Addchance Holdings Limited

互益集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 3344)

2011

Interim Report


Major cotton agricultural bases
Major dyeing bases
Zhangjiagang Dyeing Mill
Susong Spinning Mill
Xinjiang Bole Addchance
The Yangtze River
Wuzhou Knitting Mill
Cenxi Knitting Mill
Luoding Composite Mill
Xijiang River
Hong Kong Headquarters
Thailand
Cambodia
Winner Knitting Factory Limited
River Rich Textile Limited

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. SUNG Chung Kwun *(Chairman)*
Mr. WONG Chiu Hong
Mr. SUNG Kim Ping
Ms. SUNG Kit Ching
Mr. IP Siu Lam

NON-EXECUTIVE DIRECTOR

Mr. LAU Gary Q.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Tsz Fu, Jacky
Mr. NG Man Kin
Professor CAI Xiu Ling

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. FUNG Ka Lai

MEMBERS OF AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

Mr. CHAN Tsz Fu, Jacky
Mr. NG Man Kin
Professor CAI Xiu Ling

AUTHORIZED REPRESENTATIVES

Mr. WONG Chiu Hong
Ms. FUNG Ka Lai

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PRINCIPAL BANKERS

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Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISOR AS TO HONG KONG LAWS

F. Zimmern & Co.

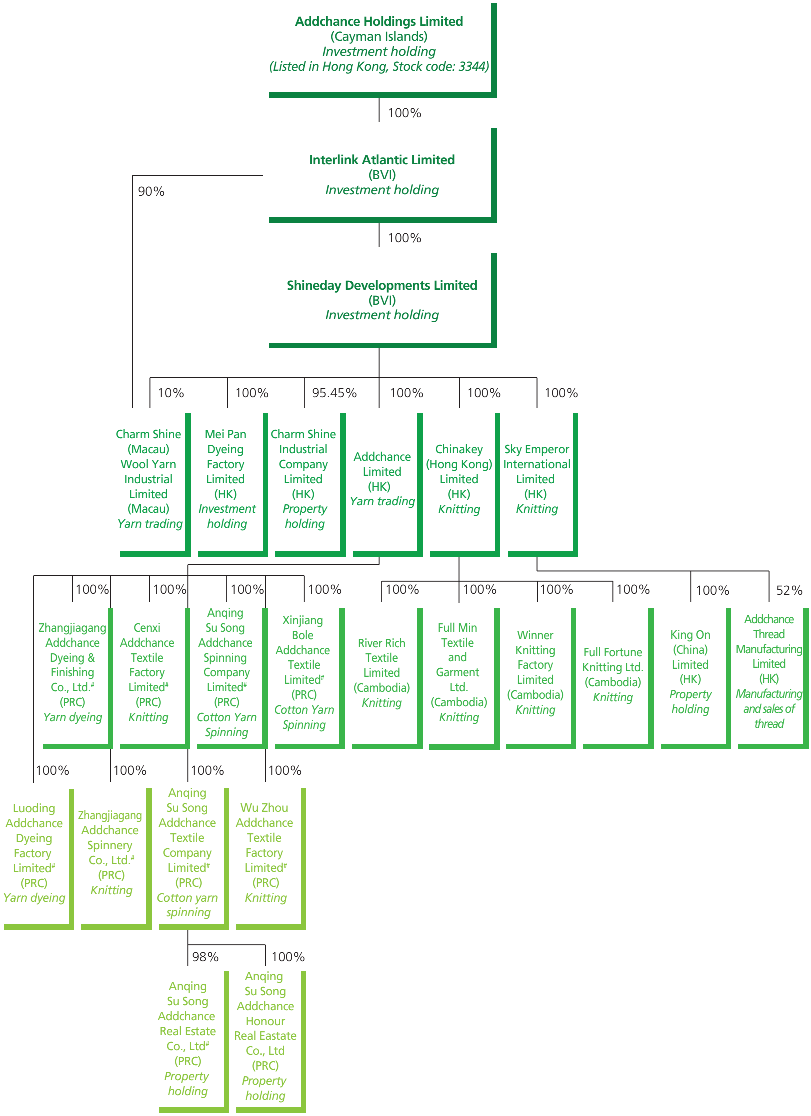
WEBSITE

www.addchance.com.hk
www.irasia.com/listco/hk/addchance/index.htm

STOCK CODE

3344

CORPORATE STRUCTURE AS AT 30TH JUNE, 2011



for identification purpose only

FINANCIAL HIGHLIGHTS

Key Financial Results

	Six months ended 30th June		
	2011 HK$'000	2010 HK$'000	Changes +/- %
Turnover	617,184	589,341	4.7%
Gross profit	143,588	148,500	-3.3%
Profit for the period	32,268	51,592	-37.5%
Profit attributable to:			
Owners of the Company	32,415	51,592	-37.2%
Non-controlling interests	(147)	–	N/A
Earnings per share (in HK cents)	7.35	12.49	-41.2%

Financial Ratios

	Six months ended 30th June	
	2011	2010
Profitability ratios:		
Gross margin	23.2%	25.2%
Net margin	5.2%	8.8%
Liquidity ratios:		
Current ratio (times)	1.21	1.24
Stock turnover (days) *(Note 1)*	297	268
Debtors' turnover (days) *(Note 2)*	111	95
Creditors' turnover (days) *(Note 3)*	127	95
Capital adequacy ratio		
Gearing ratio *(Note 4)*	43.9%	40.8%

Notes:

1. The number of stock turnover days is equal to inventory at the end of period divided by the cost of sales for the period and then multiplied by 181 days.

2. The number of debtors' turnover days is equal to trade and bills receivables at the end of period divided by the sales of the period and then multiplied by 181 days.

3. The number of creditors' turnover days is equal to trade and bills payable at the end of period divided by the cost of sales for the period and then multiplied by 181 days.

4. The gearing ratio is equal to total bank borrowings at the end of the period divided by total assets at the end of the period.

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF ADDCHANCE HOLDINGS LIMITED
互益集團有限公司

Introduction

We have reviewed the interim financial information set out on pages 6 to 22 which comprises the condensed consolidated statement of financial position of Addchance Holdings Limited (the "Company") and its subsidiaries as of 30th June, 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on 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 International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by International Accounting Standard Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. 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.

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 IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26th August, 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

		For the six months ended 30th June,	
	NOTES	2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Revenue	*3*	617,184	589,341
Cost of sales		(473,596)	(440,841)
Gross profit		143,588	148,500
Other income		11,812	10,048
Selling and distribution costs		(38,400)	(31,604)
Administrative expenses		(66,713)	(56,665)
Finance costs	*4*	(13,521)	(13,482)
Profit before tax		36,766	56,797
Income tax expense	*5*	(4,498)	(5,205)
Profit for the period	*6*	32,268	51,592
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations		876	(851)
Total comprehensive income for the period		33,144	50,741
Profit for the period attributable to:			
Owners of the Company		32,415	51,592
Non-controlling interests		(147)	–
		32,268	51,592
Total comprehensive income attributable to:			
Owners of the Company		33,291	50,741
Non-controlling interests		(147)	–
		33,144	50,741
Earnings per share, in HK cents			
Basic	*8*	7.35	12.49

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2011

	NOTES	30.6.2011 HK$'000 (unaudited)	31.12.2010 HK$'000 (audited)
NON-CURRENT ASSETS			
Investment properties		1,910	1,936
Property, plant and equipment	*9*	767,196	734,115
Prepaid lease payments		57,945	58,653
Deposit paid for acquisition of land use rights and property, plant and equipment		15,050	20,134
Club debentures		1,070	1,070
Deferred tax assets		159	159
		843,330	816,067
CURRENT ASSETS			
Prepaid lease payments		1,437	1,437
Inventories		778,154	540,473
Trade receivables, bills receivables and other receivables, deposits and prepayments	*10*	453,687	295,322
Amounts due from related companies		108	191
Bank balances and cash		79,256	99,115
		1,312,642	936,538
Assets classified as held for sale	*11*	25,434	27,158
		1,338,076	963,696
CURRENT LIABILITIES			
Trade and other payables	*12*	252,554	244,997
Bills payable	*12*	252,859	32,773
Amounts due to non-controlling interests		175	175
Bank borrowings – due within one year	*13*	563,085	490,878
Taxation payable		1,831	1,899
Dividend payable		13,238	–
Bank overdrafts		23,516	–
		1,107,258	770,722
NET CURRENT ASSETS		230,818	192,974
TOTAL ASSETS LESS CURRENT LIABILITIES		1,074,148	1,009,041

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2011

	NOTES	30.6.2011 HK$'000 (unaudited)	31.12.2010 HK$'000 (audited)
CAPITAL AND RESERVES			
Share capital	*14*	4,413	4,413
Reserves		927,717	907,664
Equity attributable to owners of the Company		932,130	912,077
Non-controlling interests		1,403	1,550
		933,533	913,627
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	*13*	117,670	74,535
Deferred tax liabilities		22,945	20,879
		140,615	95,414
		1,074,148	1,009,041

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 *(Note a)*	Special reserves HK$'000 *(Note b)*	Statutory reserves HK$'000 *(Note c)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2010 (audited)	4,000	89,406	140,043	24,673	12,459	93,589	421,158	785,328	1,391	786,719
Exchange differences arising on translation of foreign operations directly recognised in equity	–	–	–	–	–	(851)	–	(851)	–	(851)
Profit for the period	–	–	–	–	–	–	51,592	51,592	–	51,592
Total comprehensive income for the period	–	–	–	–	–	(851)	51,592	50,741	–	50,741
Transfer to statutory reserves	–	–	–	–	55	–	(55)	–	–	–
Issue of shares	413	47,025	–	–	–	–	–	47,438	–	47,438
Transaction costs attributable to issue of shares	–	(2,377)	–	–	–	–	–	(2,377)	–	(2,377)
Dividend recognised as distribution *(note 7)*	–	–	(8,825)	–	–	–	–	(8,825)	–	(8,825)
At 30th June, 2010 (unaudited)	4,413	134,054	131,218	24,673	12,514	92,738	472,695	872,305	1,391	873,696
Exchange differences arising on translation of foreign operations directly recognised in equity	–	–	–	–	–	20,092	–	20,092	–	20,092
Profit for the period	–	–	–	–	–	–	19,680	19,680	159	19,839
Total comprehensive income for the period	–	–	–	–	–	20,092	19,680	39,772	159	39,931
At 31st December, 2010 (audited)	4,413	134,054	131,218	24,673	12,514	112,830	492,375	912,077	1,550	913,627
Exchange differences arising on translation of foreign operations directly recognised in equity	–	–	–	–	–	876	–	876	–	876
Profit for the period	–	–	–	–	–	–	32,415	32,415	(147)	32,268
Total comprehensive income for the period	–	–	–	–	–	876	32,415	33,291	(147)	33,144
Dividend recognised as distribution *(note 7)*	–	–	(13,238)	–	–	–	–	(13,238)	–	(13,238)
At 30th June, 2011 (unaudited)	4,413	134,054	117,980	24,673	12,514	113,706	524,790	932,130	1,403	933,533

Notes:

(a) The contributed surplus of the Company represents (i) the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Altantic Limited (being the holding company of companies comprising the group before group reorganisation carried out in 2005), over the nominal value of the share capital of the Company issued in exchange thereof pursuant to the group reorganisation; and (ii) less dividend paid.

(b) Special reserves of the Group represent (i) the difference between the nominal value of share capital issued by Interlink Atlantic Limited, the Company's subsidiary, and the nominal value of the share capital of subsidiaries acquired by Interlink Atlantic Limited on 23rd September, 2005; and (ii) the contribution from non-controlling interests of net assets value shared by them to Dr. Sung Chung Kwun, the shareholder of Interlink Atlantic Limited.

(c) The Group's statutory reserves represent reserves required to be appropriated from profit after taxation of the Company's subsidiaries established in The People's Republic of China ("PRC") and Macau under PRC or Macau laws and regulations for the purpose of staff welfare. In accordance with relevant PRC and Macau Company Laws and Regulations, the PRC and Macau companies are required to transfer 10% to 25% of their profit after taxation recomputed in their statutory financial statements presented under relevant accounting principles and financial regulations applicable to the enterprises established in the PRC/Macau to the statutory surplus reserves.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

	For the six months ended 30th June,	
	2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Net cash used in operating activities	(78,203)	(12,089)
Net cash used in investing activities:		
Purchase of property, plant and equipment	(90,553)	(45,137)
Deposit received for disposal of a subsidiary	18,837	15,342
Deposit paid for acquisition of land use rights and property, plant and equipment	5,084	–
Other investing cash flows	48	26
	(66,584)	(29,769)
Net cash generated by financing activities:		
New bank loans raised	499,608	554,956
Repayment of bank borrowings	(384,266)	(542,880)
Interest paid	(13,521)	(13,482)
Proceeds from issue of shares	–	47,438
Expenses on issue of shares	–	(2,377)
Repayment of obligations under finance leases	–	(4,335)
Dividend paid	–	(8,825)
	101,821	30,495
Net decrease in cash and cash equivalents	(42,966)	(11,363)
Cash and cash equivalents at 1st January	99,115	67,777
Cash and cash equivalents at 30th June	56,149	56,414
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	79,256	65,189
Bank balances and cash included in assets classified as held for sale	409	14
Bank overdrafts	(23,516)	(8,789)
	56,149	56,414

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2011 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB"):

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31st December, 2010 were authorised for issuance and are not yet effective:

IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosures of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] *Effective for annual periods beginning on or after 1st January, 2013*
[2] *Effective for annual periods beginning on or after 1st July, 2012*

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

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30th June, 2011

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE								
External sales	57,537	273,603	253,935	14,392	17,717	617,184	–	617,184
Inter-segment sales	97,279	228,790	392,333	7,384	93,013	818,799	(818,799)	–
	154,816	502,393	646,268	21,776	110,730	1,435,983	(818,799)	617,184
SEGMENT PROFIT	2,270	32,107	24,791	2,139	2,335	63,642	–	63,642
Unallocated income								640
Unallocated expenses								(13,995)
Finance costs								(13,521)
Group's profit before tax								36,766

3. SEGMENT INFORMATION *(Continued)*

Six months ended 30th June, 2010

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE								
External sales	93,071	167,736	295,280	18,094	15,160	589,341	–	589,341
Inter-segment sales	67,686	162,250	292,709	12,442	64,980	600,067	(600,067)	–
	160,757	329,986	587,989	30,536	80,140	1,189,408	(600,067)	589,341
SEGMENT PROFIT	16,388	13,064	53,679	2,115	2,456	87,702	–	87,702
Unallocated income								223
Unallocated expenses								(17,646)
Finance costs								(13,482)
Group's profit before tax								56,797

Segment profit represents profit before tax of each segment without allocation of central administrative costs, directors' emoluments, interest income, rental income and finance cost.

3. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's assets by reportable and operating segments:

	30.6.2011 HK$'000	31.12.2010 HK$'000
Production and sale of cotton yarn	483,374	415,410
Production and sale of knitted sweaters	929,216	731,924
Production and sale of dyed yarns	527,585	420,874
Provision of dyeing services	47,645	36,941
Trading of cotton and yarns	85,757	45,176
	2,073,577	1,650,325

4. FINANCE COSTS

	For the six months ended 30th June, 2011 HK$'000	2010 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	13,521	13,464
Finance leases	–	18
	13,521	13,482

5. INCOME TAX EXPENSE

	For the six months ended 30th June,	
	2011 HK$'000	2010 HK$'000
The charge comprises:		
Hong Kong Profits Tax – current year	2,199	2,269
PRC Enterprise Income Tax – current year	233	123
Deferred taxation:		
– Current year	2,066	2,813
	4,498	5,205

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from the PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). The Tax Holiday of these PRC subsidiaries will expire in 2011 to 2012. The Tax Holiday continues to be applicable for the PRC subsidiaries after the EIT Law has been implemented.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	For the six months ended 30th June,	
	2011	2010
	HK$'000	HK$'000
Depreciation of investment properties	26	26
Depreciation of property, plant and equipment	48,085	39,433
Amortisation of prepaid lease payments	708	687
Interest income	(48)	(37)
Net exchange gain	(2,063)	(2,419)

7. DIVIDEND

During the current interim period, a final dividend of HK3.0 cents per share in respect of the year ended 31st December, 2010 (six months ended 30th June, 2010: HK2.0 cents per share in respect of the year ended 31st December, 2009) was declared and subsequently paid to the owners of the Company in July 2011.

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2011.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to owners of the Company of approximately HK$32,415,000 (six months ended 30th June, 2010: HK$51,592,000) and on the weighted average number of shares in issue of 441,250,000 (six months ended 30th June, 2010: 413,218,000).

No diluted earnings per share is presented as the Company had no potential ordinary shares outstanding during both periods.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred capital expenditure of approximately HK$90,553,000 (six months ended 30th June, 2010: HK$45,137,000).

Deprecation on property, plant and equipment amounting to HK$48,085,000 (six months ended 30th June, 2010: HK$39,433,000) was also provided for in the condensed consolidated statement of comprehensive income during the period.

10. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group generally allows credit periods of 30 days to 120 days to its trade customers.

At 30th June, 2011, included in trade receivables, bills receivable and other receivables, deposits and prepayments are trade receivables of HK$374,258,000 and bills receivables of HK$3,864,000 (31st December, 2010: trade receivables of HK$230,100,000 and bills receivables of HK$22,252,000) respectively and their aged analysis, net of allowance for doubtful debts presented based on the invoice date, at the end of reporting period is as follows:

	30.6.2011 HK$'000	31.12.2010 HK$'000
Aged:		
0 – 30 days	260,790	149,783
31 – 60 days	71,217	53,412
61 – 90 days	20,931	14,605
91 – 120 days	8,625	5,029
Over 120 days	16,559	29,523
	378,122	252,352
Other receivables, deposits and prepayments	75,565	42,970
	453,687	295,322

11. ASSETS CLASSIFIED AS HELD FOR SALE

On 27th April, 2010, the Group entered into a conditional sale and purchase agreement with an independent third party, to dispose of a subsidiary for a consideration of approximately HK$71,500,000 (equivalent to RMB61,500,000). As at 30th June, 2011, the Group has received a deposit of approximately HK$53,372,000 (equivalent to RMB45,900,000) for the disposal, which are included in other payables *(note 12)*. The disposal are expected to be completed on or before 11th October, 2011 according to the terms of the conditional sale and purchase agreement. The assets of the subsidiary have been presented separately in the condensed consolidated statement of financial position as assets classified as held for sale. The major classes of these assets are as follows:

	30.6.2011 HK$'000	31.12.2010 HK$'000
Prepaid lease payment	25,025	25,025
Bank balances and cash	409	2,133
Total assets classified as held for sale	25,434	27,158

12. TRADE AND OTHER PAYABLES/BILLS PAYABLE

At 30th June, 2011, included in trade and other payables are trade payables of HK$80,463,000 (31st December, 2010: HK$41,128,000) and their aged analysis, presented based on the invoice date, at the end of reporting period is as follows:

	30.6.2011 HK$'000	31.12.2010 HK$'000
Aged:		
0 – 60 days	55,079	24,960
61 – 90 days	10,780	4,680
Over 90 days	14,604	11,488
	80,463	41,128
Other payables and accruals	172,091	203,869
	252,554	244,997

At 30th June, 2011, bills payable are aged within 0 – 90 days (31st December, 2010: 0 – 120 days).

13. BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately HK$499,608,000 (six months ended 30th June, 2010: HK$554,956,000) as additional working capital and made repayment of approximately HK$384,266,000 (six months ended 30th June, 2010: HK$542,880,000). The new loans comprise amounts of approximately HK$63,372,000 bearing fixed interest rates which ranged from 4.5% to 7.4% per annum and the remaining amounts bearing variable interest rates which ranged from 2.2% to 5.5% per annum. The new loans are repayable by instalments over a period of one to four years.

14. SHARE CAPITAL

There was no movement in share capital during the six months ended 30th June, 2011.

On 4th May, 2010, the Company through a placing agent, issued 41,250,000 ordinary shares of HK$0.01 each at HK$1.15 per share. All new shares rank pari passu with the then existing shares in all respects.

15. COMMITMENTS

As at 30th June, 2011, the Group had commitments of approximately HK$4,746,000 (31st December, 2010: HK$67,614,000) for capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment.

16. PLEDGE OF ASSETS

At the end of reporting period, the Group pledged the following assets to banks for the credit facilities granted to the Group:

	30.6.2011 HK$'000	31.12.2010 HK$'000
Prepaid lease payments	5,492	10,252
Property, plant and equipment	12,905	30,502
	18,397	40,754

17. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and key executives of the Group is determined by the remuneration committee, having regard to the performance of individuals and market trends, amounted to HK$3,090,000 (six months ended 30th June, 2010: HK$3,557,000).

BUSINESS REVIEW

We are pleased to report the results of the Group for the six months ended 30th June, 2011. The Group's consolidated revenue increased by approximately 4.7% to HK$617.2 million. Profit attributable to equity shareholders derived from the core business of the Group was approximately HK$32.4 million, with net profit margin of approximately 5.2%.

Despite the recovering international market, the operation environment of the entire textile industry was still full of challenges with the fluctuating raw material prices and the continuous appreciation of RMB. Cotton prices achieved a record high in the first quarter of 2011, though it started to drop gradually thereafter. The fluctuation in cotton prices and other related raw material costs pose a change on our sales and inventory management strategies. Other direct manufacturing costs such as energy and wages also increased due to the global inflation. The upsurge of those costs has resulted in the Group not being able to maintain our gross profit margin at the same level as that of the comparable period.

However, as a one-stop service provider, the Group was still able to stabilize our supply chain and strengthen our control on raw material costs. Leveraging on our competitive edges, the Group still managed to strengthen its core competences and achieved growths in revenue and sales volume. Our efforts enabled the Group to continuously achieve satisfactory performance in terms of revenue and net profits during the period under review. With the successive record highs in the cotton prices during the period under review, the Group deliberately decreased its cotton inventory and the profit margin has been slightly affected comparing with that during the same period last year.

In view of the upsurge of the raw material cost, we continuously adopted a new series of strategies to maintain our profit margin without being affected by any sudden increase in cotton prices. The Group requested full deposits on cotton or yarn purchases in advance upon accepting new customers' orders. Such deposits received in advance can lock-in the cotton costs, neutralize the rising cost and maintain our profit margins at a stable level.

PROSPECTS

Cotton prices are expected to be volatile in the second half of 2011. Therefore, the Group will continue to adopt series of strategies to maintain the profit margin and will procure our raw materials in a timely and flexible manner according to the market conditions. The Group will proactively procure low-price cotton at each cycle to combat fluctuating raw material prices and to maintain the inventory at an optimal level for continued order flow and production. Our existing spinning arm in SuSong and Xinjiang do allow the Group to further sustain our cost advantages by providing stable supply chain at a lower cost.

Sweater business remained the most profitable business and therefore the Group will continue to increase its production capacity to cope with the recovering demand from overseas countries. Computerized knitting machines will be set up in our knitting manufacturing arms and will commence operation in the second half of 2011. Furthermore, an environmental friendly factory will be constructed in different phases in Cambodia to increase our production capacity of knitted sweaters and strengthen our competitive advantages towards those European manufacturers. We expected that this green factory will enable the Group to further expand our customer base. Also, the dominant contribution from the domestic market bode well the Group to increase our domestic sales in the PRC. Sales made to PRC markets are expected to increase further thereafter.

Looking ahead, the Group will continuously be benefited by the economic growth momentum of the PRC and the recovery of the global economy. The prevailing tough operating environment will continue to exert pressures on industry players and will result in further industry consolidation. The Group will continue to enhance its competitive edges to grasp the opportunities arising from this challenge and strive to implement further stringent cost control measures and streamline existing operations and structures to further enhance operational efficiency and profit margin.

FINANCIAL REVIEW

Turnover

The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarn, the provision of dyeing services and knitting services, and the trading of cotton and yarns. Its major products include dyed yarns made of over 200 different types of cotton, cashmere, ramie, rayon, acrylic, polyester, silk, wool, nylon, linen and a mixture of the above, and knitted sweaters including cardigans and pullovers. Further, the Group also started to expand our product variety to hosiery products.

Comparing with the same period last year, the Group recorded around 4.7% growth in turnover during the period under review. The revenue increased slightly from approximately HK$589.3 million to approximately HK$617.2 million. Production and sales of knitted sweaters and dyed yarn remained as the principal operation of the Group and the revenue generated from the production and sales of cotton yarns is expected to increase gradually.

Turnover of the sweater business substantially increased by approximately 63.1%, from approximately HK$167.7 million in the corresponding period last year to approximately HK$273.6 million during the period under review, representing approximately 44.3% of the Group's total turnover. With the challenging operating environment of the fluctuating raw material costs, our existing vertically integrated infrastructure was enhanced our competitive advantage. Our sweater business is being benefited by our upstream spinning arm by utilizing the raw materials at a controllable and stable costs and in turn improving our profit margins. Revenue generated from sweater business increased in terms of both sales volumes and selling price at the same time. Orders with high profit margins received by the Group increased during the year under review and the orders received from existing customers generally increased yearly. Average selling price per piece increased by around 22.0% comparing with that of the corresponding period last year while the output quantity of knitted sweaters increased by around 21.9% and surged to 5.0 million pieces. Our sweater products were still mainly exported to Europe and the Group continues to expand our customer base to have a less reliance on the existing customers. As a percentage of the revenue of sweater business, the sales made to our largest customer decreased from 28.1% to approximately 22.7% during the period under review as planned. Further, we have built up relationship with new customers during the period under review and the PRC domestic sales also increased upon the signing of strategic agreements with certain PRC customers. We are able to keep a balance between the PRC domestic sales and export sales in order to hedge against the continuous appreciation of RMB. Besides, textile products imported from Cambodia are subject to tax-free beneficial treatment for those European customers and again strengthen the bargaining power of the Group. We believe that the order rescheduling and the efficient production planning will result in the continued increase in the profit margins in the second half of 2011.

Dyed yarn remains the core product of the Group. Turnover generated from the production and sales of dyed yarns for the period under review was approximately HK$253.9 million, which represented a decrease of approximately 14.0% as compared with that in the previous year and accounted for approximately 41.1% of the Group's total turnover. With the adoption of our new sales strategies towards this increasing raw materials costs, the Group focused on those orders with high profit margins and full deposits were required to be made on the raw materials at the same time. Therefore, this adjustment in the sales strategy made the average selling price per pound of dyed yarns increased by approximately 59.6% whereas the sales volume drop by around 46.1% due to change in the product mix. With our competitive advantage of our self-owned upstream manufacturing facilities, the Group can secure a stable supply of yarn products at lower costs for the production of dyed yarns despite the increasing cotton costs during the period under review and profit margin derived from dyed yarns segment increased. We continued to exercise tight cost controls and efficient order scheduling and production planning to streamline our existing operations and improve our profit margin.

In line with the consistent sales strategy, revenue generated from the provision of dyeing services also decreased from approximately HK$18.1 million during the corresponding period last year to approximately HK$14.4 million during the period under review, representing a decrease of approximately 20.5% from that of last year. Most of the Group's dyed yarn was sold to the PRC and Hong Kong manufacturers with production bases in Guangdong, Jiangsu and Zhejiang. Sales proceeds generated from the PRC, Hong Kong and Macau accounted for approximately 95.0% of the Group's total sales proceeds generated from dyed yarns. The remainder of the sales proceeds was derived from exports to overseas countries including Thailand, Taiwan, and Indonesia.

Production and sales of cotton yarns is another core segment of the Group following series of expansion of our spinning facilities in Xinjiang and Anqing. Revenue generated from cotton yarns decreased from approximately HK$93.1 million to approximately HK$57.5 million, representing a decrease of approximately 38.2%. During the period under review, the cotton prices recorded high in the first quarter of 2011 and started to drop in the second quarter of 2011. Therefore, the proportion of external and internal usage of cotton yarns was adjusted to minimize the sales of finished cotton yarns with low profit margin. With the decrease in the cotton yarns prices in the second quarter of 2011, more cotton yarns products were consumed internally by the Group's downstream operation and lesser cotton yarns products were sold to customers in order to sustain the profit margin. Therefore, the external utilization rate of the cotton yarns decreased from approximately 57.9% during the corresponding period last year to approximately 37.2% during the period under review. As a result, the average selling price per ton increased by approximately 46.4% while the sales volume made decreased by approximately 57.8% comparing with that of the corresponding period last year. Cotton prices started to recover after the period under review and we expected more external sales with satisfactory profit margin can be made in the second half of 2011.

TURNOVER BY operation
(Amount HK$'000)

	Six months ended 30th June		Changes
	2011	2010	+/-%
Production and sale of dyed yarns	253,935	295,280	-14%
Production and sale of knitted sweaters	273,603	167,736	+63%
Production and sale of cotton yarn	57,537	93,071	-38%
Provision of dyeing and knitting services	14,392	18,094	-20%
Trading of cotton and yarns	17,717	15,160	+17%
	617,184	589,341	+5%

TURNOVER BY operation
(in % of total)

	Six months ended 30th June	
	2011	2010
Production and sale of dyed yarns	41.2%	50.1%
Production and sale of knitted sweaters	44.3%	28.5%
Production and sale of cotton yarn	9.3%	15.8%
Provision of dyeing and knitting services	2.3%	3.0%
Trading of cotton and yarns	2.9%	2.6%

Cost of Sales

Despite the increase in sales of approximately 4.7%, the cost of sales increased further by approximately 7.4%, from HK$440.8 million to approximately HK$473.6 million for the period under review. Cost of sales increased by a greater extent was mainly due to the escalating prices of cotton and other cotton-related raw materials. Raw materials remained a major factor of the Group's cost of sales, standing at around 44.1% for the period under review with cotton and yarn making up 50% each respectively. With the increase in the minimum wages in the PRC, direct labour costs increased by around 1.6 percentage points whereas the electricity charges and depreciation decreased, comparing with the same period last year.

Gross profit and gross profit margin

The Group recorded approximately HK$143.6 million in gross profit for the period under review, representing a slight decrease of approximately 3.3% as compared with approximately HK$148.5 million during the corresponding period last year. Gross profit margin was kept at about 23.3%. During the period under review, the price of cotton and cotton-related products repeatedly broke new record highs. Although customers have generally accepted increases in selling price of yarns products, the increases can only compensate part of the increase in costs of sales. It was generally insufficient to maintain the gross profit margin with the upsurge in the price of yarns as well as inflation in other operation costs. However, with our improvement in the operational efficiency, factory utilization rate as well as other cost control measures, the Group still managed to keep the gross profit margin at a stable level. The Group was able to pass part of the cost to end-customers by raising the selling prices of various products. Therefore, the average selling prices in each segment increased significantly, including approximately 59.6% increase in the price of dyed yarns, approximately 22.0% increase in the price of knitted sweaters and approximately 46.4% increase in the price of cotton yarns. The Group will continuously maintain a healthy inventory level by proactively purchasing cotton at different cycles to stabilize our raw material costs.

Net profit margin

Net profit margin was maintained at approximately 5.2% for the period under review. The Group will continuously overcome the challenges by sharpening its competitive edges.

Other revenue

Other revenue of approximately HK$11.8 million mainly comprised the income derived from the disposal of scrapped materials, exchange gains and interest income.

Selling and distribution costs

Selling and distribution costs mainly included transportation cost, accessories and packing expenses. For the period under review, the Group's selling and distribution costs amounted to approximately HK$38.4 million, representing approximately 6.2% of the Group's turnover.

Administrative expenses

Administrative expenses of approximately HK$66.7 million mainly consisted of staff cost, which covered employees' salary and welfare, directors' remuneration, bank charges and depreciation. It represented approximately 10.8% of the Group's turnover.

Finance costs

Finance costs mainly comprised interests on bank borrowings and obligations under finance leases which remained at approximately HK$13.5 million, which was at the same level as that of the corresponding period last year. It represented approximately 2.2% of the Group's turnover.

Borrowings

As at 30th June, 2011, the Group had outstanding bank borrowings of approximately HK$957.2 million, of which approximately HK$839.5 million and HK$117.7 million were due within one year and within 2 to 5 years respectively. Bank loans apparently increased by approximately HK$171.7 million, from approximately HK$785.5 million as at 30th June, 2010 to approximately HK$957.1 million as at 30th June, 2011. The increase was mainly attributable to the substantial increase in trade loans that involved most of the sweater products were delivered just after 30th June, 2010. No material fluctuation is noted in the term loan amount with the absence of large-scale investment projects. Therefore, the net gearing ratio, which represents bank borrowings net of bank balances and cash divided by net assets, increased from 0.82 as at 30th June, 2010 to 0.92 as at 30th June, 2011.

The Group will focus on reducing the net gearing ratio continuously to a more sustainable level in the coming years by improving profitability, procuring the disposal of non-core properties as well as implementation of tighter control over costs, working capital and capital expenditure.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June, 2011, the Group's cash and cash equivalents amounted to approximately HK$56.1 million, maintaining at a stable level as that of the corresponding period last year. Total assets amounted to approximately HK$2,181.4 million, representing an increase of approximately HK$256.0 million comparing with approximately HK$1,925.4 million as at 30th June, 2010.

With the increase in the procurement of the raw materials during the period under review, net cash outflow in operating activities increased to approximately HK$78.2 million for the six months ended 30th June, 2011. Net cash used in investing activities increased to HK$66.6 million, together with the increase in net cash generated from bank loans raised, the cash and cash equivalents remained at around HK$56.1 million.

The Group mainly met its funding requirements in its usual course of operation by cash flows generated from operations, as well as long-term and short-term borrowings. The Group will focus on reducing the net gearing ratio continuously by improving profitability, procuring the disposal of non-core properties as well as the implementation of tighter control over costs, working capital and capital expenditure.

The sales and purchases of the Group were evenly denominated in Hong Kong dollar, US dollar and Renminbi respectively. Part of the effect of the appreciation of the Renminbi against the US dollar was hedged through our PRC operations while another part of that effect was mitigated through appropriate hedging arrangements. Fluctuations in foreign currencies such as the US dollar and the Renminbi remained a concern of the Group. To mitigate foreign currency risk, the Group will enter into appropriate hedging arrangements from time to time.

Stock turnover days

Stock turnover days of the Group for the six months ended 30th June, 2011 was approximately 297 days, which increased by around 29 days as compared with 268 days for the corresponding period last year. Inventory level was deliberately increased in light of the fluctuating cotton cost in the market so as to keep the stable supply of the cotton and yarns for production. We procure the cotton at a lower cost and cotton yarns were accumulated at period end to keep stable supply. Seasonality also affects the inventory level in each interim period as the peak delivery time for sweaters is in the 3rd quarter every year. Therefore, the number of stock turnover days in interim period was apparently higher than that at year end. Subsequently, the inventory balance started to decrease with the delivery of those bulk orders. The Group will continuously monitor the inventory level to a secure level throughout the year.

Debtors' turnover days

The debtors' turnover days was lengthened by 16 days from 95 days during the corresponding period last year to 111 days during the six months ended 30th June, 2011. During the period under review, large amount of sales were made shortly before period end and therefore affected the debtors' turnover days.

Credit control on debt collection and new customers selection procedures are still being implemented in a stringent manner continuously. Generally, the Group offers credit terms of 30 days to 120 days to its trade customers subject to the trading history and the individual creditability of the customers.

Dividend Policy

The declaration of dividends is subject to the discretion of the Directors and is expected to take into account various factors such as the Group's financial results, shareholders' interests, general business conditions and strategies, the Group's capital requirements, contractual restrictions on the payment of dividends by the Company to its shareholders or by the Group's subsidiaries to the Company, taxation considerations, possible effects on the Group's creditworthiness, statutory and regulatory restrictions and any other factors as the Directors may deem relevant. Taking into account the cash required for the Group's operation in the second half of 2011, the Board of Directors of the Company does not recommend the payment of interim dividend for the six months ended 30th June, 2011.

DISCLOSURE OF INTERESTS

Interests of Directors in the shares, underlying shares and debenture

As at 30th June, 2011, the interests of the Directors in the share, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in 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:

(i) Long position in ordinary shares of HK$0.01 each of the Company ("Shares")

Name of directors	Capacity	Number of Shares held	Percentage of shareholding
Dr. Sung Chung Kwun ("Dr. Sung")	Interest in controlled corporation	267,000,000 *(Note 1)*	60.51%
	Beneficial owner	33,010,000	7.48%
Ms. Sung Kit Ching	Beneficial owner	3,374,000	0.76%

Note:

1. These shares are held by Powerlink Industries Limited, a company wholly and beneficially owned by Dr. Sung.

Other than as disclosed above, none of the directors or the chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2011.

INTERESTS OF SUBSTANTIAL SHAREHOLDER AND OTHER PERSON IN SHARES AND UNDERLYING SHARES

As at 30th June, 2011, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	Capacity	Number of Shares	*Note*	Percentage of shareholding
Powerlink Industries Limited	Beneficial owner	267,000,000	*1*	60.51%

Note:

1. The entire issued share capital of Powerlink Industries Limited is wholly and beneficially owned by Dr. Sung.

Save as disclosed above, as at 30th June, 2011, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 29th August, 2005, the Company adopted a share option scheme under which the Directors may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares of the Company.

No options were granted, exercised, cancelled or lapsed during the six months ended 30th June, 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed shares during the six months ended 30th June, 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the six months ended 30th June, 2011.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules during the six months ended 30th June, 2011 save that Code provision A.2.1 requires that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Sung Chung Kwun is the Chairman of the Board and there is no chief executive officer appointed by the Company and the day-to-day management of the Group is led by Dr. Sung. There is no time schedule to change this structure as the Directors consider that this structure provides the Group with strong and consistent leadership in the Company's decision making process and operational efficiency.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30th June, 2011.

AUDIT COMMITTEE

The interim results have not been audited. The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group, its internal control, financial reporting matters, interim results and the interim report for the six months ended 30th June, 2011.