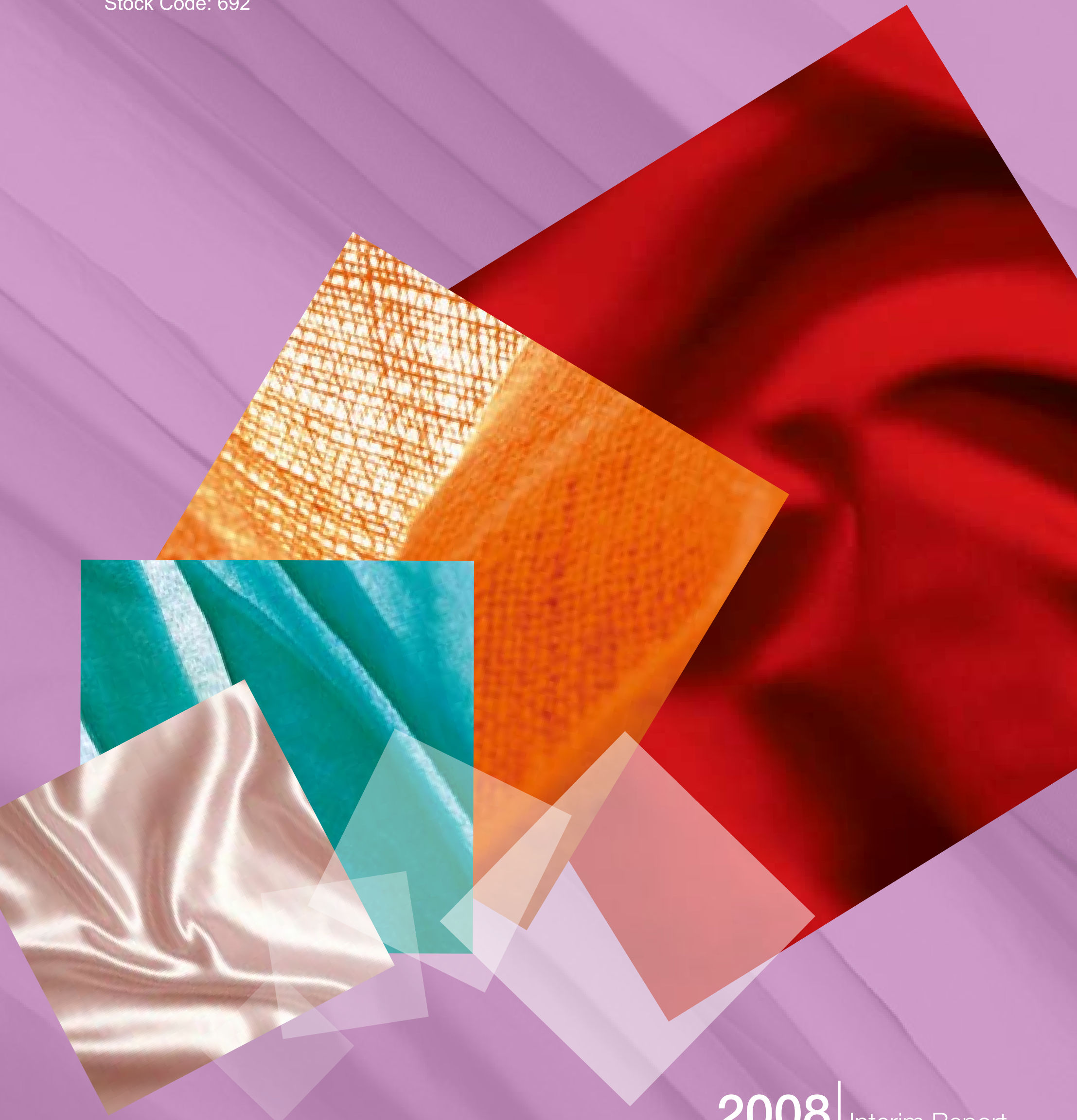
正興集團
CHING HING GROUP

CHING HING (HOLDINGS) LIMITED

Stock Code: 692



2008 Interim Report

Cachet Certified Public Accountants Limited
德揚會計師事務所有限公司

Report on Review of Interim Financial Statements

To the board of directors of Ching Hing (Holdings) Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial statements of Ching Hing (Holdings) Limited and its subsidiaries set out on pages 2 to 19, which comprise the condensed consolidated balance sheet as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The 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 statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKSA 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made 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, nothing has come to our attention that causes us to believe that these interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
24 September 2008

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**164,841**	191,120
Cost of sales		**(157,776)**	(168,036)
Gross profit		**7,065**	23,084
Other income		**952**	460
Distribution costs		**(9,160)**	(11,133)
Administrative expenses		**(11,051)**	(9,859)
Other operating expenses		**(12,422)**	(398)
Operating (loss)/profit	*4*	**(24,616)**	2,154
Finance costs		**(2,523)**	(2,331)
Loss before taxation		**(27,139)**	(177)
Taxation	*5*	**(2,134)**	(1,674)
Loss for the period		**(29,273)**	(1,851)
Attributable to:			
Equity holders of the Company		**(32,354)**	(4,292)
Minority interests		**3,081**	2,441
Loss for the period		**(29,273)**	(1,851)
Dividend	*6*	**—**	—
Loss per share			
— Basic	*7*	**8.42 cents**	1.34 cents
— Diluted	*7*	**N/A**	N/A

Condensed Consolidated Balance Sheet

As at 30 June 2008

	Notes	30 June 2008 HK$'000 (Unaudited)	31 December 2007 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**53,405**	54,218
Prepaid lease payments		**3,836**	3,653
Investment properties		**8,955**	8,469
Available-for-sale investments		**590**	590
Deposit paid		**—**	2,000
		66,786	68,930
Current assets			
Inventories		**8,379**	21,787
Trade receivables	*8*	**51,649**	47,365
Other receivables, prepayments and deposits		**2,072**	5,168
Prepaid lease payments		**108**	101
Bank deposits		**22,619**	37,694
Cash and bank balances		**16,447**	23,469
		101,274	135,584
Current liabilities			
Bank overdrafts, secured		**6,502**	3,171
Interest-bearing bank borrowings, secured		**24,916**	32,513
Trust receipt loans, secured		**10,128**	11,495
Trade payables	*9*	**43,143**	48,039
Other payables and accruals		**9,098**	9,008
VAT and other tax payable		**1,259**	1,259
Due to a shareholder		**6,213**	6,213
Finance lease payables	*10*	**419**	563
Taxation payable		**3,707**	2,704
		105,385	114,965
Net current (liabilities)/assets		**(4,111)**	20,619
Total assets less current liabilities		**62,675**	89,549
Non-current liabilities			
Finance lease payables	*10*	**811**	1,128
Net assets		**61,864**	88,421
Equity			
Equity attributable to shareholders of the Company			
Issued capital	*11*	**19,217**	19,217
Reserves		**36,785**	66,423
		56,002	85,640
Minority interests		**5,862**	2,781
Total equity		**61,864**	88,421

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Issued capital	Share premium	Property revaluation reserves	Statutory reserves	Employee share-based reserves	Capital reserves	Exchange reserves	Accumu-lated losses	Total	Minority interests	Total equity
	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 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**
At 1 January 2008	**19,217**	**71,148**	**18,952**	**7,611**	**192**	**52,694**	**8,759**	**(92,933)**	**85,640**	**2,781**	**88,421**
Exchange difference arising from translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	2,572	–	2,572	–	2,572
Equity settled share-based transactions	–	–	–	–	144	–	–	–	144	–	144
Loss for the period	–	–	–	–	–	–	–	(32,354)	(32,354)	3,081	(29,273)
At 30 June 2008	**19,217**	**71,148**	**18,952**	**7,611**	**336**	**52,694**	**11,331**	**(125,287)**	**56,002**	**5,862**	**61,864**

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (outflow)/inflow from operating activities	**(15,347)**	4,666
Net cash outflow in investing activities	**(3,709)**	(318)
Net cash outflow in financing activities	**(8,916)**	(2,748)
Net (decrease)/increase in cash and cash equivalents	**(27,972)**	1,600
Cash and cash equivalents at the beginning of the period	**29,084**	251
Effect of foreign exchange rate changes	**265**	185
Cash and cash equivalents at the end of the period	**1,377**	2,036
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**16,447**	16,907
Bank deposits excluding bank deposits pledged	**1,560**	1,867
Bank overdrafts, secured	**(6,502)**	(7,014)
Trust receipt loans repayable within three months	**(10,128)**	(9,724)
	1,377	2,036

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, sale of garments and other related accessories and provision of fabric processing services 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 statements of the Group for the six months ended 30 June 2008 (the "Unaudited Condensed Consolidated Interim Financial Statements") have been approved for issue by the Board of Directors on 24 September 2008.

2. **Basis of preparation and significant accounting policies**

The Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS'') 34 "Interim Financial Reporting'' issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Unaudited Condensed Consolidated Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2007 (the "2007 Annual Financial Statements") which were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

Going concern

Despite the fact that the Group had net current liabilities of HK$4,111,000 as at 30 June 2008, the Unaudited Condensed Consolidated Interim Financial Statements have been prepared on the basis that the Group will continue to operate as a going concern. Such going concern basis is based upon the presumption that the Group's substantial shareholders have indicated their willingness to continue with the guarantees given to the banks and that subsequent to period end, a related company of the Group has advanced HK$9,500,000 to the Group as working capital and the amount due to the related company is unsecured, interest-bearing at 6.5% per annum and repayable until the Group is in a position to do so.

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

Adoption of new/revised HKFRSs

The accounting policies and methods of computation used in the preparation of the Unaudited Condensed Consolidated Interim Financial Statements are consistent with those used in the 2007 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 2008:

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 adoption of the above new/revised HKFRSs in the current period did not have any significant effect on the Unaudited Condensed Consolidated Interim Financial Statements 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 after 1 January 2008 or later periods and may be relevant to the Group's operations as follows:

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 8	Operating segments [1]
HK(IFRIC)-Int 13	Customer loyalty programmes [2]
HK(IFRIC)-Int 15	Agreements for construction of Real Estate [1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation [4]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2008.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 October 2008.

The Group has not early adopted the above new standards, amendments and interpretations in the Unaudited Condensed Consolidated Interim Financial Statements 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, sale of garments and other related accessories and provision of fabric processing services.

Primary report format — business segments

The Group is organised into three main business segments:

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

Secondary report format — geographical segments

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

— Hong Kong	— fabric processing, sale of fabrics and sale of garments and accessories
— 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 2008			
	Sale of fabrics	**Sale of garments and accessories**	**Fabric processing**	**Consolidated**
	HK$'000 (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Revenue	**29,242**	**127,975**	**7,624**	**164,841**
Segment results	**(19,964)**	**13,406**	**(13,178)**	**(19,736)**
Unallocated costs				**(4,880)**
Operating loss				**(24,616)**
Finance costs				**(2,523)**
Loss before taxation				**(27,139)**
Taxation				**(2,134)**
Loss for the period				**(29,273)**

3. **Revenue and segment information** *(Continued)*

Primary report format — business segments *(Continued)*

	Six months ended 30 June 2007			
	Sale of fabrics	Sale of garments and accessories	Fabric processing	Consolidated
	HK$'000 (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Revenue	38,145	130,942	22,033	191,120
Segment results	(13)	9,833	(5,780)	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)

Secondary report format — geographical segments

	Six months ended 30 June 2008					
	Hong Kong	United States	The PRC	Others	Inter-segment elimination	Consolidated
	HK$'000 (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Revenue from external customers	30,540	119,887	5,715	8,699	—	164,841
Inter-segment revenue	—	—	16,232	—	(16,232)	—
	30,540	119,887	21,947	8,699	(16,232)	164,841
Segment results	(18,643)	11,225	(12,580)	262	—	(19,736)
Unallocated costs						(4,880)
Operating loss						(24,616)
Finance costs						(2,523)
Loss before taxation						(27,139)
Taxation						(2,134)
Loss for the period						(29,273)

3. **Revenue and segment information** *(Continued)*

Secondary report format — geographical segments *(Continued)*

Six months ended 30 June 2007

	Hong Kong	United States	The PRC	Others	Inter-segment elimination	Consolidated
	HK$'000 (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Revenue from external customers	33,801	127,770	22,293	7,256	—	191,120
Inter-segment revenue	—	—	47,120	—	(47,120)	—
	33,801	127,770	69,413	7,256	(47,120)	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)

4. **Operating (loss)/profit**

	Six months ended 30 June 2008	2007
	HK$'000 **(Unaudited)**	*HK$'000* (Unaudited)
Operating (loss)/profit is stated after crediting and charging the following:		
Crediting		
Interest income	**546**	448
Charging		
Depreciation on property, plant and equipment	**4,193**	4,035
Operating lease rentals in respect of land and buildings	**703**	483
Amortisation of prepaid lease payments	**52**	48
Impairment of trade receivables and other receivables	**2,434**	33
Impairment of deposit paid	**2,000**	—
Compensation to employees on termination of employment	**2,984**	—
Impairment of inventories	**4,059**	—
Staff costs (excluding compensation to employees on termination of employment)	**11,873**	11,942

5. Taxation

Hong Kong profit tax has been provided at the rate of 16.5% (2007: 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. The subsidiaries established and operated in Zhongshan City, Guangdong Province, the PRC, are subject to a preferential tax of 25% on their taxable income.

No deferred tax asset has been recognised in respect of tax losses due to the uncertainty of future profits.

6. Dividend

The board of directors does not recommend the payment of any dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

7. Loss per share attributable to equity holders of the Company

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company for the period of HK$32,354,000 (2007: HK$4,292,000) and on the weighted average number of 384,349,468 (2007: 320,349,468) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2008 has not been presented as the effect of any dilution is anti-dilutive.

8. Trade receivables

Details of the aging analysis of trade receivables, based on the invoice date, were as follows:

	At 30 June 2008	At 31 December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**31,230**	15,716
31-60 days	**9,295**	6,529
61-90 days	**5,405**	1,047
Over 90 days	**13,245**	30,032
	59,175	53,324
Less: Provision for impairment loss	**(7,526)**	(5,959)
	51,649	47,365

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.

The aged analysis of the trade receivables that are not considered to be impaired were as follows:

	At 30 June 2008	At 31 December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Neither past due nor impaired	**29,920**	16,188
Less than 1 month past due	**6,969**	14,427
1 to 3 months past due	**7,299**	8,767
Over 3 months past due	**7,461**	7,983
	51,649	47,365

8. Trade receivables *(Continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors have performed an assessment, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

9. Trade payables

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

	At 30 June 2008	At 31 December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**25,857**	19,002
31 — 60 days	**2,250**	13,271
61 — 90 days	**1,825**	2,170
Over 90 days	**13,211**	13,596
	43,143	48,039

10. Finance leases payables

	Minimum lease payments		Present value of minimum lease payments	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
	HK$'000 **(Unaudited)**	*HK$'000* (Audited)	***HK$'000*** **(Unaudited)**	*HK$'000* (Audited)
Amounts payable under finance leases:				
Within one year	**485**	658	**419**	563
In the second to fifth years inclusive	**968**	1,367	**811**	1,128
	1,453	2,025	**1,230**	1,691
Less: Future finance charges	**(223)**	(334)		
Present value of lease obligations	**1,230**	1,691		

It is the Group's policy to lease certain of its motor vehicles and office equipments under finance average lease. The average lease term is 2 years. All 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$0.05 each	
	Number of shares	*HK$'000*
At 30 June 2008 and 31 December 2007	5,000,000,000	250,000

	Issued and fully paid Ordinary shares of HK$0.05 each	
	Number of shares	*HK$'000*
At 30 June 2008 and 31 December 2007	384,349,468	19,217

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. At the Annual General Meeting held on 30 May 2008, an ordinary resolution was passed to approve the refreshment of the scheme mandate limit. At 30 June 2008, the total number of shares available for issue under the 2002 Share Option Scheme was 30,750,946 (31 December 2007: 16,634,950) shares, which represented approximately 8% 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 2008, a total of 23,084,000 (31 December 2007: 15,400,000) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant date	At 1 January 2008	Granted during the period	Lapsed during the period	At 30 June 2008	Exercise period	Exercise price per share	Share price on the grant date
							HK$	*HK$*
Executive Directors								
Mr. Yiu Ching On	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
	11.6.2008	—	3,842,000	—	3,842,000	11.6.2008-10.6.2018	0.50	0.50
Mr. Yiu Kwok Ming, Tommy	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
	11.6.2008	—	3,842,000	—	3,842,000	11.6.2008-10.6.2018	0.50	0.50
Mr. Leung Kwok Ip	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
Mr. Wong Wai Man	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
Sub-total		12,800,000	7,684,000	—	20,484,000			
Other eligible employees	26.9.2006	2,600,000	—	—	2,600,000	30.11.2007-25.9.2016	0.07	0.07
		15,400,000	7,684,000	—	23,084,000			

12. Share-based payment transactions *(Continued)*

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

Employee share option expenses related to the above grants of share option are charged to the consolidated income statement over the vesting period. Such expenses were determined by the Company based on the Black-Scholes valuation model with the following assumptions:

Date of grant	**11 June 2008**	**26 September 2006**
Value per option	HK$0.42	HK$0.04
Price per share at date of grant	HK$0.50	HK$0.07
Exercise price per share	HK$0.50	HK$0.07
Expected volatility	1.1971	0.7338
Annual risk-free interest rate	3.41%	3.69%
Expected life of options	5 years	10 years
Vesting period	4 years	4 years

13. Banking facilities

At 30 June 2008, the Group's credit facilities amounting to HK$148,046,000 (31 December 2007: HK$99,478,000) granted by banks and a credit company were secured by the following:

(a) legal charges over the Group's properties and prepaid lease payments;

(b) guarantees given by the Company and the minority shareholders of subsidiaries for HK$139,208,000 (31 December 2007: HK$139,208,000) and HK$74,992,000 (31 December 2007: HK$74,992,000) respectively;

(c) charges over bank deposits of the Group of HK$21,059,000 (31 December 2007: HK$17,413,000); and

(d) personal guarantees of HK$5,000,000 (31 December 2007: 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. Operating lease commitments

At 30 June 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	At 30 June 2008	At 31 December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**1,155**	1,251
In the second to fifth years inclusive	**512**	993
	1,667	2,244

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	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Rental paid to a related company *(note (i))*	**420**	420
Interest paid to a shareholder/a director *(note (ii))*	**183**	191

Notes:

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

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

17. Significant Post Balance Sheet Event

Subsequent to the period end and pursuant to a board resolution passed on 4 August 2008, the directors resolved to permanently terminate its business of provision of fabrics processing services. The Group's fabrics processing services are provided by the Group's dyeing factory situated in Zhongshan City, Guangdong Province (the "Zhongshan Factory"). Since the operation of the Zhongshan Factory will not be resumed in future, all plant and machineries in the factory will be sold when interested buyers, if any, have been identified. Also, the factory buildings together with the leasehold improvements will be leased out.

Results

In view of the continued surge in raw material prices, appreciation of Renminbi, increasing labour cost and increasing regulations in environmental protection in Guangdong Province, the PRC, the operating environment of textile industry remained challenging during the period under review. At the same time, the adverse impacts of the outbreak of sub-prime mortgage crisis in the United States in the second half of 2007 emerged. Under these unfavourable external factors, the Group recognized an unaudited net loss attributable to equity holders of HK$32.3 million for six months ended 30 June 2008, as compared with a net loss of HK$4.29 million in the same period last year.

During the period under review, the Group's unaudited revenue decreased by HK$26.3 million to HK$164.8 million. The decrease was mainly due to the significant drop in revenue contributed from the businesses in the PRC and the United States. Revenue generated in the PRC and the USA dropped by HK$16.6 million and HK$7.9 million, respectively. Since the Group's dyeing factory is situated in Guangdong Province, the Group's sale and marketing functions of fabric processing and trading usually concentrate their sales orders solicitation activities in Hong Kong and southern region of the PRC. However, most of the fabric processing and trading customers had already moved their sourcing bases to northern region of the PRC, such as Hubei and Zhejiang Provinces, to lower their production costs. Moreover, after the new PRC Labour Contract Law coming into effect on 1 January 2008 resulting in higher labour cost, the number of garment manufacturing factories operating in Guangdong Province had reduced dramatically. Therefore, total revenue generated by the Group in first half of 2008 dropped down drastically. Furthermore, our customers in the United States had deferred placing purchase orders to us until the second quarter of 2008 due to the US economic downturn which also adversely affected our revenue in the first half of 2008.

Results *(Continued)*

The Group operated a dyeing factory in the Guangdong Province during the period under review. Fixed manufacturing costs of the factory, such as cost on running coal-fire power plant and depreciation of the plant and machinery, accounted for over 30% of the total manufacturing costs. As a result of drop in the revenue and appreciation of costs of production, the Group incurred a gross loss from this operation. Therefore the Group's gross profit for the period reduced to HK$7 million and overall gross profit margin of the Group dropped to about 4.3% as compared with 12.08% in the same period last year.

As a result of the drop in revenue, the distribution costs proportionally decreased to HK$9.2 million. Administrative expenses increased by 12% during the first half of 2008 as compared with the same period last year. Such increase mainly arose from the administrative expenses of a new subsidiary, which engaged in trading of dyed fabrics and was formed in the second half of 2007. Other operating expenses are composed of an impairment provision for an investment of HK$2 million, impairment of inventories of HK$4 million and compensation to employees on termination of employment of HK$3 million during the period under review.

In late 2007, the Group signed a joint venture contract with an independent PRC party and decided to diversify to the railway catering services in the PRC. The Group originally intended to fund the business by the proceeds from the placing and subscription of shares of the Company in the first quarter of 2008. However, the high volatility of the capital market caused the placing and subscription unattainable. A mutual agreement was then signed with the PRC party that the group may contribute the required equity contribution in any time. At 30 June 2008, the Group had already contributed HK$2 million for the investment. In view of the recent slowdown of the capital market and the uncertain sources of funding in the near future, an impairment provision for an investment was made during the period under review.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

Business Review and Prospects

The Group is engaged in sale of fabrics, sale of garment and accessories and provision of fabric processing services during the period under review.

Sale of Fabrics

Revenue generated from sale of fabrics decreased by HK$8.9 million to HK29.2 million and the segment loss increased to HK$20 million. During the period under review, almost 73% of the dyed fabrics (in terms of revenue) were processed by the Group's dyeing factory. Generally speaking, the breakeven level of revenue in fabric trading (in case all fabrics are processed by the Group's dyeing factory) for six months is around HK$38 million. As a result of the reduction of production quantity of the dyeing factory, the appreciation of Renminbi and high inflationary pressure in the PRC, the Group's weighted average costs of production reached its record high. In order to maintain the profit margin, the Group had gradually outsourced its fabrics processing operation to fabrics suppliers located in northern region of the PRC which can offer fabrics with industrially recognized quality at lower prices. Nowadays, the Group has already established a close network of production bases in this region and will capitalize its sourcing edge in the second half of 2008.

Sale of Garments and Accessories

Although revenue from sale of garments and other related accessories decreased by HK$3 million, the segment result of sale of garments and accessories showed a satisfactory growth to HK$13.4 million.

The Groups normally sells garments to certain major retailers and department stores in the United States and accessories to the garment suppliers in southern Asia, such as Bangladesh. In each year, the Group experiences seasonal fluctuations in sale of garments and accessories with highest sales occurring in the first half of the year. Due to the outbreak of sub-prime mortgage crises, the customers became reluctant to place garment orders in the first quarter of 2008 and the revenue for that quarter decreased by HK$16.1 million. In the second quarter of 2008, the Group had actively solicited garment orders and successfully minimized such decrease. Furthermore, the Group strived to improve the profit margin by expanding its sales and marketing functions and continuing looking for production base with lower costs in southern Asia.

Business Review and Prospects *(Continued)*

Fabric Processing

Since the second half of 2007, the Group had started its strategy in reducing reliance on purely fabrics processing services provided by its own dyeing factory, maintaining a minimum production in its factory and reallocating its resources to another profitable business, such as garments trading. Therefore revenue generated from provision of fabric processing services decreased by HK14.4 million to HK7.6 million.

As under the adverse impact of continuing appreciation of Renminbi, spiral increase in costs of raw material, implementation of new PRC Labour Contract Law and stringent regulations on environmental protection in Guangdong Province, the Group expected that it was not possible to avoid further cash outlays from the Group if it continued the fabric processing business and maintained a manufacturing factory in Pearl River Region. Therefore the Group gradually downsized its own production and staff during the period under review with an aim of continuing the operations of the factory at a low cost base. Subsequent to the period end, after having carefully reviewed the profitability and prospect of the factory, the directors resolved to permanently terminate the fabric processing business and decided to sell all plant and machineries in the factory and lease out the factory buildings to interested buyers, if identified.

Liquidity and Financial Resources

At 30 June 2008, the Group had total assets of HK$168.1 million which were financed by total liabilities of HK$106.2 million and equity of HK$61.9 million. Accordingly, the Group's ratio of debts to total assets and debts to equity were increased to 63.2% (31 December 2007: 56.8%) and 171.7% (31 December 2007: 131%), respectively.

The Group financed its operation by internal cash resources and bank financing. At 30 June 2008, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$39 million (of which about HK$21 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$106.5 million, which we consider sufficient for normal daily operation and expansion.

Furthermore, subsequent to the period end, a related company of the Group advanced HK$9.5 million to the Group to improve the Group's financial position.

Going Concern

Despite the fact that the Group had net current liabilities of HK$4.1 million as at 30 June 2008, the Unaudited Condensed Consolidated Interim Financial Statements have been prepared on the basis that the Group will continue to operate as a going concern. Such going concern basis is based upon the presumption that the Group's substantial shareholders have indicated their willingness to continue with the guarantees given to the banks and that subsequent to the period end, a related company of the Group has advanced HK$9.5 million to the Group as working capital and the amount due to the related company is unsecured, interest-bearing and repayable until the Group is in a position to do so.

Directors' Interests in Securities

At 30 June 2008, 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:

	Number of shares held				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Ching On	4,752,000	32,618,000 *(note a)*	300,000 *(note b)*	117,618,055 *(note d and e)*	155,288,055
Mr. Yiu Kwok Ming, Tommy	2,100,000	2,610,637	49,857,142 *(note c)*	117,618,055 *(note d)*	172,185,834
Mr. Wong Wai Man	270,000	—	—	—	270,000

Directors' Interests in Securities *(Continued)*

Shares — long position *(Continued)*

The Company: *(Continued)*

Notes:

(a) Such shares are beneficially owned by his spouse, Ms. Wong Kai Chun.

(b) Such shares are beneficially owned by Gaport Limited, the entire issued share capital of which is owned, as to 50% by Mr. Yiu Ching On, 25% by Ms. Wong Kai Chun and 25% by Mr. Yiu Kwok Yung, the son of Mr. Yiu Ching On and the younger brother of Mr. Yiu Kwok Ming, Tommy.

(c) Such shares are beneficially owned, as to 19,857,142 shares by Cotton Row Limited and as to 30,000,000 shares by Happy Joy Limited. The entire issued share capital of each of Cotton Row Limited and Happy Joy Limited is beneficially owned by Mr. Yiu Kwok Ming, Tommy.

(d) Jarak Assets Limited holds the 117,618,055 shares. The entire issued share capital of Jarak Assets Limited is owned, as to 5.02% by Happy Joy Limited and as to 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust, 99.99% units in issue of which is owned by HSBC International Trustee Limited as the trustee of The Yiu's Family Trust, the beneficiaries (after the death of the last to die of Mr. Yiu Ching On and Ms. Wong Kai Chun) of which include, among others, Mr. Yiu Kwok Ming, Tommy, Mr. Yiu Kwok Yung and the issues of Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.

(e) Mr. Yiu Ching On is the founder of The Yiu's Family Trust, a discretionary trust.

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 *(note b)*	28,023,134 *(note c)*
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 *(note b)*	—

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, the Chairman of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

Directors' Interests in Securities *(Continued)*

Interest in underlying shares

The directors of the Company have been granted options under the Company's share option scheme, details of which are set out in note 12 to condensed consolidated interim financial statements.

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 2008, 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 2008
Jarak Assets Limited *(note a)*	117,618,055	30.6%
Determine Win Investments Limited *(note a)*	117,618,055	30.6%
HSBC International Trustee Limited *(note b)*	117,618,055	30.6%
HSBC Investment Bank Holdings B.V. *(note b)*	117,618,055	30.6%
HSBC Holdings B.V. *(note b)*	117,618,055	30.6%
HSBC Finance (Netherlands) *(note b)*	117,618,055	30.6%
HSBC Holdings plc *(note b)*	117,618,055	30.6%
Ms. Wong Kai Chun *(note c)*	32,618,000	8.5%
Happy Joy Limited *(note d)*	30,000,000	7.8%
Cotton Row Limited *(note d)*	19,857,142	5.2%

Substantial Shareholders *(Continued)*

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.

(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) Ms. Wong Kai Chun is the spouse of Mr. Yiu Chung On, the Chairman of the Company.

(d) The entire issued share capital of Cotton Row Limited and Happy Joy Limited are wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.

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 2008.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Chan Kin Wah, Billy, Mr. Cheung Cho Yiu and Mr. Liang Jin An. The Audit Committee had reviewed the condensed Unaudited Consolidated Interim Financial Statements for the six months ended 30 June 2008. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

Remuneration Committee

The Remuneration Committee 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

Independent Non-executive Directors

Mr. Cheung Cho Yiu
Mr. Chan Kin Wah, Billy
Mr. Liang Jin An