福田實業(集團)有限公司
Fountain Set (Holdings) Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 420)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 28TH FEBRUARY, 2009

The Board of Directors would like to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries ("the Group") for the six months ended 28th February, 2009 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	**Six months ended 28th February, 2009 HK$'000 (unaudited)**	Six months ended 29th February, 2008 HK$'000 (unaudited)
Revenue	3	**2,488,319**	3,074,168
Cost of sales		**(2,132,134)**	(2,618,154)
Gross profit		**356,185**	456,014
Other income		**35,744**	29,544
Distribution and selling expenses		**(166,645)**	(154,719)
Administrative expenses		**(306,906)**	(356,504)
Other expenses		**(44,494)**	(24,943)
Finance costs	4	**(28,006)**	(52,623)
Impairment losses on property, plant and equipment	9	**-**	(238,209)
Employee termination benefits	9, 13	**-**	(44,135)
Relocation cost of plant and equipment	9, 13	**-**	(2,130)
Loss before taxation		**(154,122)**	(387,705)
Income tax credit	5	**4,630**	5,216
Loss for the period	6, 9	**(149,492)**	(382,489)
Attributable to:			
Equity holders of the Company		**(166,158)**	(398,998)
Minority interests		**16,666**	16,509
		(149,492)	(382,489)
Dividend paid	7	**-**	31,760
		HK cents	HK cents
Basic loss per share	8	**20.9**	50.3

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	At 28th February, 2009 HK$'000 (unaudited)	At 31st August, 2008 HK$'000 (audited)
Non-current assets			
Investment properties		**12,997**	12,680
Property, plant and equipment	9	**2,217,830**	2,152,310
Prepaid lease payments - non-current portion	9	**144,126**	146,588
Derivative financial instruments		**-**	7,175
Deferred tax assets		**22,660**	18,885
		2,397,613	2,337,638
Current assets			
Inventories	10	**1,307,388**	1,465,681
Prepaid lease payments - current portion	9	**3,245**	3,237
Trade and other receivables	11	**1,122,216**	1,205,659
Derivative financial instruments		**9,497**	15,876
Tax recoverable		**24,457**	31,404
Bank deposits with restricted use		**6,092**	4,698
Short-term bank deposits		**40,240**	394,092
Bank balances and cash		**610,493**	286,708
		3,123,628	3,407,355
Assets classified as held for sale	9	**216,872**	255,222
		3,340,500	3,662,577
Current liabilities			
Trade and other payables	12	**509,313**	657,657
Bills payable	12	**199,466**	162,703
Amounts due to minority shareholders		**76,214**	76,214
Deferred income		**1,458**	1,458
Derivative financial instruments		**6,377**	9,921
Tax payable		**15,697**	17,333
Restructuring provisions	13	**5,299**	11,695
Bank borrowings - due within one year		**934,870**	547,763
Bank overdrafts		**2,708**	4,086
		1,751,402	1,488,830
Net current assets		**1,589,098**	2,173,747
Total assets less current liabilities		**3,986,711**	4,511,385

CONDENSED CONSOLIDATED BALANCE SHEET

	At 28th February, 2009 HK$'000 (unaudited)	At 31st August, 2008 HK$'000 (audited)
Non-current liabilities		
Deferred income	**70,724**	71,454
Derivative financial instruments	**30,071**	2,309
Bank borrowings - due after one year	**1,381,602**	1,732,084
Deferred tax liabilities	**3,222**	6,344
	1,485,619	1,812,191
Net assets	**2,501,092**	2,699,194
Capital and reserves		
Share capital	**158,802**	158,802
Reserves	**2,110,746**	2,289,353
Equity attributable to equity holders of the Company	**2,269,548**	2,448,155
Minority interests	**231,544**	251,039
Total equity	**2,501,092**	2,699,194

NOTES

1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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 and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of annual financial statements of the Group for the year ended 31st August, 2008.

In the current interim period, the Group has applied, for the first time, a number of new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1st September, 2008 and listed below:

HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new interpretations has had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has not early applied the following new and revised standards, amendment or interpretations (the "new HKFRSs") that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
2 Effective for annual periods beginning on or after 1st January, 2009
3 Effective for annual periods beginning on or after 1st July, 2009
4 Effective for annual periods ending on or after 30th June, 2009
5 Effective for annual periods beginning on or after 1st October, 2008
6 Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on 1st September, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Group has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs would have a significant impact on its results and financial position.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments (based on location of customers). Others mainly represent Singapore and Macau.

Six months ended 28th February, 2009

	Hong Kong HK$'000	The People's Republic of China (the "PRC") HK$'000	Taiwan HK$'000	Korea HK$'000	Sri Lanka HK$'000	America HK$'000	Europe HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE										
External sales	732,058	362,542	288,311	223,171	327,218	174,272	23,754	356,993	-	2,488,319
Inter-segment sales (note)	1,684,325	1,017,090	-	-	166,315	12,828	-	42,899	(2,923,457)	-
Total revenue	2,416,383	1,379,632	288,311	223,171	493,533	187,100	23,754	399,892	(2,923,457)	2,488,319
RESULTS										
Segment results	61,299	24,737	21,798	16,677	53,819	9,543	2,096	27,923		217,892
Interest income										3,233
Unallocated expenses										(347,241)
Finance costs										(28,006)
Loss before taxation										(154,122)
Income tax credit										4,630
Loss for the period										(149,492)

3. SEGMENT INFORMATION - continued

Six months ended 29th February, 2008

	Hong Kong HK$'000	The PRC HK$'000	Taiwan HK$'000	Korea HK$'000	Sri Lanka HK$'000	America HK$'000	Europe HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE										
External sales	1,061,395	227,645	276,950	398,102	401,936	208,717	26,668	472,755	-	3,074,168
Inter-segment sales (note)	2,516,324	1,405,527	-	-	281,693	14,299	-	30,868	(4,248,711)	-
Total revenue	3,577,719	1,633,172	276,950	398,102	683,629	223,016	26,668	503,623	(4,248,711)	3,074,168
RESULTS										
Segment results	102,267	20,020	24,181	38,749	74,498	13,059	1,870	45,267		319,911
Interest income										7,266
Unallocated expenses										(662,259)
Finance costs										(52,623)
Loss before taxation										(387,705)
Income tax credit										5,216
Loss for the period										(382,489)

Note: Inter-segment sales are charged at prices with reference to the prevailing market rates.

4. FINANCE COSTS

	Six months ended 28th February, 2009 HK$'000	Six months ended 29th February, 2008 HK$'000
Finance costs on:		
Bank borrowings wholly repayable within five years	**31,584**	53,581
Finance leases wholly repayable within five years	**-**	4
Total finance costs	**31,584**	53,585
Less: amounts capitalised	**(3,578)**	(962)
	28,006	52,623

Finance costs capitalised during the period arose on the general borrowing and have been calculated by applying a capitalisation rate of 2.68% (six months ended 29th February, 2008: 4.61%) per annum on expenditure of qualifying assets.

5. INCOME TAX CREDIT

	Six months ended 28th February, 2009 HK$'000	Six months ended 29th February, 2008 HK$'000
Current tax:		
Hong Kong	**-**	1,649
The PRC	**1,850**	(2,976)
Other jurisdictions	**417**	(412)
	2,267	(1,739)
Deferred tax:		
Hong Kong	**(4,994)**	(17,274)
The PRC	**102**	13,467
Other jurisdictions	**(2,005)**	330
	(6,897)	(3,477)
Taxation attributable to the Group	**(4,630)**	(5,216)

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the current period. Hong Kong Profits Tax is calculated at 16.5% (six months ended 29th February, 2008: 17.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong incurred tax losses for the current period.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from the PRC enterprise income tax for two calendar years commencing from their first profit-making year of operation and thereafter, they are entitled to 50% relief from the PRC enterprise income tax for the following three calendar years (the "Tax Holiday"). The reduced tax rate for the relief period is 12.5%. The Tax Holiday will expire by 31st December, 2012.

The Enterprise Income Tax Law ("Tax Law") of the PRC promulgated in 2007 is effective on 1st January, 2008. In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the Tax Law and have an impact on the Company's PRC subsidiaries. The PRC enterprise income tax rates for the Company's PRC subsidiaries are unified at 25% effective from 1st January, 2008, while certain of the Company's PRC subsidiaries will continue to enjoy the reduced tax rate of 12.5% until 31st December, 2012 under the Tax Holiday.

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5. INCOME TAX CREDIT - continued

Pursuant to the relevant laws and regulations in Sri Lanka, the profit generated from a subsidiary of the Company is entitled to exemption from the Sri Lanka income tax until 31st August, 2015. Accordingly, no provision for income tax was made on the relevant profit for the current period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In February 2008, the Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on the Company and its subsidiaries for the years of assessment from 2001/02 onwards and has commenced to obtain information and documents from the Group. In March 2008 and 2009, notices of estimated additional assessment (the "Protective Assessments") for the year of assessment 2001/02 and 2002/03 in an aggregate amount of HK$14,352,000 and HK$19,844,000, respectively were issued to the Company and certain subsidiaries of the Company by the IRD. Objections against the Protective Assessments were lodged and both amounts were heldover unconditionally. The scope and outcome of the tax audit cannot be readily ascertained at this stage. The directors of the Company believe that no significant amount of additional profits tax will be payable under the Protective Assessments and no provision for additional Hong Kong profits tax is therefore necessary.

6. LOSS FOR THE PERIOD

	Six months ended 28th February, 2009 HK$'000	Six months ended 29th February, 2008 HK$'000
Loss for the period has been arrived at after charging (crediting):		
Release of prepaid lease payments	**2,416**	987
Depreciation of investment properties	**241**	207
Depreciation of property, plant and equipment	**103,986**	134,098
(Gain) loss on disposal of property, plant and equipment	**(201)**	2,027
Gain on disposal of assets classified as held for sale	**(43)**	-
Net foreign exchange loss (included in other expenses)	**6,722**	17,764
Net loss from fair value changes of derivative financial instruments (included in other expenses)	**37,772**	5,152
Interest income	**(3,233)**	(7,266)
Net rental income from investment properties	**(2,732)**	(2,036)

7. DIVIDEND PAID

	Six months ended 28th February, 2009 HK$'000	Six months ended 29th February, 2008 HK$'000
Final, paid during the six months ended 29th February, 2008 for the year ended 31st August, 2007 - HK4.0 cents per share	-	31,760

No interim dividend was proposed by the directors for the six months ended 28th February, 2009 (six months ended 29th February, 2008: HK1.0 cent per share).

8. BASIC LOSS PER SHARE

The calculation of basic loss per share attributable to the equity holders of the Company is based on the loss for the period attributable to equity holders of the Company of HK$166,158,000 (six months ended 29th February, 2008: HK$398,998,000) and on 794,010,960 (six months ended 29th February, 2008: 794,010,960) ordinary shares in issue during the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS/ASSETS CLASSIFIED AS HELD FOR SALE

During the period ended 28th February, 2009, the Group incurred expenditure of approximately HK$147,208,000 (six months ended 29th February, 2008: HK$219,878,000) on property, plant and equipment and prepaid lease payments to expand and upgrade the Group's manufacturing facilities.

Due to significant costs of replacement and continuous maintenance on existing facilities and infrastructure including electricity generators and effluent treatment facilities, which were outmoded and aged, of Dongguan Fuan Textiles Limited ("Dongguan Fuan"), a non wholly-owned PRC subsidiary of the Group, management decided to close down Dongguan Fuan which was engaged in the manufacture of dyed fabrics and yarns. As at 28th February, 2009, the assets with an aggregate amount of HK$216,872,000 (as at 31st August, 2008: HK$255,222,000), which are expected to be sold within one year of the balance sheet date, have been classified as assets held for sale and are presented separately in the condensed consolidated balance sheet. The assets of Dongguan Fuan classified as held for sale mainly comprise property, plant and equipment. Subsequent to the balance sheet date, the Group has entered into an agreement with an independent third party to sell a substantial portion of those assets held for sale, details of which are set out in note 14.

As at 28th February, 2009, this closure was still in progress. Management has determined that the fair value less costs to sell of the relevant cash-generating unit ("CGU") which comprises mainly property, plant and equipment of Dongguan Fuan was less than its carrying amount. An impairment loss of HK$238,209,000 was recognised by the Group in the six months ended 29th February, 2008. The impairment loss was subsequently reduced to HK$150,449,000 and the effect of this reversal has been reflected in the result of the latter half of the year ended 31st August, 2008. The estimated fair value less costs to sell is determined by reference to the latest quotations from independent third parties or recent market prices for similar assets at each balance sheet date.

Under this closure plan, management of the Group decided to terminate employments of a significant number of employees of Dongguan Fuan. Accordingly, a provision for employee termination benefits in the aggregate amount of HK$54,270,000 was recognised by the Group, of which HK$44,135,000 was recognised as an expense in the six months ended 29th February, 2008.

In addition, under the closure plan, certain plant and equipment of Dongguan Fuan were identified for relocation to other factories of the Group. Accordingly, a restructuring cost in relation to relocation of plant and equipment of Dongguan Fuan amounting to HK$2,130,000 was also recognised by the Group in the six months ended 29th February, 2008.

Details of these restructuring provisions of the Group are disclosed in note 13.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS/ASSETS CLASSIFIED AS HELD FOR SALE - continued

The costs in relation to the closure plan of Dongguan Fuan amounting to HK$310,867,000 was recognised by the Group for the six months ended 29th February, 2008 and its impact on the Group is as follows:

	Six months ended 28th February, 2009 HK$'000	Six months ended 29th February, 2008 HK$'000
Loss of the Group for the period before closure costs of Dongguan Fuan	**(149,492)**	(71,622)
Closure costs of Dongguan Fuan (net of tax), including impairment losses on property, plant and equipment, employee termination benefits, relocation cost of plant and equipment and write-down of Inventories	**-**	(310,867)
Loss of the Group for the period	**(149,492)**	(382,489)

10. INVENTORIES

	At 28th February, 2009 HK$'000	At 31st August, 2008 HK$'000
Spare parts	**156,276**	165,561
Raw materials	**533,780**	714,273
Work in progress	**311,016**	311,010
Finished goods	**306,316**	274,837
	1,307,388	1,465,681

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period from 30 days to 90 days to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	At 28th February, 2009 HK$'000	At 31st August, 2008 HK$'000
Not yet due	**458,387**	566,719
Overdue 1 - 30 days	**237,714**	246,935
Overdue 31 - 60 days	**136,853**	128,256
Overdue > 60 days	**84,347**	107,288
	917,301	1,049,198

12. TRADE AND OTHER PAYABLES, BILLS PAYABLE

The following is an aged analysis of trade payables at the balance sheet date:

	At 28th February, 2009 HK$'000	At 31st August, 2008 HK$'000
Not yet due	**214,654**	278,030
Overdue 1 - 30 days	**34,506**	38,443
Overdue 31 - 60 days	**26,695**	26,550
Overdue > 60 days	**15,935**	15,428
	291,790	358,451

All bills payable of the Group are not yet due at the balance sheet date.

13. RESTRUCTURING PROVISIONS

Due to the closure plan of Dongguan Fuan as detailed in note 9, management of the Group decided to terminate employments of a significant number of employees. Accordingly, a provision for employee termination benefits of HK$54,270,000 was recognised by the Group up to 31st August, 2008. Out of the provision made, an amount of HK$44,135,000 was recognised as an expense in the six months ended 29th February, 2008. No further provision was made during the current period.

In addition, under the closure plan, certain plant and equipment of Dongguan Fuan was identified for relocation to other factories of the Group. Accordingly, a restructuring cost in relation to relocation of plant and equipment of Dongguan Fuan amounting to HK$2,130,000 was recognised by the Group in the six months ended 29th February, 2008. Since then, no further provision was made by the Group.

An amount of HK$51,101,000 of such restructuring provisions has been utilised by the Group up to 28th February, 2009, of which HK$6,396,000 was utilised during the current period.

Details of the closure plan are disclosed in note 9.

14. POST BALANCE SHEET EVENTS

The following events took place subsequent to the balance sheet date:

(a) On 27th April, 2009, Dongguan Fuan entered into an agreement with an independent third party to sell the parcels of land located at Dongguan Fuan Textiles Complex, Changan Town, Dongguan City, Guangdong, the PRC (the "Properties") for a total cash consideration of RMB255,000,000 (approximately HK$288,136,000) payable in 5 installments (the "Property Agreement"). The Properties with a carrying amount of HK$157,964,000 have been included in the Group's assets classified as held for sale at the balance sheet date. The Property Agreement is conditional upon approval by the shareholders of the Company in the forthcoming extraordinary general meeting.

(b) On 27th April, 2009, Folktune Limited ("Folktune"), a wholly-owned subsidiary of the Company entered into an agreement with certain minority shareholders of Dongguan Fuan (the "Transferors") to acquire from the Transferors in aggregate 39% of the equity interests in Dongguan Fuan at a total consideration of HK$77,326,205 (the "Share Transfer Agreement").

14. POST BALANCE SHEET EVENTS - continued

On the same day, Folktune issued an undertaking to China Resources Textiles Company Limited ("China Resources Textiles"), also a minority shareholder of Dongguan Fuan, pursuant to which Folktune undertakes after one year from the date of the undertaking to (i) pay to China Resources Textiles HK$7,616,000 as compensation under the undertaking and operation agreement dated 3rd July, 2001 entered into between Folktune, the Transferors and China Resources Textiles (the "Fuan Agreement") and (ii) to acquire 10% equity interests in Dongguan Fuan from China Resources Textiles for a cash consideration of HK$12,211,232 (the "Undertaking").

Folktune, the Transferors and China Resources Textiles had also on 27th April, 2009 entered into a cancellation agreement pursuant to which the parties agreed that the Fuan Agreement shall be cancelled with effect from March 2008 and the operation fees payable to the Transferors and China Resources Textiles since March 2008 pursuant to the Fuan Agreement shall be set off by the consideration payable by Folktune to them for purchase of equity interests in Dongguan Fuan. Upon completion of the Share Transfer Agreement, Dongguan Fuan will become a 90% owned subsidiary of the Company, and upon completion of the matters as stated in the Undertaking issued to China Resources Textiles, Dongguan Fuan will become a wholly-owned subsidiary of the Company.

The Share Transfer Agreement is conditional upon the signing and performance of the Property Agreement and approval by the independent shareholders of the Company in the forthcoming extraordinary general meeting.

Details of the above transactions, which constitute very substantial disposal transaction and major and connected transactions of the Company, are set out in an announcement of the Company dated 29th April, 2009.

BUSINESS REVIEW

We would like to report to shareholders the results of the Group for the six months ended 28th February, 2009. The Group's revenue was approximately HK$2,488,319,000, a decrease of 19.1% over the same period last year. Unaudited loss attributable to shareholders amounted to approximately HK$166,158,000. Net loss margin for the period under review was 6.7%, a decrease of 6.3 percentage point over the same period last year or an increase of 3.8 percentage point if excluding last year's cost in relation to the reduction of production capacity of Dongguan Fuan Textiles Limited ("Dongguan Fuan") , one of the Group's non wholly-owned subsidiary. Basic loss per share was HK20.9 cents, compared to basic loss per share HK50.3 cents (HK11.1 cents if excluding last year's cost in relation to the reduction of production capacity) for the first half of financial year 2008. The Board has resolved not to pay any interim dividend for the period under review (2008: HK1.0 cent per share).

During the first half of financial year 2009, the world economy was still challenging due to the worsening of the US sub-prime mortgage crisis towards the end of calendar year 2008 which has adversely affected the economic climate and consumer markets, especially those in the US and Europe. During the period under review, many brands and retailers in the US and Europe were aggressively reducing their inventories, thus the order volume for knitted fabrics of the Group has been negatively impacted. The overall operating environment of the period under review remained difficult given the weak global economy and high operating costs.

The decrease in the Group's revenue compared to the same period last year was due mainly to the reduction in capacity in Dongguan Fuan. Moreover, the weaker economy has led to reduced buying budgets and tougher price negotiations by the customers, resulting in lower average selling price for the Group. Despite decline in commodity prices such as cotton and coal during the first half of the current financial year, the Group could not benefit significantly until the full replenishment of lower cost inventory. Similarly, the relief from increase in textile and apparel export related VAT rebate by the Chinese government from 13% to 14% on 1st November, 2008 and from 14% to 15% on 1st February, 2009 will only be fully reflected in the second half of this financial year. At the same time, the reduction in capacity also brought down the economies of scale for the Group resulting in lower operating margin.

On 27th April 2009, Dongguan Fuan entered into a Property Agreement ("Property Agreement") with an independent third party in China, for the disposal of its whole land and property interest ("Properties") for a total cash consideration of RMB255,000,000 (approximately HK$288,136,000) payable in five installments over a 24-month period. The Board considered that this was a good opportunity for the Group to realize its investment in the Properties and to increase the liquidity of the Group through this transaction. At the same time, the Group also entered into certain Share Acquisition arrangements ("Share Acquisition") with the other four shareholders of Dongguan Fuan. The board had evaluated various alternatives and had concluded that the Share Acquisition was the most efficient method that was also acceptable to the shareholders of Dongguan Fuan, to enable the Group to access the cash generated from the transaction under the Property Agreement as soon as it becomes available.

Production and Sales of Dyed Fabrics, Sewing Threads and Yarns

For the period under review, due to a weaker economy as well as the reduction in capacity due to the reduction of capacity in Dongguan, revenue from the production and sales of dyed fabrics, sewing threads and yarns was approximately HK$2,086,687,000, a decrease of 24.0% as compared with the same period last year, and accounted for 83.9% of the Group's total revenue.

Production and Sales of Garments

For the first half of financial year 2009, revenue from the production and sales of garments reached approximately HK$401,632,000, an increase of 22.8% as compared with the same period last year, and accounted for 16.1% of the Group's total revenue.

Analysis by Customer Geographical Regions

For the period under review, the Group's major customers were located in Asia and accounted for approximately 92.0% of the Group's total revenue. The remaining 8.0% was generated from sales to customers located in Europe and America.

OUTLOOK

Looking forward to the second half of the Group's financial year of 2009, it is expected that the aftermath of the global financial turmoil will continue to adversely affect the retail consumer spending in the US and Europe. As a result, the demand for textile and apparel products is anticipated to remain sluggish. Our foreign customers have continuously expressed concerns over the near term outlook of the retail business, which may result in continuation of conservative placements of fabric and garment orders.

For the fabric business, following consolidation of fabric supply chain by some of our key customers and our implementation of more aggressive sales strategies, cost control and streamlining measures, the Group has already seen some improvements in sales volume and business performance in the initial months of the second half of the current financial year. The Group currently possesses a total of approximately 23 million pounds of monthly fabric dyeing capacity. Because of weakness in demand and uncertainty in market outlook, the completion of the Yancheng fabric mill has been delayed. The Group will monitor closely the market conditions and our clients order plan before commissioning the Yancheng fabric mill. Meanwhile, the Group's plant in Jiangyin, Jiangsu Province, remains the largest fabric production site within the Group and is expected to represent about half of the Group's total capacity. This phased plan of balancing the distribution of capacity between the Pearl River Delta and the Yangtze River Delta of the PRC will enable the Group to strategically diversify our geographical risk and lessen the impact of rising costs of producing in Southern part of the PRC in the long term.

Despite increase in sales during the period under review, the market for garment export remains volatile and highly competitive. Under such market conditions, the Group expects possibilities of weakening in the performance of garment business in the second half of this financial year.

The Group has continued to implement stringent cost-controlling measures to reduce our overall operating costs. The number of employees of the Group has been reduced from 18,200 as of 31st August, 2008 to the 16,500 as of 28th February, 2009. Given the current assessment of the market environment, the Group maintains an extremely cautious view on the Group's overall performance for the whole financial year.

FINANCIAL REVIEW

Liquidity and Financial Information

At 28th February, 2009, the total amount of bank deposits, bank balances and cash of the Group was approximately HK$656,825,000, a decrease of approximately HK$28,673,000 compared with 31st August, 2008.

At 28th February, 2009, the financial ratios (inclusive of interim dividend declared, if any) of the Group were as follows:

	28th February, 2009	31st August, 2008
Gearing Ratio	1.53	1.45
Bank borrowing ratio	1.02	0.93
Net bank borrowing ratio	0.73	0.65

The Group has engaged in certain interest rate swap contracts for part of the term loans in order to convert the variable HIBOR rate to fixed rates ranging from 2.4% to 4.07%. Owing to the dramatic decrease in the HIBOR rate, a loss from change in fair values of approximately HK$34,936,000 was included as other expenses for the period ended 28th February, 2009.

The sales and the purchase of raw materials of the Group are mainly denominated in Hong Kong dollars, US dollars and Renminbi. Bank borrowings are also denominated in Hong Kong dollars, US dollars and Renminbi and interest are mainly charged on a floating rate basis. In addition, the Group mainly operates in the PRC and is exposed to foreign exchange risk arising from Renminbi exposure. The fluctuations in the US dollars and Renminbi have always been the concern of the Group. In order to mitigate the foreign currency risk and interest rate risk, the Group will enter into appropriate hedging arrangements in accordance with the Group's risk management policies.

Capital Expenditure
During the period under review, the Group invested approximately HK$147,208,000 in the property, plant and equipment and prepaid lease payments. The Group estimates its capital expenditure for this financial year to be approximately HK$300,000,000. Although this figure is higher than that estimated in the annual report of last year, it represents a reduction of about 42% from the capital expenditure of last year. The increase in capital expenditure is due to additional investments in the Group's production facilities in China and Sri Lanka for enhancing efficiency and competitiveness.

Employees and Emolument Policies
At 28th February, 2009, the Group had approximately 16,500 full time employees. There is no significant change in the Group's emolument policies.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or, was not during the six months ended 28th February, 2009 in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, with deviation from the Code provision 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. Mr. HA Chung Fong ("Mr. HA") is presently the Chairman and Managing Director of the Company. Having considered the current business operation and nature of the Company, the Board is of the view that Mr. HA acting as both the roles of chairman and CEO is in the best interest of the Company. The Board will review this situation periodically.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, the Company considers that all directors of the Company have complied with the required standard set out in the Model Code for the period under review.

AUDIT COMMITTEE

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The Audit Committee presently comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed the unaudited interim results. In addition, the Group's external auditor has carried out a review of the unaudited interim results in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee for the purposes of making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remunerations. The Remuneration Committee presently comprises five directors of the Company, including the three independent non-executive directors of the Company, Mrs. FUNG YEH Yi Hao, Yvette (non-executive director of the Company) and Mr. WAI Yick Man (executive director of the Company).

The followings are the directors of the Company as at the date of this announcement:

Executive directors	*Non-executive directors*	*Independent Non-executive directors*
Mr. HA Chung Fong	Mr. HA Hon Kuen	Mr. NG Kwok Tung
Mr. LAU Hong Yon	Mrs. FUNG YEH Yi Hao, Yvette	Mr. WONG Kwong Chi
Mr. HA Kam On, Victor		Mr. CHOW Wing Kin, Anthony, SBS, JP
Dr. YEN Gordon		
Mr. WAI Yick Man		

On behalf of the Board
HA Chung Fong
Chairman

Hong Kong, 15 May, 2009