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, 2010

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, 2010 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended 28th February, 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Revenue	3	**2,589,347**	2,488,319
Cost of sales		**(2,193,297)**	(2,132,134)
Gross profit		**396,050**	356,185
Other income		**37,471**	35,744
Gain on disposal of property interests	9	**96,387**	-
Distribution and selling expenses		**(102,152)**	(166,645)
Administrative expenses		**(258,956)**	(304,014)
Other expenses		**(23,396)**	(47,386)
Finance costs	4	**(21,177)**	(28,006)
Profit (loss) before taxation		**124,227**	(154,122)
Income tax (expense) credit	5	**(5,229)**	4,630
Profit (loss) for the period	6	**118,998**	(149,492)
Attributable to:			
Owners of the Company		**113,111**	(166,158)
Minority interests		**5,887**	16,666
		118,998	(149,492)
		HK cents	HK cents
Basic earnings (loss) per share	8	**14.2**	(20.9)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 28th February, 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Profit (loss) for the period	**118,998**	(149,492)
Other comprehensive income (expense):		
Exchange difference arising on translation of foreign operations	**4,792**	(22,881)
Release of translation reserve upon disposal of a subsidiary	**(766)**	-
Other comprehensive income (expense) for the period	**4,026**	(22,881)
Total comprehensive income (expense) for the period	**123,024**	(172,373)
Attributable to:		
Owners of the Company	**114,139**	(178,607)
Minority interests	**8,885**	6,234
	123,024	(172,373)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At 28th February, 2010 HK$'000 (unaudited)	At 31st August, 2009 HK$'000 (audited)
Non-current assets			
Investment properties	9	**-**	12,755
Property, plant and equipment	9	**2,289,253**	2,283,789
Prepaid lease payments - non-current portion	9	**134,865**	138,512
Consideration receivable - non-current portion	10	**83,582**	168,672
Deferred tax assets		**17,760**	16,111
		2,525,460	2,619,839
Current assets			
Inventories	11	**1,535,713**	1,180,756
Trade, bills and other receivables	12	**1,310,674**	1,352,190
Prepaid lease payments - current portion	9	**3,057**	3,093
Consideration receivable - current portion	10	**122,523**	64,042
Derivative financial instruments		**1,127**	-
Tax recoverable		**26,849**	26,267
Bank deposits with restricted use		**568**	2,127
Short-term bank deposits		**61,700**	58,015
Bank balances and cash		**606,814**	742,400
		3,669,025	3,428,890
Assets classified as held for sale		**3,706**	5,493
		3,672,731	3,434,383
Current liabilities			
Trade and other payables	13	**680,457**	635,233
Bills payable	13	**383,521**	254,759
Amounts due to minority shareholders		**80,100**	80,100
Consideration payable - current portion	14	**52,721**	28,672
Deferred income		**1,458**	1,458
Derivative financial instruments		**1,106**	-
Tax payable		**26,229**	20,572
Restructuring provisions		**3,636**	4,689
Bank borrowings - due within one year		**839,722**	839,538
Bank overdrafts		**7,748**	969
		2,076,698	1,865,990
Net current assets		**1,596,033**	1,568,393
Total assets less current liabilities		**4,121,493**	4,188,232

	NOTE	At 28th February, 2010 HK$'000 (unaudited)	At 31st August, 2009 HK$'000 (audited)
Non-current liabilities			
Consideration payable - non-current portion	14	**23,079**	46,316
Deferred income		**69,266**	69,996
Derivative financial instruments		**30,887**	30,898
Bank borrowings - due after one year		**1,323,114**	1,489,018
Deferred tax liabilities		**3,366**	3,247
		1,449,712	1,639,475
Net assets		**2,671,781**	2,548,757
Capital and reserves			
Share capital		**158,802**	158,802
Reserves		**2,349,218**	2,235,079
Equity attributable to owners of the Company		**2,508,020**	2,393,881
Minority interests		**163,761**	154,876
Total equity		**2,671,781**	2,548,757

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, 2009.

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

HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements"

HKAS 27 (Revised) affects the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 3 (Revised) "Business Combinations"

HKFRS 3 (Revised) affects the Group's accounting for business combination for which the acquisition date is on or after 1st September, 2009.

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 3), nor change in measurement of segment information.

The adoption of the new and revised HKFRSs 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 has been recognised.

2. PRINCIPAL ACCOUNTING POLICIES - continued

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

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendment)	Classification of Rights Issues[3]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[4]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Amendments that are effective for annual periods beginning on or after 1st January, 2010.
[2] Effective for annual periods beginning on or after 1st January, 2011.
[3] Effective for annual periods beginning on or after 1st February, 2010.
[4] Effective for annual periods beginning on or after 1st January, 2010.
[5] Effective for annual periods beginning on or after 1st July, 2010.
[6] Effective for annual periods beginning on or after 1st January, 2013.

The directors of the Company have commenced considering the potential impact of these new and revised standards, amendments or interpretations but are not yet in a position to determine whether they would have material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st September, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors of the Company) for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach.

In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The adoption of HKFRS 8 has neither changed the basis of measurement of segment information. The Group's reportable segments include Hong Kong, the People Republic of China (the "PRC"), Taiwan, Korea, Sri Lanka, America, Europe and other geographical locations (mainly represent Singapore and Macau).

3. SEGMENT INFORMATION - continued

The following is an analysis of the Group's revenue (representing revenue from the production and sales of dyed fabrics, sewing threads, yarns and garments) and results by reportable segment for the period under review.

Six months ended 28th February, 2010

	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	668,997	430,865	324,857	309,467	307,861	93,780	34,666	418,854	-	2,589,347
Inter-segment sales (note)	1,808,241	1,228,137	-	-	176,643	14,524	-	54,260	(3,281,805)	-
Total revenue	2,477,238	1,659,002	324,857	309,467	484,504	108,304	34,666	473,114	(3,281,805)	2,589,347
RESULTS										
Segment profit (loss)	70,909	48,679	44,305	42,358	33,344	(574)	2,942	56,682		298,645
Interest income										9,200
Gain on disposal of property interests										96,387
Unallocated expenses										(258,828)
Finance costs										(21,177)
Profit before taxation										124,227

Six months ended 28th February, 2009

	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	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 profit	48,437	16,835	19,735	15,095	37,473	8,082	1,253	24,585		171,495
Interest income										3,233
Unallocated expenses										(300,844)
Finance costs										(28,006)
Loss before taxation										(154,122)

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

Segment profit (loss) represents the profit earned by each segment without allocation of central administration costs and other expenses (including non production-related employee benefits costs, directors' emoluments, bank charges, etc), depreciation charges, interest income, gain or loss on disposal/written-off of assets and finance costs. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment. No further analysis on segment assets and liabilities is disclosed as it is not presented to the board of directors.

4. FINANCE COSTS

	Six months ended 28th February, 2010 HK$'000	2009 HK$'000
Interest on bank borrowings wholly repayable within five years	**21,837**	31,584
Imputed interest expense on consideration payable (note 14)	**812**	-
Total finance costs	**22,649**	31,584
Less: amounts capitalised	**(1,472)**	(3,578)
	21,177	28,006

Finance costs capitalised during the period arose on the general borrowing and have been calculated by applying a capitalisation rate of 1.90% (six months ended 28th February, 2009: 2.68%) per annum on expenditure of qualifying assets.

5. INCOME TAX EXPENSE (CREDIT)

	Six months ended 28th February, 2010 HK$'000	2009 HK$'000
Current tax:		
The PRC	**358**	1,496
Other jurisdictions	**-**	390
	358	1,886
Under(over)provision in prior years:		
The PRC	**6,689**	354
Other jurisdictions	**(288)**	27
	6,401	381
Deferred tax:		
Hong Kong	**-**	(4,994)
The PRC	**(1,527)**	102
Other jurisdictions	**(3)**	(2,005)
	(1,530)	(6,897)
Taxation attributable to the Group	**5,229**	(4,630)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 28th February, 2009: 16.5%) 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 both periods.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for two calendar years commencing from their first profit-making years 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.

5. INCOME TAX EXPENSE (CREDIT) - continued

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% starting from 1st January, 2008 onwards, while certain of the Company's PRC subsidiaries will continue to enjoy the reduced tax rate under the Tax Holiday.

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 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 is obtaining information and documents from the Group. In March 2008, 2009 and 2010, notices of estimated additional assessment (the "Protective Assessments") for the years of assessment 2001/02, 2002/03 and 2003/04 in an aggregate amount of HK$14,352,000, HK$19,844,000 and HK$18,390,000, respectively were issued to the Company and certain subsidiaries of the Company by the IRD. Regarding the Protective Assessments for the year of assessment 2003/04, out of the aggregate amount of HK$18,390,000, two Protective Assessments of HK$4,375,000 issued to the Company and a Hong Kong subsidiary respectively were in effect alternative assessments to that of an overseas subsidiary. Objections against the Protective Assessments were lodged. For the years of assessment 2001/02 and 2002/03, full amount was held over unconditionally. For the year of assessment 2003/04, amount will be held over on the condition that Tax Reserve Certificates in the amount of HK$1,600,000 will be purchased. The scope and outcome of the tax audit cannot be readily ascertained at this stage. The directors of the Company consider 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. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 28th February,	
	2010	2009
	HK$'000	HK$'000
Profit (loss) for the period has been arrived at after charging:		
Release of prepaid lease payments	**865**	2,416
Depreciation of investment properties	**121**	241
Depreciation of property, plant and equipment	**114,377**	103,986
Loss on disposal/written off of property, plant and equipment, other than property interests	**4,476**	-
Net foreign exchange loss (included in other expenses)	**7,218**	10,905
Net loss on derivative financial instruments (included in other expenses)	**11,702**	36,481
and after crediting to other income:		
Imputed interest income on consideration receivable (note 10)	**(7,290)**	-
Interest income	**(1,910)**	(3,233)
Net rental income from investment properties	**(2,849)**	(2,732)
Reversal of impairment losses on property, plant and equipment	**(871)**	-
Gain on disposal of assets classified as held for sale	**(91)**	(43)
Gain on disposal of property, plant and equipment, other than property interests	**-**	(201)

7. DIVIDEND

No interim dividend was proposed by the directors for the six months ended 28th February, 2010 (six months ended 28th February, 2009: Nil).

8. BASIC EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of HK$113,111,000 (six months ended 28th February, 2009: loss of HK$166,158,000) and on 794,010,960 (six months ended 28th February, 2009: 794,010,960) ordinary shares in issue during the period.

9. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group disposed of certain of its property interests with an aggregate carrying amount of HK$26,130,000 to an independent third party for a consideration of HK$122,517,000 (net of direct expenses of HK$283,000), resulting in a gain on disposal of HK$96,387,000. An amount of HK$12,280,000 has been received in the current period. Details of these transactions are set out in an announcement of the Company dated 13th November, 2009.

The Group incurred expenditure of HK$133,758,000 during the six months ended 28th February, 2010 (six months ended 28th February, 2009: HK$147,208,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

10. CONSIDERATION RECEIVABLE

On 27th April, 2009, Dongguan Fuan Textiles Limited ("Dongguan Fuan"), a non wholly-owned subsidiary of the Group, 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 and certain buildings and furniture, fixtures and equipment (the "Properties") for a total cash consideration of Renminbi ("RMB") 255,000,000 (approximately HK$288,136,000) payable in 5 installments (the "Property Agreement").

Of the above consideration, RMB30,000,000 was settled upon the signing of the Property Agreement as the first installment. The second installment of RMB30,000,000 (approximately HK$34,474,000) was settled during the current period. The third instalment of RMB40,000,000 has also been settled subsequent to the reporting period. The remaining 2 installments of RMB77,500,000 and RMB77,500,000 are due for settlement in October 2010 and April 2011, respectively.

10. CONSIDERATION RECEIVABLE - continued

The receivable amounts are unsecured and interest-free. The fair value of the deferred consideration at the date of initial recognition has been determined to be RMB231,643,000 (approximately HK$261,743,000) based on the estimated future cash flows by applying a discount rate of 9.8% per annum. Of the consideration receivable of HK$206,105,000 as at 28th February, 2010 (31st August, 2009: HK$232,714,000), an aggregate amount of HK$122,523,000 (31st August, 2009: HK$64,042,000) was classified under current assets, representing the total amounts falling due within one year of the reporting date.

Details of the above transaction are set out in the circular of the Company dated 30th July, 2009.

11. INVENTORIES

	At 28th February, 2010 HK$'000	At 31st August, 2009 HK$'000
Spare parts	**118,452**	133,695
Raw materials	**782,160**	529,883
Work in progress	**319,995**	270,332
Finished goods	**315,106**	246,846
	1,535,713	1,180,756

12. TRADE, BILLS 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 and bills receivables net of allowance for doubtful debts:

	At 28th February, 2010 HK$'000	At 31st August, 2009 HK$'000
Not yet due	**497,008**	630,573
Overdue 1 - 30 days	**279,752**	186,687
Overdue 31 - 60 days	**122,601**	186,197
Overdue > 60 days	**105,997**	131,625
	1,005,358	1,135,082

Other receivables as at 28th February, 2010 represented value-added-tax recoverable of HK$69,690,000 (31st August, 2009: HK$84,533,000), deposits, prepayments and other receivables of HK$125,106,000 (31st August, 2009: HK$132,575,000) and receivables from disposal of property interests of HK$110,520,000 (31st August, 2009: Nil) which has been subsequently settled in March 2010.

13. TRADE AND OTHER PAYABLES/BILLS PAYABLE

The following is an aged analysis of trade payables:

	At 28th February, 2010 HK$'000	At 31st August, 2009 HK$'000
Not yet due	**337,143**	280,902
Overdue 1 - 30 days	**57,982**	34,074
Overdue 31 - 60 days	**27,258**	22,126
Overdue > 60 days	**16,028**	18,998
	438,411	356,100

All bills payable of the Group are not yet due at the end of the reporting period.

Other payables as at 28th February, 2010 represented accruals of HK$108,777,000 (31st August, 2009: HK$142,622,000) and other payables of HK$133,269,000 (31st August, 2009: HK$136,511,000).

14. CONSIDERATION PAYABLE

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"). Upon completion of the Share Transfer Agreement, Dongguan Fuan will become a 90% owned subsidiary of the Company.

Pursuant to the Share Transfer Agreement, the consideration is payable by 5 installments. The payable amounts are unsecured and interest-free. The fair value of the deferred consideration at the date of initial recognition has been determined as HK$74,433,000 based on the estimated future cash flows by applying a discount rate of 3.7% per annum. Of the consideration payable of HK$75,800,000 as at 28th February, 2010 (31st August, 2009: HK$74,988,000), an amount of HK$52,721,000 (31st August, 2009: HK$28,672,000) was classified under current liabilities, representing the amounts repayable on demand or falling due within one year of the reporting date.

Details of the above transaction are set out in the circular of the Company dated 30th July, 2009.

BUSINESS REVIEW

We would like to report to shareholders the results of the Group for the six months ended 28th February, 2010. The Group's revenue was approximately HK$2,589,347,000, an increase of 4.1% over the same period last year. Unaudited profit attributable to shareholders amounted to approximately HK$113,111,000, a turnaround from a loss of HK$166,158,000 over the same period last year. Gross profit margin for the period under review was 15.3%, an increase of 1 percentage point over the same period last year. Net profit margin for the period under review was 4.4%, an increase of 11.1 percentage point over the same period last year or an increase of 7.3 percentage point if excluding extraordinary gain in relation to the disposal of an industrial building during the current period in Tuen Mun, Hong Kong. Basic earnings per share was HK14.2 cents, compared to basic loss per share HK20.9 cents for the first half of financial year 2009. The Board has resolved not to pay any interim dividend for the period under review (2009: HK0.0 cent per share).

During the first half of financial year 2010, the world economy saw signs of gradual stabilization. However, most textiles and garments manufacturers and exporters were still facing difficulties in the challenging operating environment, especially those export-oriented manufacturers relying heavily on the consumer markets in the US and EU, as these regions were directly affected by the financial crisis. During the period under review, many brands and retailers in the US and Europe increased their placement of orders after an earlier round of heavy reduction in inventories during the previous year, thus the order volume for knitted fabrics of the Group has also experienced positive recovery.

The increase in the Group's revenue compared to the same period last year was due mainly to the increase in output and the overall utilization rate of facilities for the production of fabrics, sewing threads and yarns. This is a result of more proactive sales and marketing efforts by the Group during the period under review. At the same time, distribution and selling expenses were reduced by approximately HK$64,493,000 or 38.7 percentage point, reflecting the benefits of more stringent cost control and streamlining measures. However, the overall prices of commodity such as cotton increased significantly during the period under review, which resulted in higher pressure on the production cost. In addition, the minimum wage increases imposed by the Chinese Government in 2010, part of which were effective since 1st February, also resulted in some negative impact on our costs for the period under review.

On 26th February 2010, the Group concluded as scheduled the completion of sale of our ownership in Tin's Centre Block No.9 ("Properties") in Tuen Mun, Hong Kong with an independent third party in Hong Kong. The sale amount of the disposal of the properties is HK$122,800,000 and after deducting relevant costs, the gain on the disposal of the Properties is approximately HK$96,387,000. The Group considered this a good opportunity for realizing its investment in the Properties and to reallocate the resources for strengthening the Group's financial position and supporting the principal business operations. The balance of proceeds was received on 1st March, 2010 and the Group has used the net proceeds for bank borrowings repayments and working capital.

Production and Sales of Dyed Fabrics, Sewing Threads and Yarns
For the period under review, due to intensified sales and marketing efforts and a gradual increase in demand from clients, revenue from the production and sales of dyed fabrics, sewing threads and yarns was approximately HK$2,308,411,000, an increase of 10.6% as compared with the same period last year, and accounted for 89.2% of the Group's total revenue.

Production and Sales of Garments
For the first half of financial year 2010, with the reduction in production capacity under an increasing competitive environment, revenue from the production and sales of garments was approximately

HK$280,936,000, a decrease of 30.1% as compared with the same period last year, and accounted for 10.8% 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 95.0% of the Group's total revenue. The remaining 5.0% was generated from sales to customers located in Europe and America.

Looking forward to the second half of the Group's financial year of 2010, it is expected that the world economy will continue to recover. As a result, the demand for textile and apparel products is anticipated to continue to grow. Our foreign customers have continuously expressed more positively over the near term outlook of the retail business, which may result in continuation of more active and increase in order placements of fabric and garment.

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 25 million pounds of monthly fabric production capacity. Our new fabric mill in Yancheng has commenced production during this financial period. The Group targets to achieve an average of two million pounds of fabric dyeing per month in Yancheng plant and eventually the plant could be developed to achieve a maximum capacity of approximately ten million pounds per month upon completion of all phases.

The Group will monitor closely the market conditions and the upcoming order plan of our clients before further developing 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.

The recent minimum wage increases by the Chinese Government resulted in continuous pressure on the cost of labour and other labour intensive services. In addition, potential risks for the industry will stem from the possibility of appreciation of Reminbi, continuous high cost of cotton as well as possible surge on fuel prices, all of which are universal to the Group and the major competitors and would therefore contribute towards stronger momentum of increasing average selling price of fabrics.

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

The Group has continued to implement stringent cost control and efficiency improvement measures to reduce our overall operating costs. The number of employees of the Group has been reduced from 15,700 as of 31st August, 2009 to 14,200 as of 28th February, 2010.

Given the current assessment of the market environment, the Group maintains a relatively more optimistic view on the business outlook for the longer term.

FINANCIAL REVIEW

Liquidity and Financial Information

At 28th February, 2010, the total amount of bank deposits, bank balances and cash of the Group was approximately HK$668,514,000, a decrease of approximately HK$131,901,000 compared with 31st August, 2009.

At 28th February, 2010, the financial ratios of the Group were as follows:

	28th February, 2010	31st August, 2009
Gearing ratio	**1.47**	1.53
Bank borrowings ratio	**0.87**	0.97
Net bank borrowings ratio	**0.60**	0.64

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 China 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$133,758,000 in the property, plant and equipment, represented a reduction of about 9.1% from the capital expenditure of the same period in last year.

EMPLOYEES AND EMOLUMENT POLICIES

At 28th February, 2010, the Group had approximately 14,200 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, 2010 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 four independent non-executive directors of the Company and Mr. LAU Hong Yon (executive director of the Company).

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

Executive directors

Mr. HA Chung Fong
Mr. HA Kam On, Victor
Mr. LAU Hong Yon
Dr. YEN Gordon
Mr. HA Hon Kuen

Independent Non-executive directors

Mr. NG Kwok Tung
Mr. WONG Kwong Chi
Mr. CHOW Wing Kin, Anthony, SBS, JP
Mrs. FUNG YEH Yi Hao, Yvette

On behalf of the Board
HA Chung Fong
Chairman

Hong Kong, 14th May, 2010