



CHINA TING GROUP

華鼎集團

Stock Code: 3398

Interim Report 2008

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# Corporate Information

## **Executive Directors**

Mr. TING Man Yi (*Chairman*)  
Mr. TING Hung Yi  
*(Chief Executive Officer)*  
Mr. DING Jianer  
Mr. CHEUNG Ting Yin, Peter

## **Independent Non-executive Directors**

Dr. CHENG Chi Pang  
Mr. WONG Chi Keung  
Mr. LEUNG Man Kit

## **Company Secretary**

Mr. CHENG Ho Lung Raymond  
*CPA, ACCA*

## **Qualified Accountant**

Mr. CHENG Ho Lung Raymond  
*CPA, ACCA*

## **Authorised Representatives**

Mr. TING Hung Yi  
Mr. CHENG Ho Lung Raymond

## **Audit Committee**

Mr. WONG Chi Keung (*Chairman*)  
*FCPA, FCCA, FCPA (Australia), ACIS, ACMA*  
Dr. CHENG Chi Pang  
*CPA (Practising), FCCA, ASA, ATiHK*  
Mr. LEUNG Man Kit

## **Nomination Committee**

Mr. TING Hung Yi (*Chairman*)  
Dr. CHENG Chi Pang  
Mr. LEUNG Man Kit

## **Remuneration Committee**

Mr. TING Hung Yi (*Chairman*)  
Dr. CHENG Chi Pang  
Mr. WONG Chi Keung

## **Registered Office**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## **Head Office and Principal Place of Business in Hong Kong**

28th Floor, Futura Plaza  
111–113 How Ming Street  
Kwun Tong  
Kowloon  
Hong Kong

## **Principal Banker**

Nanyang Commercial Bank Limited  
151 Des Voeux Road Central,  
Hong Kong

## **Legal Advisers**

Squire, Sanders & Dempsey  
24th Floor  
Central Tower  
28 Queen's Road Central  
Central  
Hong Kong

## **Auditor**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor, Prince's Building  
Central  
Hong Kong

## **Principal Share Registrar**

Butterfield Fund Services  
(Cayman) Limited  
Butterfield House, 68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## **Hong Kong Branch Share Registrar**

Computershare Hong Kong Investor  
Services Limited  
Shops 1712–16, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 (Unaudited) HK\$'000	As at 31 December 2007 (Audited) HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	781,649	617,299
Investment properties	5	7,000	7,000
Leasehold land and land use rights	5	101,249	84,012
Intangible assets	5	131,125	51,729
Interests in associates	6	5,444	39,170
Deferred income tax assets		17,491	8,596
		<b>1,043,958</b>	807,806
<b>Current assets</b>			
Inventories		379,309	393,496
Trade and other receivables	7	418,713	448,166
Tax recoverable		1,032	24,187
Financial assets at fair value through profit or loss		80,766	51,819
Pledged bank deposits		9,621	13,178
Cash and cash equivalents		778,047	734,423
		<b>1,667,488</b>	1,665,269
<b>Total assets</b>		<b>2,711,446</b>	2,473,075

## Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 (Unaudited) HK\$'000	As at 31 December 2007 (Audited) HK\$'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	8	210,275	206,525
Reserves	9	1,928,864	1,691,103
Proposed dividends	9	110,184	164,790
		<b>2,249,323</b>	2,062,418
<b>Minority interests</b>		<b>50,658</b>	48,020
<b>Total equity</b>		<b>2,299,981</b>	2,110,438
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Licence fees payable	10	2,706	5,260
Deferred income tax liabilities		21,057	14,287
		<b>23,763</b>	19,547

## Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 (Unaudited) HK\$'000	As at 31 December 2007 (Audited) HK\$'000
<b>Current liabilities</b>			
Trade and other payables	11	315,082	301,079
Bank borrowings		30,667	13,154
Derivative financial instruments		7,988	5,447
Current income tax liabilities		33,965	23,410
		<b>387,702</b>	343,090
<b>Total liabilities</b>		<b>411,465</b>	362,637
<b>Total equity and liabilities</b>		<b>2,711,446</b>	2,473,075
<b>Net current assets</b>		<b>1,279,786</b>	1,322,179
<b>Total assets less current liabilities</b>		<b>2,323,744</b>	2,129,985

The notes on pages 11 to 37 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Revenue	4	<b>1,266,250</b>	1,255,004
Cost of sales		<b>(846,418)</b>	(827,948)
<b>Gross profit</b>		<b>419,832</b>	427,056
Other (losses)/gains, net	12	<b>(7,258)</b>	6,680
Selling, marketing and distribution costs		<b>(86,020)</b>	(72,798)
Administrative expenses		<b>(117,279)</b>	(91,102)
<b>Operating profit</b>	13	<b>209,275</b>	269,836
Finance income, net	14	<b>2,355</b>	5,908
Share of (losses)/profits of associates		<b>(1,128)</b>	4,939
<b>Profit before income tax</b>		<b>210,502</b>	280,683
Income tax expense	15	<b>(18,683)</b>	(31,842)
<b>Profit for the period</b>		<b>191,819</b>	248,841
<b>Attributable to:</b>			
Equity holders of the Company		<b>192,232</b>	247,923
Minority interests		<b>(413)</b>	918
		<b>191,819</b>	248,841
<b>Dividends</b>	16	<b>110,184</b>	142,657



# Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)</b>			
— basic	17	<b>9.12 cents</b>	12.00 cents
— diluted	17	<b>9.12 cents</b>	11.95 cents

The notes on pages 11 to 37 form an integral part of this condensed consolidated interim financial information.

## Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2008

	(Unaudited)						
	Attributable to the equity holders of the Company						
	Share	Share	Other	Retained		Minority	Total
	capital	premium	reserves	earnings	Total	interests	equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 1 January 2008</b>	<b>206,525</b>	<b>902,608</b>	<b>217,646</b>	<b>735,639</b>	<b>2,062,418</b>	<b>48,020</b>	<b>2,110,438</b>
Deregistration of a subsidiary	—	—	(23,653)	—	(23,653)	—	(23,653)
Currency translation differences	—	—	97,778	—	97,778	3,051	100,829
Profit/(loss) for the period	—	—	—	192,232	192,232	(413)	191,819
Total recognised income for the period	—	—	74,125	192,232	266,357	2,638	268,995
Issue of shares	4,590	83,997	—	—	88,587	—	88,587
Repurchase of shares	(965)	(13,703)	965	—	(13,703)	—	(13,703)
Revaluation reserve, net of tax, arising from the acquisition of controlling interest in an associate	—	—	10,572	—	10,572	—	10,572
Employee share option scheme:							
— value of employee services	—	—	951	—	951	—	951
— proceeds from share issues	125	1,902	(1,902)	—	125	—	125
2007 final dividends paid	—	—	—	(165,984)	(165,984)	—	(165,984)
Profit appropriation	—	—	24,970	(24,970)	—	—	—
	<b>3,750</b>	<b>72,196</b>	<b>35,556</b>	<b>(190,954)</b>	<b>(79,452)</b>	<b>—</b>	<b>(79,452)</b>
<b>At 30 June 2008</b>	<b>210,275</b>	<b>974,804</b>	<b>327,327</b>	<b>736,917</b>	<b>2,249,323</b>	<b>50,658</b>	<b>2,299,981</b>
<b>At 1 January 2007</b>	206,625	905,152	97,987	597,470	1,807,234	35,550	1,842,784
Currency translation differences	—	—	41,343	—	41,343	1,644	42,987
Profit for the period	—	—	—	247,923	247,923	918	248,841
Total recognised income for the period	—	—	41,343	247,923	289,266	2,562	291,828
Employee share option scheme:							
— value of employee services	—	—	951	—	951	—	951
Disposal of a subsidiary	—	—	—	—	—	(590)	(590)
2006 final dividends paid	—	—	—	(144,638)	(144,638)	—	(144,638)
Dividend to a minority shareholder of a subsidiary	—	—	—	—	—	(2,578)	(2,578)
Profit appropriation	—	—	19,380	(19,380)	—	—	—
	—	—	20,331	(164,018)	(143,687)	(3,168)	(146,855)
<b>At 30 June 2007</b>	206,625	905,152	159,661	681,375	1,952,813	34,944	1,987,757

The notes on pages 11 to 37 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2008

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
Net cash generated from operating activities	<b>236,479</b>	189,241
Net cash (used in)/generated from investing activities	<b>(65,055)</b>	96,443
Net cash used in financing activities	<b>(162,049)</b>	(135,578)
<b>Net increase in cash and cash equivalents</b>	<b>9,375</b>	150,106
Cash and cash equivalents at 1 January	<b>734,423</b>	497,429
Exchange gains on cash and cash equivalents	<b>34,249</b>	7,901
Cash and cash equivalents at 30 June	<b>778,047</b>	655,436

The notes on pages 11 to 37 form an integral part of this condensed consolidated interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## 1 GENERAL INFORMATION

China Ting Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law, (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the “Group”) are engaged in the manufacturing and sale of garments.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 15 December 2005.

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 9 September 2008.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

## 3 PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## Notes to the Condensed Consolidated Interim Financial Information

**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

The following interpretations to existing standards are mandatory for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) — Int 11 “HKFRS 2 — Group and Treasury Share Transactions”
- HK(IFRIC) — Int 12 “Service Concession Arrangements”
- HK(IFRIC) — Int 14 “HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

The Group has not early adopted the following new/revised standards and interpretations to existing standards that have been issued but not yet effective for the financial year beginning 1 January 2008. The Group is in the process of assessing their impact to the Group’s results and financial position.

- HKAS 1 (Revised) “Presentation of Financial Statements”  
(effective from 1 January 2009)
- HKAS 23 (Revised) “Borrowing Costs”  
(effective from 1 January 2009)
- HKAS 27 (Revised) “Consolidated and Separate Financial Statements” (effective from 1 July 2009)
- HKAS 32 and HKAS 1 (Amendment) “Puttable Financial Instruments and Obligation Arising on Liquidation”  
(effective from 1 January 2009)
- HKFRS 2 (Amendment) “Share-based Payment Vesting Conditions and Cancellations” (effective from 1 January 2009)
- HKFRS 3 (Revised) “Business Combinations”  
(effective from 1 July 2009)
- HKFRS 8 “Operating Segments”  
(effective from 1 January 2009)
- HK(IFRIC) — Int 13 “Customer Loyalty Programmes”  
(effective from 1 July 2008)

## Notes to the Condensed Consolidated Interim Financial Information

**4 SEGMENT INFORMATION****(a) Primary reporting segment — business segments**

The business segment reporting includes the following segments: (1) manufacturing and sale of garments on an OEM basis (“OEM”); and (2) manufacturing and retailing of branded fashion apparel (“Retail”).

The segment revenue, results and capital expenditure for the six months ended 30 June 2008 are as follows:

	<b>(Unaudited)</b>		
	<b>OEM</b>	<b>Retail</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Gross segment sales	<b>1,107,824</b>	<b>161,014</b>	<b>1,268,838</b>
Elimination of inter-segment sales	<b>(2,455)</b>	<b>(133)</b>	<b>(2,588)</b>
<b>Turnover and segment revenue</b>	<b>1,105,369</b>	<b>160,881</b>	<b>1,266,250</b>
Segment results	<b>217,270</b>	<b>27,488</b>	<b>244,758</b>
Unallocated losses			<b>(35,483)</b>
Operating profit			<b>209,275</b>
Share of profits/(losses) of associates	<b>28</b>	<b>(1,156)</b>	<b>(1,128)</b>
Depreciation of property, plant and equipment	<b>32,601</b>	<b>1,171</b>	<b>33,772</b>
Amortisation of leasehold land and land use rights	<b>546</b>	<b>14</b>	<b>560</b>
Amortisation of intangible assets	<b>—</b>	<b>4,657</b>	<b>4,657</b>
Capital expenditure	<b>266,895</b>	<b>326</b>	<b>267,221</b>

## Notes to the Condensed Consolidated Interim Financial Information

**4 SEGMENT INFORMATION (Continued)****(a) Primary reporting segment — business segments (Continued)**

The segment revenue, results and capital expenditure for the six months ended 30 June 2007 are as follows:

	(Unaudited)		
	OEM HK\$'000	Retail HK\$'000	Total HK\$'000
Gross segment sales	1,136,647	120,398	1,257,045
Elimination of inter-segment sales	(629)	(1,412)	(2,041)
Turnover and segment revenue	1,136,018	118,986	1,255,004
Segment results	245,243	18,274	263,517
Unallocated gains			6,319
Operating profit			269,836
Share of profits of associates	4,939	—	4,939
Depreciation of property, plant and equipment	18,247	1,064	19,311
Amortisation of leasehold land and land use rights	661	16	677
Amortisation of intangible assets	—	3,922	3,922
Capital expenditure	39,650	14,328	53,978

## Notes to the Condensed Consolidated Interim Financial Information

**4 SEGMENT INFORMATION (Continued)****(a) Primary reporting segment — business segments (Continued)**

The segment assets and liabilities as at 30 June 2008 are as follows:

	<b>(Unaudited)</b>			
	<b>OEM</b>	<b>Retail</b>	<b>Corporate and others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment assets	<b>2,179,457</b>	<b>403,120</b>	<b>123,425</b>	<b>2,706,002</b>
Interests in associates	<b>1,936</b>	<b>3,508</b>	<b>—</b>	<b>5,444</b>
<b>Total assets</b>	<b>2,181,393</b>	<b>406,628</b>	<b>123,425</b>	<b>2,711,446</b>
Segment liabilities	<b>204,692</b>	<b>149,430</b>	<b>57,343</b>	<b>411,465</b>

The segment assets and liabilities as at 31 December 2007 are as follows:

	<b>(Audited)</b>			
	<b>OEM</b>	<b>Retail</b>	<b>Corporate and others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment assets	1,959,906	355,555	118,444	2,433,905
Interests in associates	34,505	4,665	—	39,170
<b>Total assets</b>	<b>1,994,411</b>	<b>360,220</b>	<b>118,444</b>	<b>2,473,075</b>
Segment liabilities	179,360	142,983	40,294	362,637



## Notes to the Condensed Consolidated Interim Financial Information

**4 SEGMENT INFORMATION (Continued)****(b) Secondary reporting segment — geographical segments**

The Group primarily operates in Hong Kong and Mainland China. Sales are made to overseas customers as well as customers in Hong Kong and Mainland China.

The Group's sales are mainly made to customers located in the following geographical areas:

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
North America	<b>889,418</b>	989,090
European Union	<b>55,633</b>	43,881
Mainland China	<b>298,125</b>	191,322
Hong Kong	<b>16,966</b>	7,585
Other countries	<b>6,108</b>	23,126
	<b>1,266,250</b>	1,255,004

## Notes to the Condensed Consolidated Interim Financial Information

**4 SEGMENT INFORMATION (Continued)****(b) Secondary reporting segment — geographical segments  
(Continued)**

The Group's total assets are located in the following geographical areas:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Mainland China	<b>2,182,419</b>	1,856,815
Hong Kong	<b>517,642</b>	600,805
North America	<b>11,385</b>	15,455
	<b>2,711,446</b>	2,473,075

The Group's capital expenditure, based on where the assets are located, are located in the following geographical areas:

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Mainland China	<b>264,585</b>	53,299
Hong Kong	<b>2,636</b>	566
North America	<b>—</b>	113
	<b>267,221</b>	53,978

## Notes to the Condensed Consolidated Interim Financial Information

## 5 CAPITAL EXPENDITURE

	(Unaudited)							
	Intangible assets						Property, plant and equipment	Leasehold land and land use rights
	Goodwill	Trademark	Customer relationship	Licence right	Total	Investment properties		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>For the six months ended</b>								
<b>30 June 2008</b>								
Opening net book amount at 1 January 2008	22,253	20,030	—	9,446	51,729	7,000	617,299	84,012
Exchange differences	1,432	—	—	—	1,432	—	36,235	4,333
Additions	—	—	—	—	—	—	97,112	378
Additions through the acquisition of controlling interest in an associate	67,930	—	14,691	—	82,621	—	70,821	16,289
Disposals	—	—	—	—	—	—	(6,046)	(3,203)
Amortisation/depreciation (Note 13)	—	(1,561)	(735)	(2,361)	(4,657)	—	(33,772)	(560)
Closing net book amount at 30 June 2008	91,615	18,469	13,956	7,085	131,125	7,000	781,649	101,249
<b>For the six months ended</b>								
<b>30 June 2007</b>								
Opening net book amount at 1 January 2007	20,751	23,152	—	—	43,903	4,940	452,509	74,339
Exchange differences	—	—	—	—	—	—	14,847	2,247
Additions	—	—	—	14,169	14,169	—	39,204	605
Disposals	—	—	—	—	—	—	(317)	—
Amortisation/depreciation (Note 13)	—	(1,561)	—	(2,361)	(3,922)	—	(19,311)	(677)
Closing net book amount at 30 June 2007	20,751	21,591	—	11,808	54,150	4,940	486,932	76,514

## Notes to the Condensed Consolidated Interim Financial Information

**6 INTERESTS IN ASSOCIATES**

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Share of net assets	<b>2,119</b>	18,166
Loan to an associate (Note (a))	<b>3,325</b>	3,325
Goodwill	<b>—</b>	17,679
	<b>5,444</b>	39,170

Notes:

- (a) The loan to an associate is unsecured, interest-free and not repayable within one year from the balance sheet date.
- (b) Movement of interests in associates during the period is as follows:

	HK\$'000
At 1 January 2008	39,170
Exchange differences	348
Share of losses	(1,128)
Reduction as a result of the acquisition of controlling interest in an associate	(32,946)
At 30 June 2008	5,444

## Notes to the Condensed Consolidated Interim Financial Information

**7 TRADE AND OTHER RECEIVABLES**

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Trade and bills receivables	<b>356,616</b>	341,860
Less: Provision for impairment	<b>(3,849)</b>	(3,188)
Trade and bills receivables, net	<b>352,767</b>	338,672
Amounts due from associates (Note 20 (c))	<b>5,094</b>	63,509
Other receivables, deposits and prepayments	<b>60,852</b>	45,985
	<b>418,713</b>	448,166

The ageing analysis of gross trade and bills receivables is as follows:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
0 to 30 days	<b>183,934</b>	201,721
31 to 60 days	<b>92,363</b>	102,425
61 to 90 days	<b>39,697</b>	17,125
Over 90 days	<b>40,622</b>	20,589
	<b>356,616</b>	341,860

# Notes to the Condensed Consolidated Interim Financial Information

## 7 TRADE AND OTHER RECEIVABLES (Continued)

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of not more than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The department stores are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bills receivables are with average maturity dates of within 2 months.

As of 30 June 2008, the provision for impairment of trade receivables amounted to HK\$661,000 (2007: reversal of provision of HK\$899,000). These have been included in administrative expenses in the condensed consolidated income statement.

## Notes to the Condensed Consolidated Interim Financial Information

**8 SHARE CAPITAL AND SHARE OPTIONS****(a) Share capital**

	Note	Number of shares (in '000)	Total HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 31 December 2007 and 30 June 2008		10,000,000	1,000,000
Issued and fully paid:			
At 31 December 2007		2,065,254	206,525
Issue of shares	(i)	45,900	4,590
Repurchase of shares	(ii)	(9,654)	(965)
Exercise of share options		1,250	125
At 30 June 2008		2,102,750	210,275

## Notes:

- (i) The Group issued 45,900,000 shares on 3 January 2008 (2.2% of the total ordinary share capital issued) to a shareholder of Interfield Industrial Limited ("Interfield") as part of the purchase consideration for the acquisition of additional 60% equity interest of Interfield. The fair value of the shares issued amounted to HK\$88,587,000 (HK\$1.93 per share) (Note 19).
- (ii) During the period, the Company repurchased a total of 9,654,000 of its own shares on the Stock Exchange at a price ranging from HK\$1.25 to HK\$1.70 per share, for a total consideration, before expenses, of approximately HK\$13,703,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of approximately HK\$965,000 was transferred from share capital to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium.

## Notes to the Condensed Consolidated Interim Financial Information

**8 SHARE CAPITAL AND SHARE OPTIONS (Continued)****(a) Share capital (Continued)**

Notes: (Continued)

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
January 2008	3,660,000	1.70	1.48	5,967
February 2008	1,450,000	1.31	1.27	1,876
June 2008	4,544,000	1.30	1.25	5,860
	9,654,000			13,703

**(b) Share options**

Pursuant to the Pre-IPO Share Option Deed (the “Pre-IPO Share Option Deed”) dated 18 November 2005, an employee has been conditionally granted options prior to 15 December 2005 to subscribe for up to 10,000,000 shares of HK\$0.10 each in the share capital of the Company. The option granted under the Pre-IPO Share Option Deed may be exercised by the employee in part, during a period of eight years from 15 December 2005, representing no more than one-eighth of the total number of the option shares in each calendar year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.



## Notes to the Condensed Consolidated Interim Financial Information

**8 SHARE CAPITAL AND SHARE OPTIONS (Continued)****(b) Share options (Continued)**

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008	
	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	0.10	7,500
Exercised	0.10	(1,250)
At 30 June	0.10	6,250

6,250,000 outstanding options at 30 June 2008 (2007: 7,500,000) were not exercisable as at that date and will be exercisable at an exercise price of HK\$0.10 per share over the period up to 15 December 2013. They will be expired on 15 December 2013 at an exercise price of HK\$0.10 per share.

Options exercised during the period resulted in 1,250,000 shares being issued at HK\$0.10 each. The related weighted average share price at the time of exercise was HK\$1.29 per share.

## Notes to the Condensed Consolidated Interim Financial Information

**9 RESERVES**

	Share premium	Capital reserve	Contributed surplus	Statutory reserves	Share based compensation reserve	Capital redemption reserve	Revaluation reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	902,608	7,746	(4,624)	66,777	1,902	225	—	145,620	735,639	1,855,893
Deregistration of a subsidiary	—	—	—	—	—	—	—	(23,653)	—	(23,653)
Currency translation differences	—	—	—	—	—	—	—	97,778	—	97,778
Profit for the period	—	—	—	—	—	—	—	—	192,232	192,232
Issue of shares	83,997	—	—	—	—	—	—	—	—	83,997
Repurchases of shares	(13,703)	—	—	—	—	965	—	—	—	(12,738)
Revaluation reserve, net of tax, arising from the acquisition of controlling interest in an associate	—	—	—	—	—	—	10,572	—	—	10,572
Employee share option scheme:										
— value of employee services	—	—	—	—	951	—	—	—	—	951
— proceeds from share issues	1,902	—	—	—	(1,902)	—	—	—	—	—
2007 final dividends paid	—	—	—	—	—	—	—	—	(165,984)	(165,984)
Profit appropriation	—	—	—	24,970	—	—	—	—	(24,970)	—
<b>At 30 June 2008</b>	<b>974,804</b>	<b>7,746</b>	<b>(4,624)</b>	<b>91,747</b>	<b>951</b>	<b>1,190</b>	<b>10,572</b>	<b>219,745</b>	<b>736,917</b>	<b>2,039,048</b>
At 1 January 2007	905,152	7,746	(4,624)	42,695	1,902	—	—	50,268	597,470	1,600,609
Currency translation differences	—	—	—	—	—	—	—	41,343	—	41,343
Profit for the period	—	—	—	—	—	—	—	—	247,923	247,923
Employee share option scheme:										
— value of employee services	—	—	—	—	951	—	—	—	—	951
2006 final dividends paid	—	—	—	—	—	—	—	—	(144,638)	(144,638)
Profit appropriation	—	—	—	19,380	—	—	—	—	(19,380)	—
<b>At 30 June 2007</b>	<b>905,152</b>	<b>7,746</b>	<b>(4,624)</b>	<b>62,075</b>	<b>2,853</b>	<b>—</b>	<b>—</b>	<b>91,611</b>	<b>681,375</b>	<b>1,746,188</b>

## Notes to the Condensed Consolidated Interim Financial Information

**10 LICENCE FEES PAYABLE**

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Within one year	<b>5,299</b>	5,039
In the second year	<b>2,706</b>	5,260
	<b>8,005</b>	10,299
Less: Current portion	<b>(5,299)</b>	(5,039)
Non-current portion	<b>2,706</b>	5,260
Estimated fair value of		
Current portion	<b>5,241</b>	4,969
Non-current portion	<b>2,662</b>	5,115
	<b>7,903</b>	10,084

Estimated fair values at the balance sheet date were calculated based on a discount rate of 7.04% per annum, which approximates the external borrowing rate available to the Group as at 30 June 2008.

## Notes to the Condensed Consolidated Interim Financial Information

**11 TRADE AND OTHER PAYABLES**

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Trade and bills payables	<b>180,854</b>	195,555
Other payable and accruals	<b>128,322</b>	98,218
Amounts due to associates (Note 20(c))	<b>607</b>	2,267
Licence fees payable (Note 10)	<b>5,299</b>	5,039
	<b>315,082</b>	301,079

The ageing analysis of trade and bills payables is as follows:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
0 to 30 days	<b>107,109</b>	135,655
31 to 60 days	<b>37,802</b>	38,029
61 to 90 days	<b>10,015</b>	8,813
Over 90 days	<b>25,928</b>	13,058
	<b>180,854</b>	195,555

## Notes to the Condensed Consolidated Interim Financial Information

**12 OTHER (LOSSES)/GAINS, NET**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Gain on disposal of property, plant and equipment and leasehold land and land use rights	<b>1,517</b>	43
Loss on disposal of an associate	<b>—</b>	(84)
Government grants	<b>27</b>	361
Investment tax credits (Note)	<b>7,695</b>	—
Net fair value (losses)/gains of financial assets at fair value through profit or loss	<b>(40,928)</b>	1,924
Net exchange (losses)/gains	<b>(481)</b>	2,242
Gain on deregistration of a subsidiary	<b>23,653</b>	—
Net fair value losses of foreign exchange forward contracts	<b>(420)</b>	—
Rental income	<b>926</b>	1,381
Others	<b>753</b>	813
	<b>(7,258)</b>	6,680

Note:

Investment tax credits represent incentives received as a result of the reinvestment of the dividend incomes from subsidiaries in the People's Republic of China ("PRC").

## Notes to the Condensed Consolidated Interim Financial Information

**13 OPERATING PROFIT**

The following items have been charged/(credited) to the operating profit during the interim period:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>33,772</b>	19,311
Amortisation of leasehold land and land use rights	<b>560</b>	677
Amortisation of intangible assets	<b>4,657</b>	3,922
Employee benefit expenses	<b>214,703</b>	160,844
Provision for inventories	<b>8,000</b>	4,425
Provision for/(reversal of provision) for impairment of trade receivables	<b>661</b>	(899)

**14 FINANCE INCOME, NET**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Finance income — interest income on		
— bank deposits	<b>3,734</b>	8,586
— amount due from an associate	<b>138</b>	109
Finance costs — interest expense on		
— bank loans	<b>(1,143)</b>	(2,310)
— licence fees payable	<b>(374)</b>	(477)
	<b>2,355</b>	5,908

## Notes to the Condensed Consolidated Interim Financial Information

**15 INCOME TAX EXPENSE**

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
Current income tax		
— Hong Kong profits tax	<b>18,012</b>	20,523
— PRC enterprise income tax	<b>21,684</b>	19,652
— Overprovision in prior years	<b>(12,240)</b>	—
Deferred income tax	<b>(8,773)</b>	(8,333)
	<b>18,683</b>	31,842

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

PRC enterprise income tax is provided on the basis of the profits of the PRC established and operating subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for these subsidiaries of the Group is 25%, except that the applicable enterprise income tax rate for Shenzhen Fuhowe Fashion Company Limited and Finity Fashion (Shenzhen) Company Limited is 18%.

In accordance with the relevant applicable tax regulations, for those subsidiaries established in the PRC as wholly owned foreign enterprises or sino-foreign joint ventures, they are entitled to full exemption from enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year, after offsetting all unexpired tax losses carried forward from previous years.

## Notes to the Condensed Consolidated Interim Financial Information

**16 DIVIDENDS**

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
Interim dividend, declared, of HK4.56 cents (2007: 5.90 cents) per ordinary share	<b>95,885</b>	121,982
Special dividend, declared, of HK0.68 cent (2007: HK1.00 cent) per ordinary share	<b>14,299</b>	20,675
	<b>110,184</b>	142,657

Note:

At a meeting held on 9 September 2008, the directors declared a special dividend of HK0.68 cent per ordinary share in addition to an interim dividend of HK4.56 cents per ordinary share. The declared dividends are not reflected as a dividend payable in the interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

**17 EARNINGS PER SHARE**

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$192,232,000 (Six months ended 30 June 2007: HK\$247,923,000) and weighted average number of ordinary shares in issue during the period of 2,106,809,426 (Six months ended 30 June 2007: 2,066,250,000).
- (b) As there was no potential dilutive share for the six months ended 30 June 2008, diluted earnings per share equal to the basic earnings per share. Diluted earnings per share for the six months ended 30 June 2007 was calculated based on the profit attributable to equity holders of the Company of HK\$247,923,000, and the weighted average number of ordinary shares of 2,074,671,429 which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of dilutive potential ordinary shares of 8,421,429 deemed to be issued at no consideration if all outstanding share options granted under the Pre-IPO Share Option Deed had been exercised.



## Notes to the Condensed Consolidated Interim Financial Information

**18 COMMITMENTS****(a) Capital commitments**

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Contracted but not provided for		
— Property, plant and equipment	<b>87,519</b>	56,334
— Investment in an associate, Lee Cooper China (Hong Kong) Limited	<b>12,278</b>	11,400
— Investment in a jointly controlled entity, China Ting Pietraluna Limited	<b>31,200</b>	31,200
	<b>130,997</b>	98,934

**(b) Operating lease commitments**

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation claims and renewal rights.

## Notes to the Condensed Consolidated Interim Financial Information

**18 COMMITMENTS (Continued)****(b) Operating lease commitments (Continued)**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Land and buildings		
— Not later than 1 year	<b>13,907</b>	11,908
— Later than 1 year and not later than 5 years	<b>6,686</b>	8,509
	<b>20,593</b>	20,417
Plant and equipment		
— Not later than 1 year	<b>169</b>	169
— Later than 1 year and not later than 5 years	<b>127</b>	212
	<b>296</b>	381
	<b>20,889</b>	20,798

**19 BUSINESS COMBINATIONS**

On 3 January 2008, the Group acquired 60% of the share capital of Interfield. Interfield and its subsidiaries are engaged in fabric printing and dyeing. The acquired business contributed revenue of approximately HK\$26,996,000 and profit for the period of approximately HK\$10,445,000 to the Group for the period ended 30 June 2008.

## Notes to the Condensed Consolidated Interim Financial Information

**19 BUSINESS COMBINATIONS (Continued)**

Details of net assets acquired and goodwill are as follows:

	HK\$'000
Purchase consideration	
— Fair value of shares issued on 3 January 2008 (Note 8(a)(i))	88,587
— Direct cost relating to the acquisition	421
Share of fair value of net assets acquired — shown as below	<u>(38,757)</u>
Goodwill	<u>50,251</u>

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Interfield.

The separately identifiable assets and liabilities as of 3 January 2008 arising from the acquisition are as follows:

	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
	HK\$'000	HK\$'000
Property, plant and equipment	70,821	63,110
Customer relationship	14,691	—
Leasehold land and land use rights	16,289	5,117
Inventories	9,135	9,135
Trade and other receivables	16,014	16,014
Cash and cash equivalents	14,623	14,623
Trade and other payables	(9,725)	(9,725)
Dividend payable	(47,475)	(47,475)
Current income tax liabilities	(12,238)	(12,238)
Deferred income tax liabilities	(7,540)	(395)
Net assets	64,595	
Less: 40% share of fair value of net assets	<u>(25,838)</u>	
Share of fair value of net assets acquired	<u>38,757</u>	

## Notes to the Condensed Consolidated Interim Financial Information

**20 SIGNIFICANT RELATED PARTY TRANSACTIONS**

The Group is controlled by Longerview Investments Limited (incorporated in the British Virgin Islands), which owns 71% of the Company's shares. The remaining 29% of the shares are widely held.

The directors are of the view that the following companies are related parties of the Group:

<b>Name</b>	<b>Relationship with the Group</b>
Hangzhou Huasheng Accessories Company Limited ("Huasheng Accessories")	An associate
Interfield Industrial Limited ("Interfield")	An associate before 3 January 2008 on which Interfield became a subsidiary of the Group

The name of Huasheng Accessories referred to in the above represents management's best efforts at translating the Chinese name of this company as no English name has been registered or available.

## Notes to the Condensed Consolidated Interim Financial Information

**20 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(a) Transactions with related parties**

In the opinion of the directors, the transactions below were conducted in the ordinary and usual course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties.

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest income from Huasheng		
Accessories	<b>138</b>	109
Purchases of accessories from Huasheng		
Accessories	<b>5,128</b>	5,592
Subcontracting charges paid to Interfield	<b>—</b>	21,159

**(b) Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Salaries and other short-term employee benefits	<b>5,890</b>	5,647
Post-employment benefits	<b>42</b>	48
Share-based payments	<b>951</b>	951
	<b>6,883</b>	6,646

## Notes to the Condensed Consolidated Interim Financial Information

**20 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(c) Period-end balances with related parties**

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 31 December 2007 (Audited) HK\$'000
Receivables from associates	<b>5,094</b>	63,509
Payables to associates	<b>607</b>	2,267

All amounts are unsecured, interest-free and repayable on demand, except for the amount due from an associate of HK\$4,550,000 (2007: HK\$4,275,000) which bears interest at 6.8% (2007: 4.8%) per annum.

Included in amounts due from associates as at 31 December 2007 was dividend receivable of HK\$43,040,000.

# Independent Review Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F, Prince's Building  
Central, Hong Kong

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHINA TING GROUP HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 4 to 37, which comprises the condensed consolidated balance sheet of China Ting Group Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information 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.

# Independent Review 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information 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, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 9 September 2008



# Management Discussion and Analysis

## 1. BUSINESS REVIEW

During the period under review, the operating environment for the manufacturing sector has been under a lot of pressure mainly from the appreciation of RMB as well as the persistently weak US dollar. This has been further aggravated by the increase in labour costs from new labour regulations, raw material price hikes, and the overall deterioration of the US economy.

Such unfavorable events have all contributed in hindering the Group's expected performance, causing the Group's profit before tax to drop by approximately 25.0% to HK\$210.5 million for the six months ended 30 June 2008. Both the profit attributable to equity holders of the Company and earnings per share dropped by 22.5% and 24.0% to HK\$192.2 million and HK9.12 cents respectively.

### **Original Equipment Manufacturer (“OEM”) Business**

During the period, the Group's OEM activities continued to be its major business and a solid source of revenue, contributing approximately HK\$1,105.4 million (2007: approximately HK\$1,136.0 million), representing approximately 87.3% of the Group's total revenue.

2008 has been a challenging year for both the manufacturing and exporting businesses in China and the stipulated reasons given hereinabove have resulted in the Group's OEM business reporting a decrease in the gross profit margin from approximately 29.9% in 2007 to approximately 28.3% this current period.

However, the Group continues to forge its strategy of expanding its original design manufacturer business through new research and development as well as design to meet market needs.

# Management Discussion and Analysis

## **Fashion Retail Business**

As per the strategy put into place at the beginning of 2008, the Group shifted its focus to its retail business, achieving a steady growth in the sales performance.

During the period under review, the Group continued to apply its strategy mainly through strengthening its shop image and increasing its sales locations while renovating earlier stores or closing down underperforming ones existing in its current network.

The expansion of its stores for its four in-house brands of “FINITY”, “DBNI”, “ELANIE”, and “RIVERSTONE” as well as its licensed brand of “MAX STUDIO” showed an increase in turnover by approximately 35.2%.

## **2. FINANCIAL REVIEW**

During the period under review, the Group's revenue amounted to HK\$1,266.3 million, representing an increase of 0.9% as compared with HK\$1,255.0 million during the same period in 2007. The gross profit margin for the period under review was 33.2% which was slightly lower than approximately 34.0% for the same period in 2007. This situation was principally due to the appreciation of RMB, the increase in labour costs and raw material prices, and overall deterioration of the US economy. The net profit attributable to equity holders was HK\$192.2 million, representing a decrease of 22.5% as compared with HK\$247.9 million during the same period in 2007. Earnings per Share were HK9.12 cents, representing HK2.88 cents lower as compared to HK12.00 cents for the same period last year.

# Management Discussion and Analysis

## OEM Business

During the period under review, the OEM revenue recorded a decrease from approximately HK\$1,136.0 million for the same period in 2007 to approximately HK\$1,105.4 million. A significant part of the OEM sales continued to be derived from the sales of silk and silk-blended apparel items, which increased to approximately HK\$441.9 million (2007: HK\$ 479.2 million). The OEM revenue analysis by different kinds of product is as follows:

	January to June 2008		January to June 2007		Period-on- Period
	HK\$ million	%	HK\$ million	%	% change
Silk and silk-blended apparel	441.9	40.0	479.2	42.2	(7.8)
Linen and linen-blended apparel	152.0	13.8	208.6	18.4	(27.1)
Cotton and cotton-blended apparel	268.8	24.3	232.7	20.5	15.5
Apparel in synthetic fabrics	90.2	8.2	118.4	10.4	(23.8)
Printing and dyeing	27.0	2.4	—	—	N/A
Home textile products	51.1	4.6	37.9	3.3	34.8
Others	74.4	6.7	59.2	5.2	25.7
<b>Total</b>	<b>1,105.4</b>	<b>100.0</b>	1,136.0	100.0	2.7

In terms of markets, sales to the United States amounted to HK\$889.4 million (2007: HK\$989.1 million), which accounted for approximately 80.5% (2007: 87.1%) of the OEM revenue. Sales to Europe and other markets were approximately HK\$55.6 million (2007: HK\$43.9 million) and HK\$160.3 million (2007: HK\$102.9 million) respectively.

## Fashion Retail Business

The increase in retail revenue during the period under review was driven by the expansion of the sales network and an increase in average selling price. The retail revenue surged period-on-period by approximately 35.2% to approximately HK\$160.9 million for the period under review. Sales of apparel items under the brand name of “Finity” continued to be the major driver for growth accounting for approximately 51.9% of total retail revenue. Sales of “Elanie” and “Maxstudio” surged to approximately HK\$21.5 million (2007: HK\$15.9 million) and HK\$26.5

# Management Discussion and Analysis

million (2007: HK\$20.8 million) respectively. The retail revenue analysis by brand name is as follows:

	January to June 2008		January to June 2007		Period-on- Period
	HK\$ million	%	HK\$ million	%	% change
In-house brands					
Finity	<b>83.5</b>	<b>51.9</b>	57.4	48.2	45.5
Dbni	<b>14.6</b>	<b>9.1</b>	16.5	13.9	(11.5)
Elanie	<b>21.5</b>	<b>13.3</b>	15.9	13.3	35.2
Riverstone	<b>14.6</b>	<b>9.1</b>	8.0	6.7	82.5
Licensed brands					
Maxstudio	<b>26.5</b>	<b>16.5</b>	20.8	17.5	27.4
Burlington House	<b>0.2</b>	<b>0.1</b>	0.4	0.4	(50.0)
Total retail turnover	<b>160.9</b>	<b>100</b>	119.0	100	35.2

In terms of retail revenue analysis by sales channel, sales from concessions amounted to approximately HK\$111.4 million (2007: HK\$82.2 million), accounting for approximately 69.3% of total retail turnover. Sales from free-standing stores and franchisees amounted to HK\$4.2 million (2007: HK\$5.1 million) and HK\$45.3 million (2007: HK\$31.7 million) respectively.

### 3. LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to retain a good and solid financial position. Net cash inflow from operations during the period under review amounted to approximately HK\$236.5 million. As at 30 June 2008, the cash and cash equivalent was approximately HK\$778.0 million, representing an increase of approximately HK\$43.6 million as compared with approximately HK\$734.4 million as at 31 December 2007. The increase was principally due to the cash inflow from operations of approximately HK\$236.5 million, the cash used in investing activities of approximately HK\$65.1 million, which mainly represented the acquisition of property, plant and equipment amounting to HK\$97.1 million,

## Management Discussion and Analysis

net of proceeds from disposal of property, plant and equipment and cash proceeds from acquisition of a subsidiary, which amounted to HK\$10.8 million and HK\$14.2 million respectively, and the cash used in financing activities, which mainly represented the 2007 final dividend paid to equity holders during the period.

As of 30 June 2008, the Group had bank borrowings of HK\$30.7 million (31 December 2007: HK\$13.2 million), repayable within one year. The debt to equity ratio (total borrowings as a percentage of total equity) was 1.3% (31 December 2007: 0.6%)

The sales of the Group are mainly denominated in US dollars and Renminbi and the purchase of raw materials mainly made in Renminbi, US dollars and Hong Kong dollars. As of 30 June 2008, all cash and cash equivalents, and bank borrowings were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Hence, the Group has no significant exposure to foreign exchange risk.

#### **4. CONTINGENT LIABILITIES**

The Group had no material contingent liabilities as at 30 June 2008.

#### **5. HUMAN RESOURCES**

As of 30 June 2008, the Group employed approximately 12,000 employees in the PRC, Hong Kong and the United States.

The Group recognises the importance of good relationships with its employees and has established an incentive bonus scheme for them, in which the benefits are determined based on the performance of the Group as well as individual employees and which will be reviewed regularly every year.

The Directors believe that in the present difficult market economy, the Group's human resources play a crucial part in helping the Group weather the difficulties. A solid financial background, strong career prospects, good staff remuneration and benefits as well as a pleasant working and living environment are deemed essential to convince staff that the Group is the place to be.

# Management Discussion and Analysis

## 6. BUSINESS OUTLOOK

### OEM Business

Various factors continue to have a detrimental effect on the OEM business in China, especially the economy and sub-prime mortgage difficulties in the United States which continues to affect, adversely, the purchasing power of overseas buyers.

To reduce the impact of these factors, the Group will continue to implement cost control measures and improve its production efficiency in order to achieve a better balance between its cost and sales and to maintain its gross profit margin.

In a way, the actual weak US market prompts a call for shorter delivery lead times and a more discriminate choice of suppliers who are financially stable, vertically integrated and flexible enough to adapt to their needs — in particular to short delivery times — and this matches the Group's strength which has been the main reason for the turnover recording only a slight drop of 2.7% in the first half of 2008 despite the gloomy overall US market performance.

Product and market diversification is another strategy the Group is adopting. This shift to include more business from other potential markets expected to balance out the Group's current reliance on the US market in the long run and new developments and business are already being achieved and expected to grow. This expansion also embraces a change in the products itself, moving from current quality products in silks, linens, synthetics, cottons to wool and wool blend products allowing the Group to complement its current strengths in spring, summer and autumn seasons, giving it a complete cycle for a year round production.

The Group expects that additional business opportunities in wool through its joint venture partnership with the Italian partners will propel it to success in the creation and assembly of winter products in demand for the global market — Italian creativity and quality fabrics coupled with cost effective but good Chinese labour — to bring with it additional business opportunities in the US, Europe, and Asia.

# Management Discussion and Analysis

## **Retail Business**

Through continuous efforts of the retail teams, satisfactory results in the fashion retail business were achieved in the first five months of this year mainly through an increase in its actual selling price. However, retail sales, in general, has slowed since then and is not expected to pick up very strongly for the rest of the year.

However, the Group intends to continue with its strategy of diversifying and stimulating collections in tandem with international designers, multiplying its sales points, and investing in marketing, advertising and promotion.

Taking into consideration the current market situation, the Group is focusing on acquiring leading local and international brands that can provide strategic and supporting value to the Group.

Various measures have been adopted to strengthen the fashion retail business with an overall objective to raise its contribution to the Group's revenue within the next few years: improving its workflow, increasing its sales points, providing bigger selections and quicker turnaround times for products in stores.

In terms of the capital market activities, the Group is actively working towards earmarking and procuring local and international brands that will propel its surge in retail growth through strategic partnerships, mergers and acquisitions on a global basis.

**INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 30 June 2008, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions), or were required, pursuant to section 352 of the SFO to be entered in the register required to be maintained, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

**(a) Beneficial interests in the Shares**

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of Shares (Notes)</b>	<b>Approximate percentage of interest in the Company</b>
Mr. TING Man Yi	Interest of controlled corporation	1,490,000,000 (Note 1)	70.86%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (Note 2)	70.86%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (Note 3)	70.86%
Dr. CHENG Chi Pang	Directly beneficially owned	200,000	0.010%



## Other Information

Notes:

1. Longerview Investments Limited ("**Longerview**") is owned as to 41.5% by Firmsuccess Limited ("**Firmsuccess**") which is wholly-owned by Mr. TING Man Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Man Yi. As such, under the SFO, Mr. TING Man Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
2. Longerview is owned as to 40.5% by In Holdings Limited ("**In Holdings**") which is wholly-owned by Mr. TING Hung Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Hung Yi. As such, under the SFO, Mr. TING Hung Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
3. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between Mr. TING Man Yi, Firmsuccess, Mr. TING Hung Yi, In Holdings, Mr. DING Jianer, Willport Investments Limited ("**Willport**") and Longerview (collectively the "**Controlling Shareholders**"), each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, under the SFO, Mr. DING Jianer is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

## Other Information

**(b) Beneficial interests in the shares of associated corporations**

<b>Name of Directors</b>	<b>Name of associated corporation</b>	<b>Nature of interest</b>	<b>Total number of ordinary shares</b>	<b>Approximate percentage of interest in the associated corporation</b>
Mr. TING Man Yi	Firmsuccess	Personal interest	1	100%
	Longerview	Corporate interest	415 (Note 1)	41.5%
Mr. TING Hung Yi	In Holdings	Personal interest	1	100%
	Longerview	Corporate interest	405 (Note2)	40.5%
Mr. DING Jianer	Willport	Personal interest	1	100%
	Longerview	Corporate interest	180 (Note 3)	18.0%

Notes:

1. The 415 shares in Longerview are held by Firmsuccess, which is wholly-owned by Mr. TING Man Yi.
2. The 405 shares in Longerview are held by In Holdings, which is wholly-owned by Mr. TING Hung Yi.
3. The 180 shares in Longerview are held by Willport, which is wholly-owned by Mr. DING Jianer.

## Other Information

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY**

So far as the Directors are aware, as at 30 June 2008, the persons, other than the Directors and chief executive of the Company, having interests or short positions in the Shares or underlying shares or debentures of the Company, which were required to be entered into the register kept by the Company pursuant to section 336 of the SFO, were as follows:

<b>Name of substantial Shareholders</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of interest in the Company</b>
Longerview	Beneficial owner	1,490,000,000	70.86%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (Note 1)	70.86%
In Holdings	Interest of controlled corporation	1,490,000,000 (Note 2)	70.86%
Willport	Interest of controlled corporation	1,490,000,000 (Note 3)	70.86%

Notes:

1. Longerview is owned as to 41.5% by Firmsuccess. As such, Longerview is a controlled corporation (within the meaning of the SFO) of Firmsuccess. Firmsuccess is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.
2. Longerview is owned as to 40.5% by In Holdings. As such, Longerview is a controlled corporation (within the meaning of the SFO) of In Holdings. In Holdings is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.
3. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between the Controlling Shareholders, each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Firmsuccess, In Holdings and Willport is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, Willport is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

## SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION DEED

### (a) Share Option Scheme

Pursuant to the written resolutions of the sole Shareholder passed on 18 November 2005, a share option scheme (the **“Share Option Scheme”**) was approved and adopted by the Company.

The purpose of the Share Option Scheme is to allow the Company to grant options to subscribe for Shares (the **“Options”**) to Participants (as defined below) as incentives or rewards for their contribution to the Group.

For the purpose of the Share Option Scheme, Participants include (i) employees of the Company (whether fulltime or part-time) or any of its subsidiaries; and (ii) Directors (whether executive Directors or non-executive Directors or independent non-executive Directors) or any director of its subsidiaries (together, the **“Participants”** and each a **“Participant”**).

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 199,000,000 Shares (the **“Scheme Mandate Limit”**), unless the Company obtains an approval from the Shareholders as set out below. Options lapsed shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may seek approval of the shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the **“Refreshed Limit”**) of the issued share capital of the Company as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit.

## Other Information

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 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. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of Shares in issue. Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the shareholders' approval in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee. Such period shall commence on the date on which an offer of the grant of an Option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the Board.

An amount of HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant. Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

## Other Information

The subscription price in respect of each Share issued under the Share Option Scheme will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "**Trading Day**"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant; and (iii) the nominal value of a Share.

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by the written resolutions of the sole Shareholder, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

As at the date of this report, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

### **(b) Pre-IPO Share Option Deed**

A share option deed was entered into between the Company and Ms. LI Yuet Mui, Xera ("**Ms. LI**"), a senior management staff of the Group, on 18 November 2005 (the "**Pre-IPO Share Option Deed**"), whereby the Company has granted Ms. LI an option to subscribe for certain number of Shares upon and subject to the terms and conditions set forth in the Pre-IPO Share Option Deed.

The purpose of the Pre-IPO Share Option Deed is to provide incentive and reward to Ms. LI for her contribution to the management and business growth of the Group.

## Other Information

The principal terms of the Pre-IPO Share Option Deed, as approved by the written resolutions of the sole Shareholder passed on 18 November 2005, are substantially the same as the terms of the Share Option Scheme except that:

- (i) the subscription price for each Share subject to the option granted under the Pre-IPO Share Option Deed shall be the par value of each Share;
- (ii) the period within which Ms. LI may exercise the option under the Pre-IPO Share Option Deed is eight years from the Listing Date. During the exercise period, Ms. LI can exercise the option in each year no more than one-eighth of the total number of the Option Shares (as defined below) granted, provided that Ms. LI cannot exercise any option granted under the Pre-IPO Share Option Deed during the period of six months immediately after the Listing Date;
- (iii) the total number of the Shares subject to the Pre-IPO Share Option Deed shall be up to 10,000,000 Shares (the “Option Shares”) upon full exercise of the option under the Pre-IPO Share Option Deed; and
- (iv) save for the option which has been granted, no further options will be granted under the Pre-IPO Share Option Deed.

Details of the share option outstanding as at 30 June 2008 were as follows:

	<b>Options held at 1 January 2008</b>	<b>Grant during the period</b>	<b>Options exercised during the period</b>	<b>Options lapsed during the period</b>	<b>Options held at 30 June 2008</b>
Ms. LI Yuet Mei, Xera	7,500,000	—	1,250,000	—	6,250,000

**PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

During the period under review, the Company repurchased a total of 9,654,000 (2007: Nil) ordinary shares of HK\$0.10 each of the Company on the Stock Exchange as follows:

Month	Number of shares	Price per share		Total paid HK\$
		Highest HK\$	Lowest HK\$	
January 2008	3,660,000	1.70	1.48	5,966,600
February 2008	1,450,000	1.31	1.27	1,876,000
June 2008	4,544,000	1.30	1.25	5,859,500
	9,654,000			13,702,100

The above repurchased shares have been cancelled. The premium paid on the shares of HK\$12,736,700 (2007: Nil) has been charged to the share premium. An amount equivalent to the par value of the Shares cancelled has been transferred from the share capital of the Company to the capital redemption reserve.

The repurchase of the Shares during the period was effected by the Directors, pursuant to the mandate from Shareholders, with a view to benefiting Shareholders as a whole by enhancing the net asset value per share and earnings per Share.

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2008.



## Other Information

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management and the independent auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial information. In addition, the Group's independent auditor has carried out a review of the unaudited interim results in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

### **THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board is committed to enhancing the corporate governance of the Group, and the Group reviews and updates all such necessary measures in order to promote good corporate governance.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period under review.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. In the opinion of the Board, the Company has complied with the Model Code and upon specific enquiry, no Director is aware of any non-compliance with the Model Code throughout the period under review.