the raising of minimum wages in the PRC and the appreciation of the Renminbi, but the impact was partially offset by the Group's furtherance of its lean manufacturing system. As a result, the overall increment in the labor and staff cost was kept in line with the growth in turnover.

In addition to a streamlined workforce, the lean manufacturing system also resulted in higher efficiency and shortened lead times.

Selling expenses were comparatively higher as the scale of the retailing business continued to grow. Such expenses mainly include rental, advertising and salary expenses incurred in support of the development of the Group's retail network in Hong Kong and China.

***Manufacturing and sale of footwear products***

The Group's robust production base is supported by production facilities with a total of 38 production lines as at 30 September 2010, of which 14 lines are located in Vietnam and Cambodia, and 13, 8 and 3 lines in Zhongshan, Zhuhai and Jiangxi Provinces in the PRC respectively. This multi-country manufacturing platform has a total annual production capacity of about 20 million pairs of footwear.

During the period, the Group restarted expansion at the Jiangxi and Cambodian plants. The expansion will support the Group's growth and further diversification of its product offerings to fulfill customer requirements for innovative, cost-effective and high-quality solutions.

In addition to organic expansion, the Group is also exploring the feasibility of establishing strategic partnerships to bring further value to and create synergies for its existing businesses.

The segment reported robust sales growth in the premium product line, led by the strong order book for the line *Shape-ups* fitness shoes by Skechers amidst a still fragile economy of the United States. This reflects the success of our premium offerings in inducing market demand. As such, the Group will continue with its research and development efforts in order to further expand its product mix.

Despite the appreciation of Renminbi and increase in labor and material costs, negative impact was able to be minimized through applying the lean manufacturing system. As a result, an approximately 2.5 basic points increase in the overall net margin was recorded.

During the first half of the reporting year, the Group's major customers included Skechers, Clarks, Stride Rite, Rockport and G-Star, which in aggregate produced approximately 94.5% (2009: approximately 94.4%) of total turnover. The Group is actively engaged in the development of new business from both existing and potential customers.

***Retailing and wholesaling business***

As part of the Group's long-term diversification initiatives, the retail and wholesale business unit was mainly set up to undertake the sales of ladies' footwear, bags and accessories under the *MOCCA* brand and trendy baby shoes under the *Fiona's Prince* brand.

During the period, the turnover derived from the retail segment increased by approximately 114.3% to approximately HK$15 million (2009: approximately HK$7 million). Although this business line incurred a loss of approximately HK$18 million (2009: loss of approximately HK$12 million) for the six months ended 30 September 2010, the Group is confident of its prospect of generating a new income stream in the future. The loss was mainly attributable to the high rental expenses in Hong Kong.

As at 30 September 2010, *MOCCA* maintained four shops in Hong Kong and Macau and five points of sale in the PRC, while the baby line *Fiona's Prince* operated four and six shops respectively in Hong Kong and the PRC.

To capitalize on the thriving retail environment in Hong Kong, the Group opened a new outlet in a prime location in the tourist and business centre of Peking Road in Tsim Sha Tsui in May 2010. The retail rollout in the PRC has also met with initial success. With a foothold already established in Beijing and Shanghai, the segment has been actively working towards more new shop openings by 2011.

## FUTURE PLANS AND PROSPECTS

We saw the continued recovery of world trade in the first half of the fiscal year as signified by the revived export figures of various Asian economies. More promisingly, consumers' demand in China has demonstrated a continuous and strong growth, despite the scaling down of the PRC government's stimulus and liquidity boosting measures.

Although economic recoveries in Europe and the United States are still unsteady, the footwear industry conventionally demonstrates stronger resilience to economic cycles since shoes are daily necessity, as witnessed in the previous historical downturns. It is expected that continued improvements in consumers' confidence and disposable income will help foster a more favorable operating environment for retailers and manufacturers worldwide.

The Group's manufacturing business is advantageously positioned at the premium end of the value chain on the bedrock of its craftsmanship and production efficiency. We are confident that the Group is uniquely placed to benefit from the continuing outsourcing trend that is witnessed in the world's luxury products sector.

**Manufacturing and sale of footwear products**

During the remainder of this year, the Group will redouble its efforts in maintaining its premium product mix with a major proportion of higher-margin items. This will be supplemented by consistent cost control neasures and operational re-engineering disciplines.

Identifying the performance athletic line as a key source of growth for the coming year, the Group will also invest in expanding production lines for this product category. A new premium line of white shoes is also under development to tap further into the trendy casual wear market.

The Group's order book has continued to scale up since the beginning of this year. The Directors are confident that its manufacturing business will continue to grow in the second half of 2010, with export volumes expected to expand at a satisfactory pace. Pressures on margin are also expected to ease considerably as the cost surges can gradually be shared by clients.

Against a backdrop of the gradual appreciation of the Renminbi, inflationary pressures still exist on the cost front. In order to counteract the surging wage costs and other potentially unfavorable factors, the Group continues to shift its more labor-intensive processes to the facility located on further inland areas within the PRC.

Our multi-country production base provides us with a high degree of flexibility in making manufacturing arrangements based on cost, skill requirements and lead time. This also enables the Group to offer dedicated development and production facilities for major clients.

The facilities in Zhongshan and Zhuhai in Guangdong Province will continue to be utilized for more sophisticated and value-adding manufacturing processes. They will also serve as designated product development centres for clients.

The new facility in Jiangxi Province will support the Group's mid-term growth. Currently equipped with two production lines serving mainly the United States customers, one additional production line has been scheduled for trial run in November 2010 and will be in its full operation by January 2011.

The facility in Cambodia is also established in support of the Group's mid-term growth. Designed to host three production lines initially and serving mainly European customers, two of these lines have been scheduled for trial run by May 2011 and will be in its full operation by August 2011.

To ensure consistent quality, training courses are arranged for the current mid level management personnel in the PRC before they are transferred to oversee operations of the plants in Jiangxi Province and Cambodia. Upon commencement of the two new production lines by the next fiscal year, the Directors expect that the Group's total production capacity will be expanded by more than 5.0% to 21 million pairs. With the two new plants expected to mature and to begin contributing to the Group's earnings, the Directors are confident of sustaining a healthy profit margin for the Group.

Looking ahead, the Group will continue to enhance its production system and craftsmanship in order to meet the highest quality and flexibility requirements of clients. Efforts will continue to be put into the strengthening of the research and development capability with plans under way to establish new development center in Vietnam in 2011. At the same time, the production teams are committed to meeting every specialized specification of customers. The Group will continue to seek ways to improve its design and manufacturing processes, while growing business in a prudent and responsible manner.

**Retailing and wholesaling business**

Going forward, our retail business will have an increasingly important role to play in the Group's overall development. After a few years of dedicated effort and investments, the Group has built a strong springboard to launch expanded growth in the retail segment.

The Group has been developing this line of business in a prudent manner, with stringent controls on operating costs. Performances of self-operated outlets are reviewed on a regular basis, and retail network optimization is an ongoing exercise to ensure a successful mix of outlet portfolio.

While our efforts have succeeded in establishing the framework for the development of the retail business, the operating challenges, including escalating rentals and other costs, have led us to make a critical re-examination of our plans for this business line. Going into the second half of 2010, the Group will re-engineer its retail business by repositioning the brands and ceasing the operation of certain loss-making retail stores under the *MOCCA*, *Fin-shop* and *AIMS* brands. In view of the weaker-than-expected performance of the menswear line under the *Fin-shop* and *AIMS* brands, management will closely monitor and assess its activities and prospects before a revised plan is drawn up.

On a positive note, the launch of the baby footwear line *Fiona's Prince* has been met with a strong market response. The Directors therefore plan to further enhance the *Fiona's Prince* brand by expanding its network and strengthening its market position. In order to boost *Fiona's Prince* brand awareness, the Group will put more resources into various brand-building initiatives, including roadshows, exhibitions and extensive advertising campaigns. Prudence will continue to be exercised in the furtherance of the retail business under the *Fiona's Prince* brand.

The Group will continue to look for prime locations to further expand sales. At the same time, the Group is confident in the future prospects of the retail sector in the PRC as the continuous economic growth and increasing social mobility will support the growth in demand for quality branded footwear. As such, the PRC will remain our primary focus for expansion, while we will continue to look out for additional opportunities to expand our presence in other markets. The Directors consider that there is room for retail network expansion in the second half of this year. 13 new shop openings are planned for the PRC in 2011.

For both the Hong Kong and PRC markets, the Group will continue with its store expansion strategy under the *Fiona's Prince* brand, but will also take measures to increase revenue by improving sales from existing outlets.

Despite the short-term negative impact of our retail segment investments on the profitability of the Group, we believe the retailing and wholesaling business segment will bring long-term return for shareholders. Our participation in the retail sector will also help to enhance our future overall profit margin.

**Overall**

Looking forward, the Group expects to see a comparatively rosy market prospect especially for the PRC market. We believe the Group is well positioned to grasp the upcoming market opportunities in the PRC while tackling the unveiled challenges by implementing corresponding strategic and timely operational enhancement initiatives.

Overall, the Group remains optimistic about its long-term prospects. It has the competence and foundation to ensure business vigor and to constantly add value for customers and 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 2010, the Group's cash and cash equivalents were approximately HK$567 million (as at 31 March 2010: approximately HK$527 million).

As at 30 September 2010, the Group had banking facilities amounted to an aggregate sum of approximately HK$203 million (as at 31 March 2010: approximately HK$211 million) with various banks. The banking facilities of approximately HK$3 million (as at 31 March 2010: approximately HK$2 million) had been utilised as at 30 September 2010.

For the six months ended 30 September 2010, the current ratio was approximately 1.98 (as at 31 March 2010: approximately 2.08) based on current assets of approximately HK$915 million and current liabilities of approximately HK$461 million and the quick ratio was approximately 1.61 (as at 31 March 2010: approximately 1.75).

As at 30 September 2010, the Group did not have any interest-bearing bank borrowings.

The Group will continue to maintain conservative cash flow management to sustain a strong cash position. Having considered the major expansion plans of the Group, including Cambodia and the PRC in the next two to three years, the Directors believe that the Group has adequate liquidity to meet its current and future working capital requirements on its operations and expansion.

## 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. Interest rates of borrowings are fixed by reference to the HKD Hong Kong Inter-Bank offered Rate, the USD London Inter-Bank Offered Rate or the Singapore Inter-Bank offered 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 currency contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's receivables and payables.

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$897 million as at 30 September 2010 from approximately HK$852 million as at 31 March 2010. As at 30 September 2010, the Group did not have any interest-bearing bank borrowings (as at 31 March 2010: nil), resulting nil% (as at 31 March 2010: nil%) of the shareholders equity.

## INTERIM DIVIDEND

On 29 November 2010, the Board has resolved to declare the payment of an interim dividend of HK3.0 cents per ordinary share in respect of the six months ended 30 September 2010 to shareholders registered on the register of members on 31 December 2010, resulting in an appropriation of approximately HK$19,919,000. The interim dividend will be payable on or before 17 January 2011.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 December 2010 to 31 December 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 23 December 2010.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## 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 14,000 as at 30 September 2010 (2009: approximately 12,000). 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 2010, 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 provision A.2.1 of the Code, 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 2010 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 2010.

## 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, 29 November 2010

*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*