

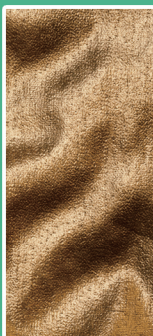
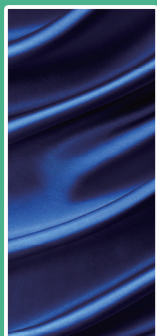


正 興 集 團

CHING HING GROUP

CHING HING (Holdings) Limited

Stock Code: 692



Interim Report

2007



Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

Report on Review of Interim Financial Information

To the Board of Directors of Ching Hing (Holdings) Limited

Introduction

We have reviewed the interim financial statements set out on pages 2 to 18, which comprise the condensed consolidated balance sheet of Ching Hing (Holdings) Limited and its subsidiaries (collectively, the "Group") as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors are responsible for the preparation and fair presentation of these interim financial statements in accordance with the Listing Rules and the relevant provisions thereof and HKAS 34. Our responsibility is to express a conclusion on this interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements of the Group for the six-month period ended 30 June 2007.

Cachet Certified Public Accountants Limited

Certified Public Accountants

Chan Yuk Tong

Practising Certificate Number P03723

Hong Kong

24 September 2007

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	2006
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	191,120	123,639
Cost of sales		(168,036)	(104,068)
Gross profit		23,084	19,571
Other income		460	455
Distribution costs		(11,133)	(6,183)
Administrative expenses		(9,859)	(9,382)
Other operating expenses		(398)	(1,224)
Operating profit	4	2,154	3,237
Finance costs		(2,331)	(1,982)
(Loss)/profit before taxation		(177)	1,255
Taxation	5	(1,674)	(250)
(Loss)/profit for the period		(1,851)	1,005
Attributable to:			
Equity holders of the Company		(4,292)	220
Minority interests		2,441	785
(Loss)/profit for the period		(1,851)	1,005
(Loss)/earnings per share			
— Basic	6	(1.34) cents	0.07 cents
— Diluted	6	N/A	N/A

Condensed Consolidated Balance Sheet

As at 30 June 2007

		30 June 2007	31 December 2006
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	56,419	57,368
Prepaid lease payments		3,559	4,964
Investment properties		2,996	—
Available-for-sale investments		590	590
		63,564	62,922
Current assets			
Inventories		19,164	22,509
Trade receivables	8	64,423	47,514
Other receivables, deposits and prepayments		12,074	6,273
VAT and other tax recoverable		—	46
Prepaid lease payments		97	118
Bank deposits		18,146	20,855
Cash and bank balances		16,907	9,479
		130,811	106,794
Current liabilities			
Bank overdrafts, secured		7,014	5,366
Interest-bearing bank borrowings, secured		23,699	25,810
Trust receipt loans, secured		9,724	8,561
Trade payables	9	61,554	42,840
Other payables and accruals		6,696	5,610
Due to directors		6,213	6,213
Finance lease payables	10	563	293
Tax payables		6,565	3,532
		122,028	98,225
Net current assets		8,783	8,569
Total assets less current liabilities		72,347	71,491
Non-current liabilities			
Finance lease payables	10	1,409	499
Net assets		70,938	70,992
Equity			
Equity attributable to shareholders of the Company			
Share capital	11	16,017	16,017
Reserves		51,889	54,481
		67,906	70,498
Minority interests		3,032	494
Total equity		70,938	70,992

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Properties			Employee			Exchange reserves	Accumulated losses	Total	Minority interests	Total equity
	Share capital	Share premium	revaluation reserves	Statutory reserves	share-based reserves	Capital reserves					
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2006	16,017	51,574	18,006	7,611	—	52,694	8,322	(84,901)	69,323	8	69,331
Profit for the period	—	—	—	—	—	—	—	220	220	785	1,005
At 30 June 2006	16,017	51,574	18,006	7,611	—	52,694	8,322	(84,681)	69,543	793	70,336
At 1 January 2007	16,017	51,574	18,006	7,611	38	52,694	8,337	(83,779)	70,498	494	70,992
Exchange difference arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	621	—	621	—	621
Capital contribution from minority interests	—	—	—	—	—	—	—	—	—	3	3
Advances from minority interests	—	—	—	—	—	—	—	—	—	94	94
Surplus on revaluation	—	—	925	—	—	—	—	—	925	—	925
Equity settled share-based transactions	—	—	—	—	154	—	—	—	154	—	154
Loss for the period	—	—	—	—	—	—	—	(4,292)	(4,292)	2,441	(1,851)
At 30 June 2007	16,017	51,574	18,931	7,611	192	52,694	8,958	(88,071)	67,906	3,032	70,938

Condensed Consolidated Cash Flow Statement

Six months ended 30 June

	2007	2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Net cash generated from operating activities	4,666	6,760
Net cash (used in)/generated from investing activities	(318)	981
Net cash used in financing activities	(2,748)	(2,743)
Net increase in cash and cash equivalents	1,600	4,998
Cash and cash equivalents at the beginning of the period	251	(1,556)
Effect of foreign exchange rate changes	185	—
Cash and cash equivalents at the end of the period	2,036	3,442
Analysis of balances of cash and cash equivalents:		
Cash and bank balances, excluding fixed deposits pledged	16,907	9,555
Fixed deposits	1,867	8,562
Bank overdrafts, secured	(7,014)	(6,614)
Trust receipt loans repayable within three months	(9,724)	(8,061)
	2,036	3,442

Notes to Condensed Consolidated Interim Financial Statements

1. Corporate information

Ching Hing (Holdings) Limited (the “Company”) and its subsidiaries (the “Group”) are principally engaged in the sale of fabrics, provision of fabric processing services and sale of garments and other related accessories in Hong Kong, the United States and the Peoples’ Republic of China (the “PRC”).

The Company is a limited liability company incorporated in Bermuda and its registered office is Cannon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2007 (the “Unaudited Condensed Consolidated Interim Financial Information”) have been approved for issue by the Board of Directors on 24 September 2007.

2. Basis of preparation and significant accounting policies

The Unaudited Condensed Consolidated Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA.

The Unaudited Condensed Consolidated Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2006 (the “2006 Annual Financial Statements”) which were prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

Adoption of new/revised HKFRSs

The accounting policies and methods of computation used in the preparation of the Unaudited Condensed Consolidated Interim Financial Information are consistent with those used in the 2006 Annual Financial Statements, except that the Group has adopted the following new standards, interpretations and amendments to published standards (collectively the “new/revised HKFRSs”) issued by the HKICPA which are relevant to the Group’s operations and mandatory for the financial year ending 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2. **Basis of preparation and significant accounting policies** (*Continued*)

The adoption of the above new/revised HKFRSs in the current period did not have any significant effect on the Unaudited Condensed Consolidated Interim Financial Information or result in any substantial changes in the Group's significant accounting policies.

Certain new standards, amendments and interpretations to existing standards have also been published by the HKICPA which are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and may be relevant to the Group's operations as follows:

HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangement ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³
HKAS 23 (Revised)	Borrowing costs ¹

1. Effective for annual period beginning on or after 1 January 2009.
2. Effective for annual period beginning on or after 1 March 2007.
3. Effective for annual period beginning on or after 1 January 2008.
4. Effective for annual period beginning on or after 1 July 2008.

The Group has not early adopted the above new standards, amendments and interpretations in the Unaudited Condensed Consolidated Interim Financial Information but has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial statements will be resulted.

3. **Revenue and segment information**

The Group is principally engaged in the sale of fabrics, provision of fabric processing services and sale of garments and other related accessories.

Primary report format — business segments

The Group is organised into three main business segments:

- Sale of fabrics — sale of fabrics
- Fabric processing — provision of fabric processing services
- Sale of garments and accessories — sale of garments and other related accessories

3. Revenue and segment information (Continued)

Secondary report format — geographical segments

The Group's three business segments are operated in four main geographical areas:

- | | |
|---|--|
| — Hong Kong | — fabric processing and sale of fabrics |
| — United States | — sale of garments and accessories |
| — The PRC | — fabric processing and sale of fabrics |
| — Others (principally Bangladesh, Macau, Indonesia, Taiwan and Sri Lanka) | — sale of fabrics and sale of garments and accessories |

Primary report format — business segments

	Six months ended 30 June 2007			
	Sale of fabrics	Fabric processing	Sale of garments and accessories	Consolidated
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	38,145	22,033	130,942	191,120
Segment results	(13)	(5,780)	9,833	4,040
Unallocated costs				(1,886)
Operating profit				2,154
Finance costs				(2,331)
Loss before taxation				(177)
Taxation				(1,674)
Loss for the period				(1,851)

3. Revenue and segment information (Continued)

Primary report format — business segments (Continued)

Six months ended 30 June 2006

	Sale of fabrics	Fabric processing	Sale of garments and accessories	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	37,829	20,365	65,445	123,639
Segment results	(557)	(1,401)	6,840	4,882
Unallocated costs				(1,645)
Operating profit				3,237
Finance costs				(1,982)
Profit before taxation				1,255
Taxation				(250)
Profit for the period				1,005

Secondary report format — geographical segments

Six months ended 30 June 2007

	Hong Kong	United States	The PRC	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	33,801	127,770	22,293	7,256	191,120
Segment results	495	9,364	(6,137)	318	4,040
Unallocated costs					(1,886)
Operating profit					2,154
Finance costs					(2,331)
Loss before taxation					(177)
Taxation					(1,674)
Loss for the period					(1,851)

3. Revenue and segment information (Continued)

Secondary report format — geographical segments (Continued)

	Six months ended 30 June 2006				
	Hong Kong	United States	The PRC	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	42,979	63,510	12,626	4,524	123,639
Segment results	1,050	6,504	(3,037)	365	4,882
Unallocated costs					(1,645)
Operating profit					3,237
Finance costs					(1,982)
Profit before taxation					1,255
Taxation					(250)
Profit for the period					1,005

4. Operating profit

	Six months ended 30 June	
	2007	2006
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Operating profit is stated after crediting and charging the following:		
Crediting		
Interest income	448	347
Charging		
Depreciation on property, plant and equipment	4,035	5,760
Operating lease rentals in respect of land and buildings	483	493
Amortisation of prepaid lease payments	48	58
Impairment of trade receivables	33	1,153
Staff costs	11,942	8,803

5. Taxation

Hong Kong profit tax has been provided at the rate of 17.5% (2006:17.5%) on the estimated assessable profits arising in Hong Kong for the period less relief for available tax losses brought forward.

Taxation on overseas profits is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. (Loss)/earnings per share attributable to equity holders of the Company

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company for the period of HK\$4,292,000 (2006: profit of HK\$220,000) and on the weighted average number of 320,349,468 (2006: 320,349,468) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2007 has not been presented as the effect of any dilution is anti-dilutive. Diluted earnings per share for the period ended 30 June 2006 has not been presented as there were no outstanding share options granted during the period.

7. Property, plant and equipment

	At 30 June 2007	At 31 December 2006
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Net book value at beginning of period/year	57,368	64,896
Additions	1,993	1,690
Disposals	—	(1,593)
Reclassification to investment properties	(536)	—
Depreciation	(4,035)	(11,124)
Depreciation written back on disposal	—	1,592
Exchange adjustments	1,629	1,907
Net book value at end of period/year	56,419	57,368

8. Trade receivables

Details of the aging analysis of trade receivables were as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Current	49,695	33,367
31-60 days	7,351	6,517
61-90 days	3,739	4,611
91-120 days	1,884	745
Over 120 days	6,821	7,131
	69,490	52,371
Less: Provision for impairment loss	(5,067)	(4,857)
	64,423	47,514

Sale of fabrics and provision of fabric processing services are with credit terms of 45 days whereas the sales from trading of garments and other related accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Sales from trading of garments and other related accessories are mostly covered by letter of credits.

9. Trade payables

Details of the aging analysis of trade payables were as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Current	25,499	29,869
31 — 60 days	19,010	3,805
61 — 90 days	4,371	5,326
Over 90 days	12,674	3,840
	61,554	42,840

10. Finance leases payables

	Minimum lease payments		Present value of minimum lease payments	
	At 30 June 2007	At 31 December 2006	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Amounts payable under finance leases:				
Within one year	658	335	563	293
In the second to fifth years inclusive	1,696	596	1,409	499
	2,354	931	1,972	792
<i>Less: Future finance charges</i>	(382)	(140)		
Present value of lease obligations	1,972	791		

It is the Group's policy to lease certain of its motor vehicles under finance leases. The leases term are 1.5 years and 5 years. The leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

11. Share capital

	Authorised Ordinary shares of HK\$0.05 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 30 June 2007 and 31 December 2006	1,000,000,000	50,000
	Issued and fully paid Ordinary shares of HK\$0.05 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 30 June 2007 and 31 December 2006	320,349,468	16,017

12. Share-based payment transactions

Equity-settled share option scheme of the Company

The Company has a share option scheme ("2002 Share Option Scheme") which was adopted on 27 May 2002. For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Group believes that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group.

12. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in Annual General Meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as “refreshed”. Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 30 June 2007, the total number of shares available for issue under the 2002 Share Option Scheme was 16,634,950 shares, which represented approximately 5.2% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

12. Share-based payment transactions (Continued)
Equity-settled share option scheme of the Company (Continued)

At 30 June 2007, a total of 15,400,000 share options were still outstanding under the 2002 Share Option Scheme as follows:

Name of participants	At 1 January 2007	Granted during the period	Lapsed during the period	At 30 June 2007
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Executive Directors				
Mr. Yiu Ching On	3,200,000	—	—	3,200,000
Mr. Yiu Kwok Ming, Tommy	3,200,000	—	—	3,200,000
Mr. Leung Kwok Ip	3,200,000	—	—	3,200,000
Mr. Wong Wai Man	3,200,000	—	—	3,200,000
Subtotal	12,800,000	—	—	12,800,000
Other eligible employees	2,600,000	—	—	2,600,000
Total	15,400,000	—	—	15,400,000

The options were granted on 26 September 2006 at a cash consideration of HK\$1.00 per grantee and entitled the grantee to subscribe for ordinary shares at an exercise price of HK\$0.07 per share. The exercise period for these options is from 26 September 2010 to 25 September 2016.

Employee share option expenses related to the above grants of share option were valued at HK\$614,984 and are charged to the consolidated income statement over the vesting period of four years. Such expenses were determined by the Company based on the Black-Scholes valuation model with the following assumptions:

Date of grant	26 September 2006
Value per option	HK\$0.04
Price per share at date of grant	HK\$0.07
Exercise price per share	HK\$0.07
Standard deviation	0.7338
Annual risk-free interest rate	3.69%
Life of options	10 years
Vesting period	4 years

13. Banking facilities

At 30 June 2007, the Group's credit facilities amounting to HK\$93,394,000 (31 December 2006: HK\$96,115,000) granted by banks and a credit company were secured by the following:—

- (a) legal charges over the Group's properties and prepaid lease payments on land use rights;
- (b) guarantees given by the Company and the minority shareholders of subsidiaries for HK\$107,000,000 (31 December 2006: HK\$107,000,000) and HK\$52,450,000 (31 December 2006: HK\$52,450,000) respectively;
- (c) charges over bank deposits of the Group of HK\$16,279,420 (31 December 2006: HK\$16,156,276); and
- (d) personal guarantees of HK\$5,000,000 and (31 December 2006: HK\$5,000,000) given by a director of the Company.

14. Financial guarantee contracts

The directors of the Company consider that it is not probable for a claim to be made against the Group as at the balance sheet date and accordingly the bank guarantees was not provided for in the Unaudited Condensed Consolidated Interim Financial Statements.

15. Commitments

(a) Capital commitments

At 30 June 2007, the Group had the following capital commitments:

	At 30 June 2007	At 31 December 2006
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Construction in progress	—	41

15. Commitments (Continued)

(b) Operating lease commitments

At 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Within one year	451	799
In the second to fifth years inclusive	144	—
	595	799

16. Related party transactions

During the period, the Group entered into the following material transactions with its related parties in the normal course of business:

	Six months ended 30 June 2007	2006
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Rental paid to a related company (<i>note (i)</i>)	420	420
Interest paid to directors	191	148

Notes:

- (i) Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company.

17. Significant Post Balance Sheet Event

Subsequent to the period end, the Company issued a total of 64,000,000 shares pursuant to a top-up placing agreement dated 11 July 2007 entered into between the Company and a placing agent at a placing price of HK\$0.36 per share. The net proceeds of the placing of approximately HK\$23 million are used for the Group's working capital.

Results

The Group has recognized an unaudited net loss attributable to equity holders of HK\$4.29 million for the six months ended 30 June 2007, as compared with a net profit of HK\$0.22 million in the same period last year.

During the period under review, the Group's unaudited revenue increased by 54.58% to HK\$191.12 million mainly as a result of a significant growth of revenue from trading of garments and other related accessories. Revenues generated from sale of fabrics maintained a steady growth to HK\$38.15 million and revenues generated from provision of fabric processing services showed a slightly increase to HK\$22.03 million. The overall gross profit margin dropped to about 12.08% as compared with 15.83% of last period.

Distribution costs included costs related to sales and marketing functions of the Group. The increase in distribution cost to HK\$11.13 million was mainly due to the growth of trading of garments and other related accessories and expansion of sales team of fabric trading business in Hong Kong and the PRC. After the commitment of tight cost-controls, administrative expenses, other operating expenses and finance costs remained stable at HK\$12.59 million.

Interim Dividend

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

Business Review and Prospects

Sale of fabrics

The Group's revenue generated from sale of fabrics showed an increase by HK\$0.32 million to about HK\$38.15 million. The segment loss, which almost reached a turn-around result, was reduced by HK\$0.54 million to HK\$0.01 million during the period under review. The Group continually allocated its resource to focus on the rapid expanding economy by engaging more sales persons with high caliber to tap this market. The group will continue to form strategic alliance with sales persons in order to widen our exposure and knowledge over different types of dyed fabrics in textile industry. In the past few years, the Group arranged most of its fabric sale orders to be processed in its Zhongshan factory with raw fabrics purchased in the PRC. With spirally rising cost of production and the stringent environmental regulations promulgated recently in the Guangdong Province, the Group is now switching its fabric orders to the northern region of the PRC in order to maintain its profit margin. By now, the Group has established a close network of production bases in the PRC to absorb any urgent and large purchase orders in future. We expect that this line of business will have a material growth in coming few years.

Fabric processing

Revenue generated from provision of fabric processing services increased by 8.19% to HK\$22.03 million. The Group had strived to adjust its pricing strategy of fabric processing services in order to pull up the overall profit margin. However, stiff competition from the dyeing factories situated in the northern region of the PRC continued to create severe threat to us. Drastic increase of wage costs in Guangdong Province, stringent environmental regulations promulgated recently in the Guangdong Province and the continual appreciation of Renminbi had exerted rising pressure on the aggregate cost of production. In addition, the PRC Government has recently issued a new requirement on the custom deposits for all processing factories situated in southern region of the PRC which will dramatically tighten the financial resources of all processing factories after one-year grace period up to August 2008. Moreover, raw materials required by the Group for its fabric processing services are dyeing stuff and chemicals and as certain kind of dyeing stuff and chemical are the by-product of oil, the recent increasing in crude oil prices directly affected their price. As a result the above impacts, the total cost of production in the PRC increased substantially despite our close supervision during the period under review, the segment loss widened from HK\$1.40 million to HK\$5.78 million. Notwithstanding the above, the Group will keep on closely monitoring the direct production costs.

Since increasing cost of production in Pearl River Delta remains the main impact on the Group's financial results, the Group will manage to seek opportunities to expand its production bases in another area, e.g. northern region of the PRC, to expand its production bases when infrastructure are secured.

Business Review and Prospects *(Continued)*

Sale of Garments and Accessories

Revenue from sale of garments and accessories accounted for about 68.51% of the Group's total revenue and showed an encouraging increase by HK\$65.50 million to HK\$130.94 million. The resumption of quota systems on China produced textile goods exported to the United States continued to provide a favourable environment for us with strong back-up of production bases in Southeast Asia like Bangladesh. Continuous efforts have been made in maintaining harmonious relations with the Group's customers and in sourcing a production base with lower cost of production, which in return the segment result for the six period ended increased by 43.76% to HK\$9.83 million. The Group will also put effort on further diversification on its customer base in coming few years. Therefore, despite the recent credit crisis caused by sub-prime mortgage market in the United States, we are still confident that the revenue generated from sale of garments and accessories can be maintained at a steady level in 2008.

Liquidity and Financial Resources

The Group continuously generated a net cash inflow from operating activities of about HK\$4.67 million (2006: HK\$6.76 million).

At 30 June 2007, the Group had total assets of HK\$194.38 million which were financed by total liabilities of HK\$126.47 million and equity of HK\$67.90 million. Accordingly, the Group's ratio of debts to total assets and debts to equity were increased to 63.50% (31 December 2006: 58.17%) and 181.78% (31 December 2006: 140.04%), respectively.

As 30 June 2007, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK\$35.05 million (of which about HK\$16.28 million was pledged with banks for banking facilities for the Group) and unutilized banking facilities for a total of about HK\$52.96 million.

The Group financed its operation by internal cash resources and bank financing. Subsequent to the period end, the Company placed 64,000,000 shares at the placing price of HK\$0.36 per share in order to strength the working capital position of the Group and to broaden the shareholder base and capital base of the Company. The net proceeds from the placing are about HK\$23 million.

Employees

At 30 June 2007, the Group employed about 400 employees. Employees are remunerated based on market and industry practice. The remuneration policy and packages of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Directors' Interests in Securities

At 30 June 2007, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (“Model Code”):

Shares — long position

The Company:

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Ching On	4,752,000	—	—	117,618,055 (note e)	122,370,055
Ms. Wong Kai Chun (note a)	—	122,370,055 (note c)	—	—	122,370,055
Mr. Yiu Kwok Ming, Tommy	1,100,000	—	49,857,142 (note d)	117,618,055 (note f)	168,575,197
Mr. Wong Wai Man	270,000	—	—	—	270,000
Mr. Lo Wai Kon (note b)	218,000	—	—	—	218,000

Notes:

- (a) Ms. Wong Kai Chun resigned as executive directors on 7 August 2007.
- (b) Mr. Lo Wai Kon resigned as independent non-executive director on 7 August 2007.
- (c) Such shares are beneficially owned by her spouse.
- (d) Such shares are beneficially owned by Cotton Row Limited and Happy Joy Limited, companies wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.

Directors' Interests in Securities *(Continued)*

Shares — long position *(Continued)*

Notes: *(Continued)*

- (e) Mr. Yiu Ching On was founder of The Yiu's Family Trust, a discretionary trust.
- (f) Happy Joy Limited, a company wholly-owned by Mr. Yiu Kwok Ming, Tommy, and Determine Win Investments Limited in its capacity as trustee of The Yiu's Family Unit Trust owns approximately 5.02% and 94.98% of the issued share capital of Jarak Assets Limited, respectively which in turn holds 117,618,055 shares. HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust, the beneficiaries of which include Mr. Yiu Kwok Ming, Tommy.

Associated corporation:

Name of associated corporation	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 <i>(note b)</i>	28,023,134 <i>(note c)</i>
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 <i>(note b)</i>	—

Notes:

- (a) The above represent interests in non-voting deferred shares.
- (b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.
- (c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, a director of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

Shares Options

The details of directors' interests in share options to subscribe for shares under the Company's share option scheme are set out in note 12 to condensed consolidated interim financial statements.

Directors' Interests in Securities *(Continued)*

Save as disclosed above and note 12 to condensed consolidated interim financial statements, at no time during the period had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

At 30 June 2007, the following companies have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of issued share capital at 30 June 2007
Jarak Assets Limited <i>(note a)</i>	117,618,055	36.7%
Determine Win Investments Limited <i>(note a)</i>	117,618,055	36.7%
HSBC International Trustee Limited <i>(note b)</i>	117,618,055	36.7%
HSBC Investment Bank Holdings B.V. <i>(note b)</i>	117,618,055	36.7%
HSBC Holdings B.V. <i>(note b)</i>	117,618,055	36.7%
HSBC Finance (Netherlands) <i>(note b)</i>	117,618,055	36.7%
HSBC Holdings plc <i>(note b)</i>	117,618,055	36.7%
Mr. Yiu Kwok Yung <i>(note e)</i>	32,500,000	10.1%
Happy Joy Limited <i>(note c)</i>	30,000,000	9.4%
Cotton Row Limited <i>(note d)</i>	19,857,142	6.2%

Notes:

- (a) Jarak Assets Limited is owned as to approximately 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust.

Substantial Shareholders *(Continued)*

Notes: (Continued)

- (b) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.

- (c) Happy Joy Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (d) Cotton Row Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (e) Mr. Yiu Kwok Yung is a son of Mr. Yiu Ching On and the brother of Mr. Yiu Kwok Ming, Tommy.

Compliance With the Code on Corporate Governance Practices

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not throughout the accounting period covered by this interim report, in compliance with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in Model Code.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2007.

Audit committee

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Chan Kin Wah, Billy, Mr. Cheung Cho Yiu and Mr. Liang Jin An.

In the meeting held on 21 September 2007, the Audit Committee had reviewed the accounting policies and practices adopted by the Group. It had also reviewed the condensed interim financial statements for the six months ended 30 June 2007.

Remuneration Committee

The Remuneration Committee currently comprises three independent non-executive directors, Mr. Liang Jin An, Mr. Cheung Cho Yiu, Mr. Chan Kin Wah, Billy and one executive director, Mr. Yiu Kwok Ming, Tommy. Mr. Liang Jin An is the Chairman of the Committee. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

Members of the Board

Executive Directors

Mr. Yiu Ching On (*Chairman*)

Mr. Yiu Kwok Ming, Tommy (*Managing Director*)

Mr. Leung Kwon Ip

Mr. Wong Wai Man

Ms. Wong Kai Chun (*resigned on 7 August 2007*)

Independent Non-executive Directors

Mr. Cheung Cho Yiu (*appointed on 7 August 2007*)

Mr. Chan Kin Wah, Billy (*appointed on 25 July 2007*)

Mr. Liang Jin An (*appointed on 25 July 2007*)

Mr. Cheung Wing Yui (*resigned on 25 July 2007*)

Mr. Wong Shiu Hoi, Peter (*resigned on 25 July 2007*)

Mr. Lo Wai Kon (*resigned on 7 August 2007*)