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, 2011

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, 2011 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 28th February,	
	NOTES	**2011**	2010
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Revenue	3	**3,678,314**	2,589,347
Cost of sales		**(3,080,793)**	(2,193,297)
Gross profit		**597,521**	396,050
Other income		**29,189**	37,471
Gain on disposal of property interests	9	**-**	96,387
Distribution and selling expenses		**(100,800)**	(102,152)
Administrative expenses		**(297,915)**	(258,956)
Other expenses		**(13,205)**	(23,396)
Finance costs	4	**(34,813)**	(21,177)
Profit before taxation		**179,977**	124,227
Income tax expense	5	**(16,893)**	(5,229)
Profit for the period	6	**163,084**	118,998
Profit for the period attributable to:			
Owners of the Company		**154,111**	113,111
Non-controlling interests		**8,973**	5,887
		163,084	118,998
		HK cents	HK cents
Earnings per share			
Basic	8	**19.4**	14.2
Diluted	8	**19.4**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 28th February, **2011** **HK$'000** **(unaudited)**	2010 HK$'000 (unaudited)
Profit for the period	**163,084**	118,998
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**4,766**	4,792
Reclassification adjustment of translation reserve upon disposal of subsidiaries	**(616)**	(766)
Other comprehensive income for the period	**4,150**	4,026
Total comprehensive income for the period	**167,234**	123,024
Total comprehensive income for the period attributable to:		
Owners of the Company	**155,804**	114,139
Non-controlling interests	**11,430**	8,885
	167,234	123,024

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At 28th February, 2011 HK$'000 (unaudited)	At 31st August, 2010 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	9	**2,248,988**	2,328,801
Prepaid lease payments - non-current portion	9	**120,459**	125,324
Deferred tax assets		**41,319**	25,309
		2,410,766	2,479,434
Current assets			
Inventories	10	**2,115,425**	1,938,592
Trade and bills receivables	11	**1,446,936**	1,372,026
Prepayments, deposits and other receivables	11	**293,601**	209,979
Prepaid lease payments - current portion	9	**2,729**	2,812
Consideration receivable	12	**89,886**	171,283
Derivative financial instruments		**1,725**	2,514
Tax recoverable		**7,061**	18,957
Short-term bank deposits		**5,565**	42,438
Bank balances and cash		**652,146**	627,938
		4,615,074	4,386,539
Assets classified as held for sale		**31,258**	-
		4,646,332	4,386,539
Current liabilities			
Trade and bills payables	13	**964,388**	867,513
Other payables and accruals	13	**464,468**	331,771
Amounts due to non-controlling shareholders		**80,100**	80,100
Consideration payable	14	**46,867**	58,446
Deferred income		**1,458**	1,458
Derivative financial instruments		**349**	773
Tax payable		**42,777**	26,187
Restructuring provisions		**444**	730
Bank borrowings - due within one year		**1,168,783**	1,604,591
Bank overdrafts		**45,401**	3,386
		2,815,035	2,974,955
Net current assets		**1,831,297**	1,411,584
Total assets less current liabilities		**4,242,063**	3,891,018

	At 28th February, 2011 HK$'000 (unaudited)	At 31st August, 2010 HK$'000 (restated)
Non-current liabilities		
Deferred income	**67,807**	68,538
Derivative financial instruments	**46,320**	54,389
Bank borrowings - due after one year	**1,162,200**	951,275
Deferred tax liabilities	**3,545**	3,721
	1,279,872	1,077,923
Net assets	**2,962,191**	2,813,095
Capital and reserves		
Share capital	**158,802**	158,802
Reserves	**2,623,795**	2,474,523
Equity attributable to owners of the Company	**2,782,597**	2,633,325
Non-controlling interests	**179,594**	179,770
Total equity	**2,962,191**	2,813,095

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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 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 Company and its subsidiaries (the "Group") for the year ended 31st August, 2010 except as described below.

The Group has adopted the following accounting policies during the current period:

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will be transferred to retained profits.

Application of Hong Kong Financial Reporting Standards ("HKFRSs")

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, 2010.

Except as described below, the application of the new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of Hong Kong Financial Reporting Standards ("HKFRSs") - continued

Amendments to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st September, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$12,156,000 and HK$9,021,000 as at 1st September, 2009 and 31st August, 2010, respectively, being reclassified to property, plant and equipment. The carrying amount of property, plant and equipment as at 31st August, 2010 therefore increased from HK$2,319,780,000 to HK$2,328,801,000.

As at 28th February, 2011, leasehold land that qualifies for finance lease classification with the carrying amount of HK$8,898,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss or earnings per share figures for the current and prior periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[2]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 24 (as revised in 2009)	Related Party Disclosures[5]
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]

[1] Amendments that are effective for annual periods beginning on or after 1st January, 2011.
[2] Effective for annual periods beginning on or after 1st July, 2011.
[3] Effective for annual periods beginning on or after 1st January, 2013.
[4] Effective for annual periods beginning on or after 1st January, 2012.
[5] Effective for annual periods beginning on or after 1st January, 2011.

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

The board of directors of the Company regularly reviews the operating results and financial information by customers located in distinct geographical areas, including Hong Kong, the People's Republic of China (the "PRC"), Taiwan, Korea, Sri Lanka, America, Europe and Others, representing other geographical locations (mainly Singapore and Macau). All of these geographical areas are operating segments except “Others” which is an aggregation of operating segments.

The following is an analysis of the Group's revenue and profit 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, 2011

	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	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE											
External sales	963,015	736,668	492,312	420,803	384,672	171,246	25,575	484,023	3,678,314	-	3,678,314
Inter-segment sales (note)	2,279,306	1,414,338	-	-	253,101	40,969	-	33,107	4,020,821	(4,020,821)	-
Total segment revenue	3,242,321	2,151,006	492,312	420,803	637,773	212,215	25,575	517,130	7,699,135	(4,020,821)	3,678,314
RESULTS											
Segment profit	133,672	103,631	77,840	67,122	26,742	5,436	3,667	74,691			492,801
Interest income											6,138
Unallocated expenses											(284,149)
Finance costs											(34,813)
Profit before taxation											179,977

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	Segment total 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	-	2,589,347
Inter-segment sales (note)	1,808,241	1,228,137	-	-	176,643	14,524	-	54,260	3,281,805	(3,281,805)	-
Total segment revenue	2,477,238	1,659,002	324,857	309,467	484,504	108,304	34,666	473,114	5,871,152	(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

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

Segment profit/loss represents the profit earned by/loss from 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.

4. FINANCE COSTS

	Six months ended 28th February, 2011 HK$'000	2010 HK$'000
Finance costs on:		
Bank borrowings wholly repayable within five years	**34,262**	21,837
Imputed interest expense on consideration payable (note 14)	**551**	812
Total finance costs	**34,813**	22,649
Less: amounts capitalised	**-**	(1,472)
	34,813	21,177

Finance costs capitalised during the six months ended 28th February, 2010 arose on the general borrowing pool and was calculated by applying a capitalisation rate of 1.9% per annum on expenditure of qualifying assets.

5. INCOME TAX EXPENSE

	Six months ended 28th February, 2011 HK$'000	2010 HK$'000
Current tax:		
Hong Kong	**30,941**	-
The PRC	**2,669**	358
	33,610	358
(Over)underprovision in prior years:		
The PRC	**(1,016)**	6,689
Other jurisdictions	**485**	(288)
	(531)	6,401
Deferred tax:		
The PRC	**(15,991)**	(1,527)
Other jurisdictions	**(195)**	(3)
	(16,186)	(1,530)
	16,893	5,229

Hong Kong Profits Tax is calculated at 16.5% (six months ended 28th February, 2010: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax was made for the six months ended 28th February, 2010 as the assessable profits from the Group's operations in Hong Kong were wholly absorbed by the tax losses brought forward.

5. INCOME TAX EXPENSE - 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. Certain of the Company's PRC subsidiaries are entitled to exemption from the PRC Enterprise Income Tax for two calendar years 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% for both periods. The Tax Holiday will expire by 31st December, 2012.

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 both periods.

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 and February 2011, notices of estimated additional assessment (the "Protective Assessments") for the years of assessment 2001/02, 2002/03, 2003/04 and 2004/05 in an aggregate amount of HK$14,352,000, HK$19,844,000, HK$18,390,000 and HK$62,834,000, 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. Regarding the Protective Assessments for the year of assessment 2004/05, out of the aggregate amount of HK$62,834,000, two Protective Assessments of HK$2,266,000 and HK$23,194,000 issued to the Company and a Hong Kong subsidiary, respectively, were also 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 amounts were held over unconditionally. For the years of assessment 2003/04 and 2004/05, amounts were held over on the condition that Tax Reserve Certificates in the amount of HK$1,600,000 and HK$23,000,000 were purchased in May 2010 and subsequent to the end of the reporting period, respectively. 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 FOR THE PERIOD

	Six months ended 28th February, 2011 HK$'000	2010 HK$'000 (restated)
Profit for the period has been arrived at after charging:		
Release of prepaid lease payments (note)	**1,408**	724
Depreciation of investment properties	**-**	121
Depreciation of property, plant and equipment (note)	**126,786**	114,518
Loss on disposal/written-off of property, plant and equipment, other than property interests (included in other expenses)	**1,731**	4,476
Net exchange losses (included in other expenses)	**11,474**	7,218
Net loss from derivative financial instruments (included in other expenses)	**-**	11,702
and after crediting:		
Imputed interest income on consideration receivable (note 12)	**(5,178)**	(7,290)
Interest income	**(960)**	(1,910)
Net rental income from investment properties	**-**	(2,849)
Reversal of impairment losses on property, plant and equipment	**-**	(871)
Gain on disposal of assets classified as held for sale	**-**	(91)
Net gain from derivative financial instruments (included in other income)	**(2,172)**	-

Note: Upon the application of amendments to HKAS 17 "Leases" (see note 2) during the current period, the Group reclassified an amount of HK$141,000 from release of prepaid lease payments to depreciation of property, plant and equipment for the six months ended 28th February, 2010.

7. DIVIDEND

No interim dividend was proposed by the directors for the six months ended 28th February, 2011 (six months ended 28th February, 2010: Nil).

8. EARNINGS PER SHARE

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

	Six months ended 28th February,	
	2011	2010
	HK$'000	HK$'000
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**154,111**	113,111

	Six months ended 28th February,	
	2011	2010
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	**794,010,960**	794,010,960

The computation of diluted earnings per share for the six months ended 28th February, 2011 does not assume the exercise of the Company's outstanding share options because the adjusted exercise prices of those options calculated in accordance with HKAS 33 "Earnings Per Share" are higher than the average market price of the shares for the relevant period.

Diluted earnings per share is not presented for the six months ended 28th February, 2010 as there were no potential ordinary shares outstanding during that period.

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

The Group incurred expenditure of HK$73,683,000 during the six months ended 28th February, 2011 (six months ended 28th February, 2010: HK$133,758,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

During the six months ended 28th February, 2010, 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 was received in prior period upon the signing of the sale and purchase agreement and the remaining balance was settled in March 2010.

10. INVENTORIES

	At 28th February, 2011 HK$'000	At 31st August, 2010 HK$'000
Spare parts	**108,535**	118,224
Raw materials	**1,172,012**	1,006,077
Work in progress	**385,358**	421,254
Finished goods	**449,520**	393,037
	2,115,425	1,938,592

11. TRADE AND BILLS RECEIVABLES/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group allows a credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables based on the payment due date net of allowance for doubtful debts:

	At 28th February, 2011 HK$'000	At 31st August, 2010 HK$'000
Not yet due	**871,099**	925,897
Overdue 1 - 30 days	**306,098**	226,351
Overdue 31 - 60 days	**168,927**	128,389
Overdue > 60 days	**100,812**	91,389
	1,446,936	1,372,026

Other receivables as at 28th February, 2011 represented value-added tax recoverable of HK$96,523,000 (31st August, 2010: HK$85,234,000) and prepayments, deposits and other receivables of HK$197,078,000 (31st August, 2010: HK$124,745,000).

12. CONSIDERATION RECEIVABLE

On 27th April, 2009, Dongguan Fuan Textiles Limited ("Dongguan Fuan"), a non wholly-owned subsidiary of the Company, 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").

12. CONSIDERATION RECEIVABLE - continued

Of the above consideration, RMB30,000,000 was settled upon the signing of the Property Agreement as the first installment. The second and the third installments of RMB30,000,000 (approximately HK$34,474,000) and RMB40,000,000 (approximately HK$46,497,000), respectively were settled during the year ended 31st August, 2010. The fourth installment of RMB77,500,000 (approximately HK$94,145,000) was settled during the current period, while the last installment of RMB77,500,000 was settled subsequent to the end of the reporting period.

The receivable amounts are unsecured and interest-free. The fair value of the deferred consideration at the date of initial recognition was 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.

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

13. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS

	At 28th February, 2011 HK$'000	At 31st August, 2010 HK$'000
Trade payables	**466,780**	518,923
Bills payables	**497,608**	348,590
	964,388	867,513

The following is an aged analysis of trade payables based on the payment due date:

	At 28th February, 2011 HK$'000	At 31st August, 2010 HK$'000
Not yet due	**377,898**	413,674
Overdue 1 - 30 days	**37,283**	61,053
Overdue 31 - 60 days	**18,330**	17,801
Overdue > 60 days	**33,269**	26,395
	466,780	518,923

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

Other payables and accruals as at 28th February, 2011 represented other payables of HK$317,309,000 (31st August, 2010: HK$163,621,000) and accruals of HK$147,159,000 (31st August, 2010: HK$168,150,000).

14. CONSIDERATION PAYABLE

On 27th April, 2009, Folktune Limited ("Folktune"), a wholly-owned subsidiary of the Company, entered into an agreement with certain non-controlling 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 became 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 was determined as HK$74,433,000 based on the estimated future cash flows by applying a discount rate of 3.7% per annum. During the current period, an amount of HK$12,129,000 was settled by the Group. The remaining balance is repayable on demand at the end of the reporting period.

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

BUSINESS REVIEW

We are pleased to report to shareholders the results of the Group for the six months ended 28th February, 2011. The Group's revenue was approximately HK$3,678.3 million, an increase of 42.1% over the same period last year. Unaudited profit attributable to owners of the Company amounted to approximately HK$154.1 million, representing a substantial increase of 36.3% or HK$41.0 million over the same period last year. If an extraordinary gain in relation to the disposal of an industrial building in Hong Kong during the same period of last year is excluded, unaudited profit attributable to owners of the Company was approximately 9.2 times that for the same period last year. Gross profit margin for the period under review was 16.2%, an increase of 0.9 percentage points over the same period last year. Net profit margin for the period under review was 4.2%, a decrease of 0.2 percentage points over the same period last year or an increase of 3.5 percentage points if an extraordinary gain in relation to the disposal of an industrial building in Hong Kong during the same period of last year is excluded. Basic earnings per share was HK19.4 cents, compared to basic earnings per share HK14.2 cents for the first half of financial year 2010. The Board has resolved not to pay any interim dividend for the period under review (2010: Nil).

During the first half of financial year 2011, the world economy continued to show signs of stabilization. However, the price of cotton and cotton yarn repeatedly broke new record highs during the period under review due to shortage of supply and a reducing global inventory. Other manufacturing costs such as energy and wages also increased due to widespread inflation worldwide. Although customers have generally accepted increases in price of fabrics, such increases compensated majority of the amount of increase in costs due to upsurge in the price of raw materials as well as inflation in other manufacturing costs but were generally insufficient for the fabric manufacturers to maintain gross profit margin. Nevertheless, the Group managed to increase gross profit margin over the same period last year through improving factory utilization rate as well as other cost control measures.

Even under the challenging market conditions, the Group's extensive sourcing network and long-term supply chain partnerships ensured sufficient supply of raw materials while maintaining a normal inventory level, thus enabling the timely fulfillment of the Group's sales commitments. Customers' recognition in the Group's product and service reliability as well as proactive sales and marketing effort by the Group has resulted in higher order volume as compared with the same period last year. At the same time, the improvement in utilization rate of the Group's fabric manufacturing facilities and the continuing effort to optimize manufacturing costs and efficiencies resulted in the enhancement of gross profit margin for the period under review. The drive for better operating efficiency has also led to reduction in distribution and selling expenses as well as administrative expenses as a percentage of selling price per pound of fabric.

In January 2011, Fountain Set (Holdings) Limited was accredited with "Green Medal of Hang Seng PRD Environmental Awards 2009/10" by the Federation of Hong Kong Industries and Hang Seng Bank. In November 2010, the Group's Chairman and Managing Director, Mr HA Chung Fong has been presented with a "Lifetime Achievement Award" by the China Knitting Industry Association. The award recognizes Mr HA's decades of dedication and contribution to the textiles and garment industry. In addition, Mr Victor HA Kam On, Executive Director and Group General Manager, won the "Young Industrialist Awards of Hong Kong 2010" in November, 2010. This award was organized by the Federation of Hong Kong Industries to publicly recognize young industrialists who made outstanding achievements in the manufacturing sector.

In November 2010, the Group was awarded "Hong Kong Outstanding Corporate Citizenship Silver Award Enterprise Sector in Manufacturing Industry" by the Hong Kong Productivity Council. During the same month, the Group was also accredited "Contribution of Science and Technology Award" by the China Knitting Industry Association.

Production and Sales of Dyed Fabrics, Sewing Threads and Yarns
For the period under review, due to the increase in average selling price of products as well as expansion in the Group's market share through re-positioning of sales and marketing efforts and strategies to fully capture macro market consolidation, revenue from the production and sales of dyed fabrics, sewing threads and yarns reached approximately HK$3,229.1 million, an increase of 39.9% as compared with the same period last year, and accounted for 87.8% of the Group's total revenue.

Production and Sales of Garments
For the first half of financial year 2011, with the increase in sales volume and higher average selling price, revenue from the production and sales of garments was approximately HK$449.2 million, an increase of 59.9% as compared with the same period last year, and accounted for 12.2% 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 94.6% of the Group's total revenue. The remaining 5.4% was mainly generated from sales to customers located in Europe and America.

FINANCIAL REVIEW

Liquidity and Financial Information
At 28th February, 2011, the total amount of short-term bank deposits, bank balances and cash of the Group was approximately HK$657.7 million, a decrease of approximately HK$12.7 million compared with 31st August, 2010.

At 28th February, 2011, the financial ratios of the Group were as follows:

	28th February, 2011	31st August, 2010
Gearing ratio	**1.45**	1.52
Bank borrowings ratio	**0.85**	0.97
Net bank borrowings ratio	**0.62**	0.72

The sales and 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. Interests 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 has entered into and will take actions to maintain appropriate hedging arrangements in accordance with the Group's risk management policies.

Capital Expenditure
During the period under review, the Group invested approximately HK$73.7 million in property, plant and equipment, represented a reduction of about 44.9% from capital expenditure of the same period in last year.

EMPLOYEES AND EMOLUMENT POLICIES

At 28th February, 2011, the Group had approximately 15,600 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, 2011 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 four independent non-executive directors of the Company.

As at the date of this announcement:, Mr. Ha Chung Fong, Mr. Ha Kam On, Victor, Mr. Ha Hon Kuen and Dr. Yen Gordon are the Executive Directors of the Company, Mr. Chan Yuk Yin is the Non-executive Director of the Company, and Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, SBS, JP, and Mrs. Fung Yeh Yi Hao, Yvette are the Independent Non-executive Directors of the Company.

On behalf of the Board
HA Chung Fong
Chairman

Hong Kong, 29th April, 2011