



Addchance Holdings Limited

互益集團有限公司

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

(Stock Code: 3344)



2007 Annual Report

- Major cotton agricultural bases
- Major dyeing bases



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## FINANCIAL HIGHLIGHTS

### Key Financial Results

|                                  | Year ended 31st December, |                  |         |                  |                |                |
|----------------------------------|---------------------------|------------------|---------|------------------|----------------|----------------|
|                                  | 2007<br>HK\$'000          | 2006<br>HK\$'000 | +/-%    | 2005<br>HK\$'000 | 2004<br>HK'000 | 2003<br>HK'000 |
| Turnover                         | 1,167,362                 | 925,889          | 26.1%   | 900,482          | 772,202        | 609,296        |
| Gross profit                     | 278,069                   | 214,518          | 29.6%   | 233,019          | 176,256        | 136,464        |
| Profit for the year              | 98,302                    | 66,190           | 48.5%   | 75,417           | 47,745         | 31,194         |
| Profit attributable to:          |                           |                  |         |                  |                |                |
| Equity holders of the Company    | 98,546                    | 66,196           | 48.9%   | 75,413           | 42,021         | 25,856         |
| Minority interests               | (244)                     | (6)              | 3966.7% | 4                | 5,724          | 5,338          |
| Earnings per share (in HK cents) | 24.64                     | 16.55            | 48.9%   | 23.27            | 14.01          | 8.62           |

### Financial Ratios

|                                    | Year ended 31st December, |      |      |      |      |
|------------------------------------|---------------------------|------|------|------|------|
|                                    | 2007                      | 2006 | 2005 | 2004 | 2003 |
| Profitability ratios:              |                           |      |      |      |      |
| Gross margin (%)                   | 23.8                      | 23.2 | 25.9 | 22.8 | 22.4 |
| Net margin (%)                     | 8.4                       | 7.1  | 8.4  | 6.2  | 5.1  |
| Liquidity ratios:                  |                           |      |      |      |      |
| Current ratio (times)              | 1.1                       | 1.4  | 1.4  | 1.4  | 1.1  |
| Stock turnover (days) (Note 1)     | 172                       | 111  | 101  | 116  | 112  |
| Debtors turnover (days) (Note 2)   | 67                        | 68   | 70   | 64   | 84   |
| Creditors turnover (days) (Note 3) | 44                        | 38   | 31   | 50   | 54   |
| Capital adequacy ratio             |                           |      |      |      |      |
| Gearing ratio (%) (Note 4)         | 42.2                      | 30.4 | 30.2 | 33.1 | 30.4 |

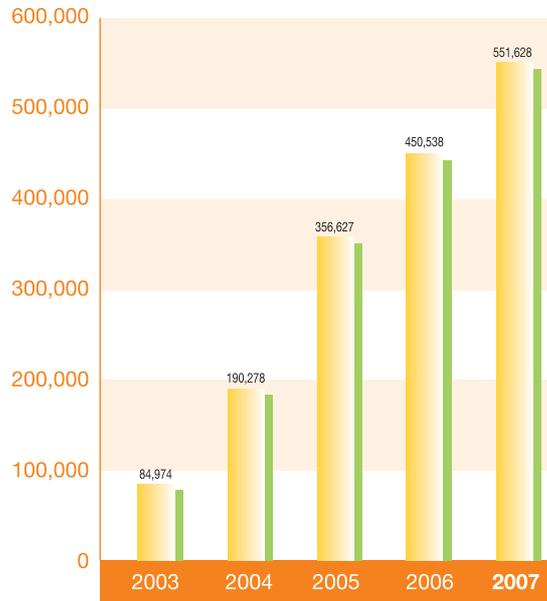
#### Notes:

1. The number of stock turnover days is equal to inventory at the end of year divided by the cost of sales for the year and then multiplied by 365 days.
2. The number of debtors' turnover days is equal to trade and bills receivables at the end of year divided by the sales of the year and then multiplied by 365 days.
3. The number of creditors' turnover days is equal to trade and bills payable at the end of year divided by the cost of sales for the year and then multiplied by 365 days.
4. The gearing ratio is equal to total bank borrowings at the end of the year divided by total assets at the end of the year.

# FINANCIAL HIGHLIGHTS

## TURNOVER BY OPERATION

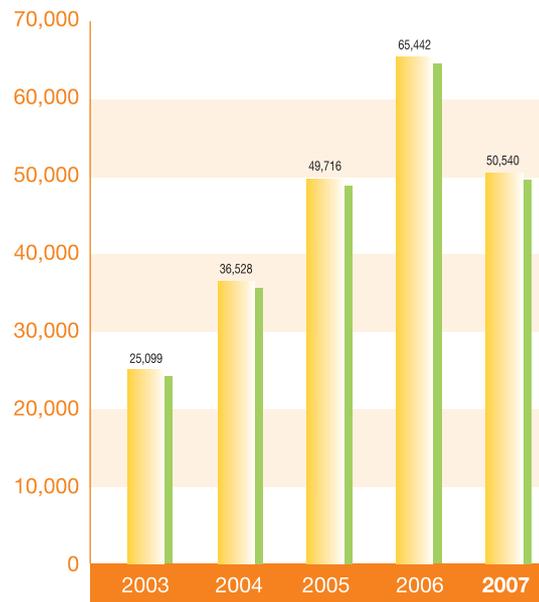
**Production and sales of knitted sweaters**  
(HK\$'000)



**Production and sales of dyed yarns**  
(HK\$'000)



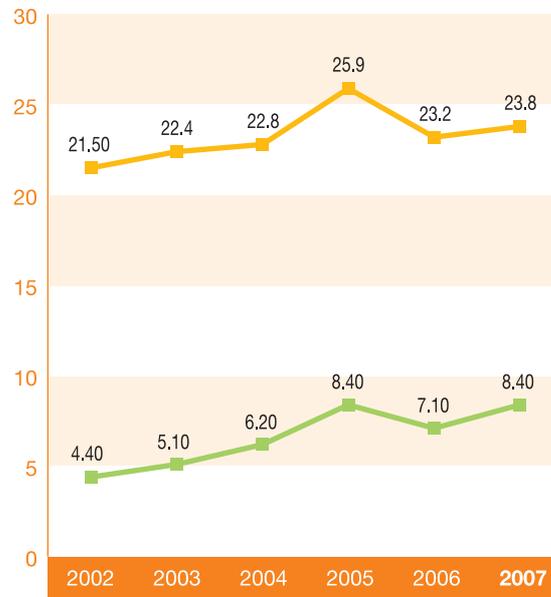
**Production and sales of cotton yarns**  
(HK\$'000)



# FINANCIAL HIGHLIGHTS

## PROFIT MARGIN

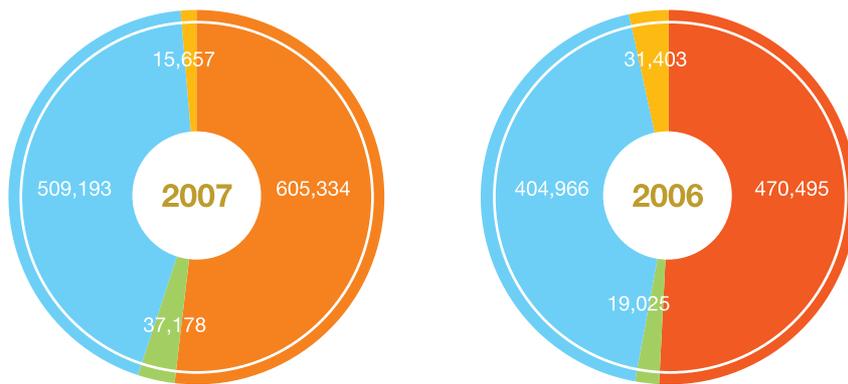
(In %)



— GP Margin  
— NP Margin

## TURNOVER BY GEOGRAPHICAL LOCATION

(HK\$'000)



■ PRC (including Hong Kong)      ■ Europe  
■ Asia other than PRC and Africa      ■ North America

# CORPORATE INFORMATION

## Executive Directors

Dr. SUNG Chung Kwun (*Chairman*)  
Mr. WONG Chiu Hong  
Ms. MOK Pui Mei  
Mr. IP Siu Lam  
Ms. SUNG Lam Ching  
Mr. SUNG Kim Ping  
Mr. CHEUNG Yung Fat, Albert

## 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. MOK Pui Mei

## Head office and principal place of business in Hong Kong

Sung's Tower  
15-19 Lam Tin Street  
Kwai Chung  
New Territories  
Hong Kong

## Registered office

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

## Principal bankers

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
DBS Bank (Hong Kong) Limited  
Industrial and Commercial Bank of China (Asia) Limited

## Principal share registrar and transfer office

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

## Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17/F  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Auditor

Deloitte Touche Tohmatsu

## Legal advisor as to Hong Kong Law

F. Zimmern & Co.

## Investor and Media Relations

Hill & Knowlton Asia Ltd.

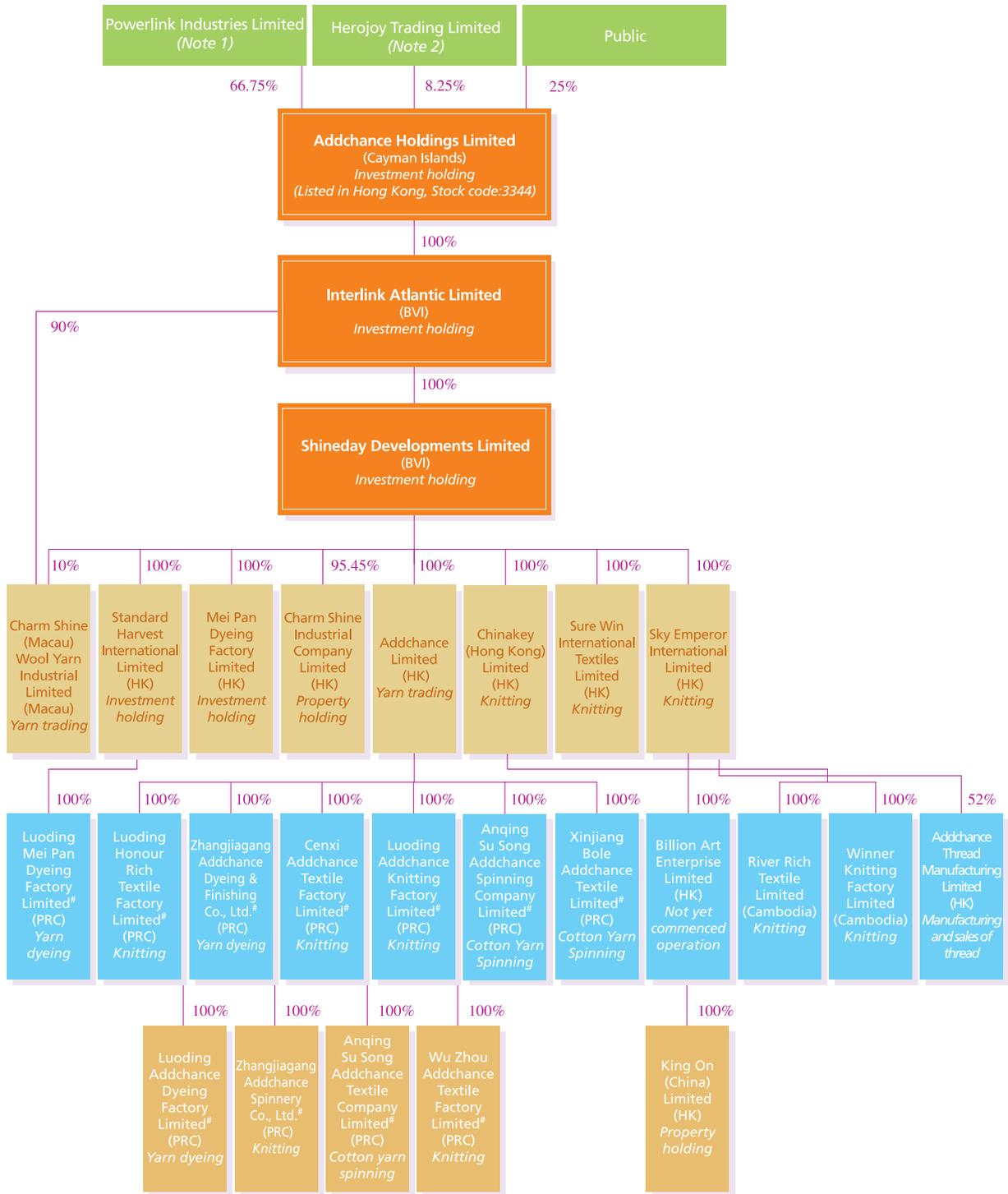
## Website

[www.addchance.com.hk](http://www.addchance.com.hk)  
[www.irasia.com/listco/hk/addchance/index.htm](http://www.irasia.com/listco/hk/addchance/index.htm)

## Stock code

3344

# CORPORATE STRUCTURE AS AT 31ST DECEMBER, 2007



# for identification purpose only

## CORPORATE STRUCTURE AS AT 31ST DECEMBER, 2007

*Notes:*

1. Powerlink Industries Limited is ultimately beneficially owned by GZ Trust Corporation in the capacity as trustee of The CK Sung's Trust, a discretionary family trust set up by Dr. Sung Chung Kwun ("Dr. Sung") as founder (as defined in the Securities and Futures Ordinance), the discretionary objects of which are Mrs. Sung (Ms. Tse Mui Chu, the spouse of Dr. Sung), Ms. Sung Lam Ching and Mr. Sung Kim Ping.
2. Herojoy Trading Limited is ultimately beneficially owned by GZ Trust Corporation in the capacity as trustee of The Addchance Employee' Trust, a discretionary trust set up by Dr. Sung as settlor and founder (as defined in the Securities and Futures Ordinance) for the benefit of employees of the Group, the discretionary objects of which are the employees of the Group from time to time including Mr. Wong Chiu Hong, Ms. Mok Pui Mei and Mr. Ip Siu Lam but excluding Ms. Sung Lam Ching.

## CHAIRMAN'S STATEMENT



On behalf of the board of directors (the "Board") of Addchance Holding Limited (the "Company"), I am pleased to present to you the annual results of the Company and its subsidiaries (the "Group") for the year ending 31st December, 2007.

The year 2007 was a rewarding one for Addchance. Having established itself as one of the leading market players in knitwear manufacturing industry, the Group is committed to exploring growth opportunities and boosting its production capacity while trying to keep its business risk at a minimum. So far, all of our efforts paid have been proved worthwhile as reflected in our satisfactory growth recorded for the year under review.

In 2007, the Group's turnover increased by approximately 26.1% from about HK\$925.9 million from the previous year to about HK\$1,167.4 million. It was mainly attributable to the increased sales volume in 2007. Meanwhile, improved operational efficiency and higher average selling prices of knitted sweaters contributed to an uplift of our net profit by approximately 48.5% to about HK\$98.3 million. We were also able to maintain our gross profit margin to 23.8%, which representing an slight increase of 0.6% year-on-year.

The Board has resolved to recommend the payment of a final dividend of HK5.0 cents per share, payable to shareholders whose names appear on the register members of the Company as at 27th May, 2008. The payment is subject to approval of the shareholders at the annual general meeting.

Since establishment, we are always committed to developing ourselves into a one-stop service provider in garment manufacturing industry, particularly in sweater and knitwear products. We have been seeking acquisition and

## CHAIRMAN'S STATEMENT

business expansion opportunities so as to expand our production capacity to meet the ever increasing market demand. In April 2007, the Group completed the acquisition of Bo Mian Textile in Xinjiang. The move was significant as it boosted the Group's yarn-spinning capacity at low cost. The geographical location of Bo Mian Textile, which is adjacent to Alashankou, is also beneficial to the Group's export business to markets in Central Asia and Eastern Europe.

*Xinjiang Bole Addchance Textile Limited*



The expansion of the spinning mill in Anqing has completed and commenced operation in October 2007 as planned. The 50,000-spindle expansion in Anqing will enhance the production capacity of our spinning business. Together with the completion of Wuzhou knitting mill and the acquisition of two large sweater manufacturers based in Cambodia, namely River Rich Textile and Winner Knitting Factory, the knitting capacity of the Group was further enhanced to meet rising demand from our customers in Europe as well as other markets worldwide.

As a leading textile manufacturer in the PRC, we have a diversified and long term client base. Our customers which are internationally renowned retailers includes Zara, H&M as well as Marks & Spencer. Since the majority of the Group's products were exported to European markets, we are underexposed to the risk of the slowdown in the United States (the "US") retail industry resulted from the subprime mortgage crisis. This gives us an edge over our peers in the industry who are more reliant on the US market.

Looking ahead, the Group remains confident in the garment manufacturing and exporting business. With the Sino-EU textile trade agreement expired on 31st December, 2007, Chinese textile products are now free from any European Union ("EU") quota restriction. We are also well prepared for any upcoming import quotas to be imposed on Chinese textile products by acquisition of River Rich Textile and Winner Knitting Factory. Cambodia is free from any trade restrictions and allows the Group to operate at lower cost.

With the production bases in Xinjiang and Su Song to operate in full capacity in the coming year, the Group will be able to further enhance its production capacity, which will in effect consolidate the Group's leading position and help generate higher returns for our shareholders in the near future. We will also keep on exploring any suitable and quality acquisition opportunities with an ambition to further expand our production scale. We are well positioned to capture the rising market demand and strive to outperform the peers amid the market consolidation of textile industry in the PRC.

On behalf of the Board, I would like to thank wholeheartedly our management team, staff and shareholders for contributions and dedication to the Group.

**DR. SUNG CHUNG KWUN**

*Chairman*

Hong Kong, 11th April, 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

### Business Review

2007 was a fruitful year for Addchance. Being one of the leading textile manufacturers and a niche player in the sweater manufacturing business, Addchance has minimal focus on the North American export market, which limits the risk for the Group in case of a slowdown of the US retail sector. We believe that the increasing domestic contribution and investment from China bodes well for Addchance and the Company is sizable enough to maintain its strengths amid the consolidation of the textile industry and is able to actually play a positive role in the process.

We are pleased to report to the shareholders the results of the Group for the 12 months ending 31st December 2007. The Group excels in processing advanced dyeing facilities and enjoys a good reputation in the market. It is equipped with production know-how associated with its strategically located production bases and it has made persistent efforts in promoting vertical integration. Addchance has actively developed itself into a one-stop service provider for garment customers, engaging in different stages of production of yarn products – from the simple supply of cotton yarn to the manufacture of well-knitted sweaters, and from the spinning of cotton into yarn to the provision of yarn dyeing service. Since the listing of the shares of the Company on the Main Board of the Stock Exchange, the Group has been actively looking for acquisition and business expansion opportunities. Following the acquisition of the land use rights and investment in spinning production facilities in Su Song, the Company continued increasing its production capacity of yarn-spinning.

#### *Spinning business expansion – Acquisition of properties and business in Xinjiang in April 2007*

On 30th April, 2007, the Group completed the acquisition of properties and business of Bo Mian Textile in Xinjiang Uygur Autonomous Region of the PRC (Xinjiang) with the Liquidation Committee of government in Xinjiang at an aggregate consideration of RMB45 million. Since the cost of the acquisition of the properties represented a discount of the assessed value of the properties, the acquisition increased the net assets value of the Group and the discount has been recognized immediately in the income statement of the Group for the year ended 31st December, 2007. Through the acquisition, the Group is able to enhance its production capacity of yarn-spinning accordingly.

The properties are located in Bole City in the north-western part of Xinjiang, and is adjacent to Alashankou, the PRC's largest land port. The central government of the PRC intends to develop Alashankou into the "Second Shenzhen". Alashankou is also the primary route through which oil and natural gas from Kazakhstan are imported into the PRC. The acquisition enables the Group to develop "one-stop" production, which encompasses spinning, dyeing and knitting in Bole City. The products can be exported to Central Asian countries and Eastern Europe through Alashankou. Electricity is the major cost factor of the spinning business. To the best knowledge of the Board, the electricity rate in Xinjiang is approximately RMB0.38 per kilowatt hour, which is at least 50% lower than in other PRC provinces. The low rate enables the Group to minimize the spinning cost. As such, the Xinjiang acquisition provides the Group a good investment opportunity for business expansion.

The Group is in a position to expand its capacity through acquisitions of smaller textile players with an interest in spinning mills. The Company has already been operating at peak capacity in terms of spinning. Its internal demand for yarn now overtakes its capacity, which affects the external sales of yarns. In order to meet both the internal and external demand, the Company will have to either snap up smaller spinning mills or build their own.

## MANAGEMENT DISCUSSION AND ANALYSIS



On the other hand, the new 50,000-spindle expansion of the spinning mill in Anqing had been completed and operation commenced in October 2007 as scheduled. The production capacity of the spinning business is expected to increase in 2008.

### *Knitting business expansion*

Following the completion in 2006 of the knitting mill in Wuzhou and the acquisition of the entire share capital of two Cambodian factories, River Rich Textile and Winner Knitting Factory, the plan to increase the production capacity of the sweater business to meet the rising demand for sweaters in Europe, is implemented on schedule. The Group is well positioned to expand the production capacity and faces limited downside risk compared with other industry players who are more exposed to the US retail market. The majority of Addchance's sweater products are exported to Europe, which bodes well for the Company in case the US retail industry slows down due to the subprime mortgage crisis.

The Company's direct customers are international retail chain stores, including H&M and ZARA. On the whole, the international retail chain stores accounted for roughly 96.1% of the Company's sales of knitted sweaters. The Company resumed business relationship with Marks & Spencer this year. At present, a seemingly strong European retail market enjoyed by Addchance's major customers in the sweater segment may account for Addchance's EU focus. The retail operations of these customers sprawl across the globe, with potential to diversify Addchance's regional exposure by driving its geographical focus in a timely fashion.

The acquisition of River Rich Textile and Winner Knitting Factory created a steady environment for the export of Chinese textile products to the Group which in effect diffuses the additional risk and uncertainty associated with the end of the existing Sino-EU textile trade agreement that expired on 31st December, 2007. This is because exported textile products from Cambodia will not be subject to any quota restrictions, if any. Since it is possible that other factors may limit the growth rate of EU export in the future, the Group can have higher flexibility on the export front and also enjoy the competitive advantage brought by the 13 per cent import tax waiver when the products are delivered directly from Cambodia to European countries.

Looking ahead, the Group will continue to see growth in its sweater and spinning businesses following the completion of the acquisition of properties in Xinjiang and the commencement of the operation in Su Song.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Turnover

The Group is principally involved 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.



Addchance recorded double-digit growth in turnover in 2007, with its business continuing to expand. For the year under review, total turnover increased by approximately 26.1% over the previous year, from approximately HK\$925.9 million to about HK\$1,167.4 million.

### TURNOVER BY operation

(Amount HK\$'000)

|   | 2007             | 2006           | changes<br>+/- % | 2005           | 2004           |
|---|------------------|----------------|------------------|----------------|----------------|
| Production and sale of dyed yarns       | 464,212          | 354,340        | 31.0%            | 393,663        | 421,107        |
| Production and sale of knitted sweaters | 551,628          | 450,538        | 22.4%            | 356,627        | 190,278        |
| Production and sale of cotton yarn      | 50,540           | 65,442         | -22.8%           | 49,716         | 36,528         |
| Provision of dyeing services            | 31,531           | 36,105         | -12.7%           | 31,392         | 20,818         |
| Trading of cotton and yarns             | 69,451           | 19,464         | 256.8%           | 69,084         | 103,471        |
|   | <u>1,167,362</u> | <u>925,889</u> | 26.1%            | <u>900,482</u> | <u>772,202</u> |

### TURNOVER BY operation

(in % of total)

|   | 2007          | 2006          | 2005          | 2004          |
|---|---------------|---------------|---------------|---------------|
| Production and sale of dyed yarns       | 39.8%         | 38.3%         | 43.7%         | 54.6%         |
| Production and sale of knitted sweaters | 47.3%         | 48.7%         | 39.6%         | 24.6%         |
| Production and sale of cotton yarn      | 4.3%          | 7.1%          | 5.5%          | 4.7%          |
| Provision of dyeing services            | 2.7%          | 3.9%          | 3.5%          | 2.7%          |
| Trading of cotton and yarns             | 5.9%          | 2.0%          | 7.7%          | 13.4%         |
|   | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

## MANAGEMENT DISCUSSION AND ANALYSIS

Turnover of the sweater business grew by about 22.4%, from approximately HK\$450.5 million in the previous year to about HK\$551.6 million, representing approximately 47.3% of the Group's total turnover. The knitted sweater segment continued to perform well during the year under review. In terms of the output quantity of knitted sweaters, revenue increased by approximately 17.7% whereas the revenue in terms of monetary value increased by about 22.4%. The growth in revenue was mainly driven by the higher average selling prices, sustainable economies of scale and improved operational efficiency. Our sweater products were still mainly exported to Europe, with major customers being Zara and H&M. Sales made to international retail chain stores accounted for approximately HK\$530.3 million, which represented about 96.1% of the Group's sales proceeds from knitted sweaters for the year 2007.

Our sweater business showed encouraging improvement in terms of its contribution to the Group following the acquisition of River Rich Textile and Winner Knitting Factory. As a way to widen the product mix of our sweater business, the Group developed new products, e. g. socks and hosiery products, during the year under review. Revenue growth was mainly driven by the increase in sales volume associated with sustainable economies of scale and improved operational efficiency.

Dyed yarn remains the core product of Addchance. Turnover from the production and sale of dyed yarns for the year under review was approximately HK\$464.2 million, which represented an increase of 31.0% as compared with the previous year and accounted for about 39.8% of the Group's total turnover. Revenue generated from the provision of dyeing services decreased slightly from approximately HK\$36.1 million in the previous year to about HK\$31.5 million during the year under review, a decrease of about 12.7% from the previous year. Most of the Group's dyed yarn was sold to the PRC and Hong Kong manufacturers with production sites based in Guangdong, Jiangsu and Zhejiang and sales proceeds from the PRC, Hong Kong and Macau accounted for approximately 97.7% of the Group's total sales proceeds from dyed yarn. The remainder of the total amount was from exports to overseas countries including Thailand, Taiwan, and Indonesia.



With the increase of the internal utilization rate of the cotton yarn, turnover of the yarn-spinning business decreased from approximately HK\$65.4 million in 2006 to about HK\$50.5 million for the current year, representing a decrease of about 22.8%. During the year under review, yarn used for the Group's self-production increased and about 73.4% of yarn produced by the Group was used for dyeing. During the year, the Group continuously intensified vertical integration in order to enhance its competitiveness. The second 50,000-spindle Su Song Spinning Mill began operation in the last quarter of 2007. Moreover, with the acquisition of the property in Xinjiang, the production capacity of the Group increased further in a bid to cater for the increasing demand for cotton yarn.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of Sales

With the continuous implementation of stringent cost control measures, enhancement in overall operational efficiency as well as the high level of flexibility achieved from the strong production bases located in a wide range of areas, the Group's cost of sales increased by about 25.0% from HK\$711.4 million in 2006 to HK\$889.3 million for the year under review, despite the 26.1% increase in turnover. Raw materials remained a major factor of the Company's cost of sales, standing at around 48.1% in the year 2007 and with cotton and yarn making up about 50% each. The acquisition in Xinjiang and the expansion in Su Song are expected to reduce the proportion of the Company's cost incurred through sourcing of raw materials externally.



In line with the growth in sales revenue of the knitted sweaters segment, a result of the higher output of approximately 15.6 million pieces, the corresponding subcontracting charges for knitting and direct labor increased accordingly. Fuel and coal costs constituted a small percentage of the Company's total cost of sales and are expected to remain proportionately low.

## Gross profit and gross profit margin

The Group recorded approximately HK\$278.1 million in gross profit for the year under review, representing an increase of approximately 29.6% as compared with approximately HK\$214.5 million in the previous year. The increase in the production and sale of knitted sweaters with higher gross profit margin led the Group's gross profit margin to increase slightly from 23.2% in 2006 to 23.8% in 2007. The strategic expansion and vertical integration enhanced the competitive advantage of Addchance. The development also provided the Group with stable supply of raw materials, optimized the factory utilization rate and lowered the production cost. As a result, the gross profit margin improved continuously in accordance with the Group's effective sales and production planning and more stringent cost control.

The sweater business continued to be a segment that generated the most profit for the Group. With the continuous expansion of the customer base, the increase in sales volume and the rising economies of scale, the Group enjoyed a lower production cost, which drove the gross profit margin of sweater business further to about 27.2% for the year under review. The Company will intensify its focus on operations and products that generate high gross profit margin. In general, the sweater operation brought in about 27.2% in gross profit margin and the average sales price for the year of 2007 increased accordingly.



# MANAGEMENT DISCUSSION AND ANALYSIS



## Net profit margin

Net profit increased substantially by HK\$32.1 million, from approximately HK\$66.2 million in the year 2006 to around HK\$98.3 million for the year under review. Excluding the effect of the discount from the acquisition of the aforementioned business in Xinjiang, the operating profit derived from the core business increased by approximately HK\$6.2 million or about 14.6%. The new investment made in Su Song and Xinjiang in 2007 began to generate in positive return to the Group and, therefore, the competitive advantage of

vertical expansion helped realize the net margin growth.

## Discount on acquisition of subsidiaries

As mentioned above, the Group has acquired the business and the production facilities of Bo Mian Textile, which cover the land-use rights, the buildings, the machinery, equipment and inventories. The cost of the acquisition of these properties represented a discount of the assessed value of the properties, with the discounted amount standing at approximately HK\$49.3 million, which was recognized immediately in the income statement of the Group during the year under review.

## Other revenue

Other revenue of approximately HK\$15.6 million mainly comprised exchange gain, interest income and rental income from the investment properties of the Group. They are all industrial properties located in Hong Kong and an office unit located in the PRC.

## Selling and distribution costs

Selling and distribution costs mainly included transportation cost, accessories and packing expenses. For the year under review, the Group's selling and distribution costs amounted to about HK\$84.4 million, representing approximately 7.2% of the Group's turnover, which is similar as the amount recorded in 2006. Despite the surge in the price of international fuel and the continuous market expansion and business volume of sweaters during the year under review, the distribution cost was still kept at a reasonable level.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Administrative expenses

Administrative expenses of approximately HK\$110.5 million mainly consisted of staff cost, which covered employees' salary and welfare, directors' remuneration, bank charges and depreciation. During the year under review, the administrative expenses increased in accordance with the business expansion and represented approximately 9.4% of the Group's turnover.

## Finance costs

Finance costs mainly came from interests on bank borrowings and obligations under finance leases. The amount increased by about HK\$17.3 million to HK\$36.2 million for the year under review, which was in line with the corresponding increase in the bank borrowings utilization rate. The amount constituted approximately 3.1% of the Group's turnover.

## Borrowings

As at 31st December, 2007, the Group had outstanding bank borrowings of approximately HK\$651.0 million, of which approximately HK\$449.9 and HK\$194.0 million were due within one year and within 2 to 5 years respectively. The remaining amount of approximately HK\$7.1 million was due over 5 years.

In line with the expansion of various business segments in operation, the utilization rate for banking facilities increased and the bank borrowing level apparently increased from approximately HK\$302.9 million as at 31st December, 2006 to approximately HK\$651.0 million as at the end of 2007. The gearing ratio, which represents the total bank borrowings divided by total assets, increased from approximately 30.4% as at 31st December, 2006 to 42.2% as at 31st December, 2007.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2007, the Group's total assets amounted to approximately HK\$1,487.8 million, representing an increase of approximately HK\$504.9 million compared with about HK\$982.9 million in 2006. The Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term borrowings.

Net cash in approximately HK\$85.8 million was mainly used to purchase inventories and increase trade receivables, bills receivables and other receivables. For the year under review, the net cash spent on investing activities amounted to approximately HK\$218.0 million, a substantial increase of approximately HK\$119.7 million from the previous year. The increase was mainly due to the purchase of property, plant and equipment in Xinjiang, Su Song and Zhajiajiang production mill and the acquisition of business in Xinjiang.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## Stock turnover days

The stock turnover days of the Group for the year ended 31st December, 2007 was approximately 172 days, increased by about 61 days compared with 111 days for the year ending 31st December, 2006. The rise was due mainly to the piling up of cotton, yarns and knitted panels. The escalating international fuel cost raised the costs of raw materials correspondingly and the Group recorded a relatively high inventory level to keep stable cost supply. Subsequently, the inventory balance started to decrease and the Group will continue to actively monitor the inventory level.

## Debtors' turnover days

For the year under review, the number of debtors' turnover days was kept at a level similar to the previous year, with the credit control on debt collection and the new customers selection procedures being made more stringent continuously. For the year under review, the number of debtors' turnover days was about 67 days, compared with 68 days in the previous year. Generally, the Group offers credit terms to its trade customers of 30 days to 120 days 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 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 the 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.

The Board has recommended the payment of a final dividend of HK5.0 cents per share for the year ended 31st December, 2007, which is payable to shareholders whose names appear on the register of members on 27th May, 2008. Subject to the approval of the shareholders at the forthcoming annual general meeting, the total dividend for the year 2007 will be HK5.0 cents per share, representing approximately 20% of the profit for the year.

# CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures and the identification and for malization of best practices of corporate governance.

Code on Corporate Governance Practices (the “Code on Corporate Governance Practices”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

During the year ended 31st December, 2007 (the “Relevant Period”), none of the directors of the Company (the “Directors”) 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, 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 Chung Kwun. 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 and operational efficiency.

The Company has adopted some of the recommended best practices as set out in the Code on Corporate Governance Report.

## Directors’ securities transactions

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 during the Relevant Period, all of them have confirmed that they have complied with the required standard set out in the Model Code during the Relevant Period.

## The board of Directors

The Board is chaired by Dr. Sung Chung Kwun. There are seven executive Directors, namely, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Ip Siu Lam, Ms. Mok Pui Mei, Ms. Sung Lam Ching, Mr. Sung Kim Ping (appointed on 17th April, 2008) and Mr. Cheung Yung Fat, Albert (appointed on 17th April, 2008), one non-executive Director, namely, Mr. Lau Gary Q. and three independent non-executive Directors, namely Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling. The Directors’ biographical information are set out in pages 22 to 25 of this report. During the Relevant Period, four Board meetings were held. Their individual attendance was as follows:-

Dr. Sung Chung Kwun (4/4), Mr. Wong Chiu Hong (4/4), Mr. Ip Siu Lam (3/4), Ms. Mok Pui Mei (4/4), Ms. Sung Lam Ching (4/4), Mr. Lau Gary Q. (3/3), Mr. Chan Tsz Fu, Jacky (3/3), Mr. Ng Man Kin (2/3) and Professor Cai Xiu Ling (3/3).

# CORPORATE GOVERNANCE REPORT

The Board assumes responsibility for leadership and control of the Company and its members are collectively responsible for promoting the success of the Company by formulating the Group's overall strategies and policies approval of business plans, evaluating the performance of the Group in pursuit of the Group's overall strategy objectives and oversight of the management of the Group. The Board has established three committees, namely the audit committee, the remuneration committee and the nomination committee. Management of the Group is responsible for the day-to-day operations of the Group with the efforts of the executive Directors and members of the senior management of the Company to implement the business strategies and plans formulated and approved by the Board.

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing and are independent. Mr. Chan Tsz Fu, Jacky is the independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise who is a practicing certified public accountant.

Ms. Sung Lam Ching, an executive Director, is the daughter of Dr. Sung Chung Kwun, the Chairman of the Company and is the spouse of Mr. Lau Gary Q., a non-executive Director. Mr. Sung Kim Ping is the son of Dr. Sung Chung Kwun and the brother of Ms. Sung Lam Ching.

Each of the non-executive Directors (including the independent non-executive Directors) is appointed for a specific term. Each of his/her appointment is for a term of one (1) year from 1st September, 2007 to 31st August, 2008 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

The Chairman takes the lead to ensure that the Board works effectively and discharges its responsibilities and encourages all Directors to make a full and active contribution to the Board's affairs for the best interests of the Company. The Chairman has designated the Company Secretary of the Company for drawing up the agenda for each board meeting and is primarily responsible for approving the agenda taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda.

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the Relevant Period.

## Remuneration Committee

According to the Code on Corporate Governance Practices, the Company shall establish a remuneration committee with a majority of the members thereof being independent non-executive Directors. The Company has established its remuneration committee (the "Remuneration Committee") in August 2005. The members of the Remuneration Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. The terms of reference of the Remuneration Committee has posted on the website of the Company and are available upon request. The Remuneration Committee will consult the Chairman about its proposals relating to the remuneration of other executive Directors. No meeting was held by the Remuneration Committee during the Relevant Period. It is expected that members of the Remuneration Committee will meet as and when required.

## Nomination Committee

The Company has established its nomination committee (the '**Nomination Committee**') in August 2005 to adopt one of the recommended best practices as set out in the Code on Corporate Governance Practices. The members of the Nomination Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Nomination Committee.

The principal responsibility of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee has posted on the website of the Company and are available upon request. No meeting was held by the Nomination Committee during the Relevant Period. It is expected that members of the Nomination Committee will meet as and when required.

## Audit Committee

As required under Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practices, the Company shall establish an audit committee comprising at least three members who must be non-executive Directors only, and the majority of the members thereof being independent non-executive Directors and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has established its audit committee (the '**Audit Committee**') in August 2005. The members of the Audit Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to review the relationship with the Auditors of the Company, review the financial information of the Group and oversight of the Group's financial reporting system and internal control procedures. The terms of reference of the Audit Committee has posted on the website of the Company and are available upon request. During the Relevant Period, three Audit Committee meetings were held. Their individual attendance was as follows:-

Mr. Chan Tsz Fu, Jacky (3/3), Mr. Ng Man Kin (3/3) and Professor Cai Xiu Ling (3/3).

# CORPORATE GOVERNANCE REPORT

## Internal control

During the Relevant Period, the Directors had conducted at least semi-annually a review of the effectiveness of the system of internal control in respect of the financial, operational, compliance controls and risk management function of the Group. In March 2007, an Internal Control Department was set up by the Group to oversee the internal control of the Group and report directly to the Directors.

## Auditor's remuneration

For the year ended 31st December 2007, the auditor of the Company received approximately HK\$2,500,000 and HK\$200,000 for audit service and non-audit service respectively.

## Directors' Responsibility for the Financial Statements

The Directors acknowledge responsibility for preparing the financial statements of the Group.

The Statement by the auditor of the Company about their reporting responsibilities are set out on page 35 of this report.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

Dr. SUNG Chung Kwun (宋忠官博士), aged 63, is the Chairman of the Group. Dr. Sung is responsible for overseeing the strategic planning of the Group as well as maintaining the Group's relationships with outside parties. Dr. Sung has over 20 years of experience in the textile dyeing industry. Dr. Sung has been a committee member of the Ninth Chinese People's Political Consultative Conference of Fujian Province (中國人民政治協商會議福建省第九屆委員會委員), the Tenth Chinese People's Political Consultative Conference of Fuzhou City, Fujian Province (中國人民政治協商會議福州市第十屆委員會委員), the Third Chinese People's Political Consultative Conference of Yunfu City, Guangdong Province (中國人民政治協商會議雲浮市第三屆委員會委員) and the Twelve Chinese People's Political Consultative Conference of Wuzhou City, Guangxi Province (中國人民政治協商會議梧州市第十二屆委員會委員). Dr. Sung is also the honorary chairman of the Hong Kong Association for the Foochow Association (福州十邑旅港同鄉會名譽會長) and the Hong Kong Medium and Small Enterprises Association (香港中小型企業聯合會名譽會長), and the vice chairman of Jiangsu Overseas Chinese Enterprise Federation (江蘇省僑聯華商總會(江蘇僑商總會)理事會副會長). In January 2005, Dr. Sung obtained his Honorary Doctorate Degree in Philosophy from the Morrison University, the U.S., and was awarded the title of "World Outstanding Chinese Award (世界傑出華人獎)" by the World Outstanding Chinese Association.

Mr. WONG Chiu Hong (王昭康先生), aged 56, is the Managing Director of the Group. Mr. Wong is responsible for the supervision of the operations, general administration, strategic development and marketing of the Group. Mr. Wong has over 30 years of experience in the textile dyeing industry with extensive experience in administrative management and dyeing techniques. Mr. Wong joined the Group as a general manager in May 1982, and was appointed a director in December 1990. Mr. Wong has been a committee member of the Third Chinese People's Political Consultative Conference of Yunfu City, Guangdong Province (中國人民政治協商會議雲浮市第三屆委員會委員) and the Seventh Chinese People's Political Consultative Conference of Luoding City, Guangdong Province (中國人民政治協商會議羅定市第七屆委員會委員), the Vice President of the Third Yunfu Overseas Friendship Association (雲浮海外聯誼會第三屆副會長). He was also awarded the title of "Excellent General Manager of Foreign Invested Enterprise (外商投資企業優秀總經理)" by the People's Government of Zhangjiagang City, Jiangsu Province in 2002 and 2003 consecutively.

Mr. IP Siu Lam (葉少林先生), aged 52, is the Executive Director and the Technical Controller of the Group's yarn-dyeing section. Mr. Ip is responsible for the supervision of the production, technological research and technical support of the dyeing function of the Group. Mr. Ip obtained an Ordinary Certificate in Mechanical Engineering and a Higher Certificate in Textile Technology from the Hong Kong Polytechnic in 1975 and 1979 respectively. He has over 20 years of experience in textile industry with extensive knowledge in the dyeing technique. Mr. Ip joined the Group in November 1982 and was appointed the executive director of Addchance Limited ("Addchance") in April 1993. He has been the Technical Controller of Luoding Composite Mill since 2000.

Ms. MOK Pui Mei (莫佩薇女士), aged 46, is the Executive Director of the Group. Ms. Mok is responsible for the financial management, corporate finance matters and administrative management of the Group. Ms. Mok has over 20 years of experience in accounting and financial management in the textile industry. Ms. Mok joined the Group as accountant in April 1988 and was appointed the executive director of Addchance in April 1993.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. SUNG Lam Ching (宋林貞女士), aged 35, is the Executive Director and a daughter of Dr. Sung. Ms. Sung is responsible for the sales and marketing of the knitted sweater business of the Group and overseeing the Group's information technology systems. Ms. Sung joined the Group in October 1998 after obtaining her Bachelor's degree in Computer Science from the St. John's University, the U.S.. During the period from July 2001 to November 2002, Ms. Sung worked as software engineer with the Management Information Systems team of the University of Hong Kong (SPACE) while retaining her directorships at Addchance and Chinakey (Hong Kong) Limited ("Chinakey").

Mr. SUNG Kim Ping (宋劍平先生), aged 38, has been appointed as the Executive Director of the Company on 17th April, 2008 and a son of Dr. Sung. Mr. Sung is responsible for all the operations of the Group's sweater knitting section, including the supervision of the production, strategic development and sales and marketing. Mr. Sung has over 17 years of experience in textile industry and he joined the Group from 1991 to 2004 and re-joined the Group in 2005. Mr. Sung has been a committee member of the 11th Chinese People's Political Consultative Conference of Fuzhou City, Fujian Province (中國人民政治協商會議福州市第十一屆委員會會員).

Mr. CHEUNG Yung Fat, Albert (張容發先生), aged 58, has been appointed as the Executive Director of the Company on 17th April, 2008 and is also the General Manager and the Operating Controller of the Group's sweater knitting section. Mr. Cheung is responsible for all the operations of the Group's sweater knitting section, including the setting of business development strategies and product marketing. Mr. Cheung has over 30 years of experience in the textile industry. He worked as the production and marketing supervisors in sweater and garment manufacturing companies in Hong Kong and Canada, and has accumulated over 20 years of experience in the sweater knitting industry. Mr. Cheung joined the Group as the General Manager of Chinakey in January 2003 and has been the Operating Controller of the Group's sweater knitting section since then.

### Non-executive Director

Mr. LAU Gary Q. (劉均賀先生), aged 33, is a senior sales manager at Alcatel China Ltd. Mr. Lau graduated from the University of Toronto in 1996 with a Bachelor's degree in Applied Science majoring in Electrical Engineering and attained a Master's degree in Business Administration from the University of Hong Kong in 2000. Prior to his current role at Alcatel China Ltd., Mr. Lau worked in Nortel Networks from March 1998 to January 2003. Mr. Lau was appointed as the non-executive Director on 6th September, 2004 and is the spouse of Ms. Sung.

### Independent non-executive Directors

Mr. CHAN Tsz Fu, Jacky (陳子虎先生), aged 33, is the sole proprietor of Jacky Chan & Co. Mr. Chan has practised as Jacky Chan & Co since 2005 and has over 11 years of experience in auditing. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, a member of Hong Kong Institute of Certified Public Accountants, a member of the Taxation Institute of Hong Kong and a practising certified public accountant. He was appointed as the independent non-executive Director on 6th June, 2005.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. NG Man Kin (吳文堅先生), aged 44, is a solicitor and a partner of Kwok, Ng & Chan Solicitors. Mr. Ng graduated from the University of Hull with a Bachelor's degree of Laws with Honours in 1988 and obtained a Master degree of Laws from University of London in 1991. In 1989, Mr. Ng passed the Solicitors' Final Examination held by the Law Society of England and Wales. Mr. Ng was appointed as the independent non-executive Director on 6th September, 2004.

Professor CAI Xiu Ling (蔡秀玲教授), aged 45, is the head of Fujian and Taiwan Economics Research Centre and the head of the Department of Economics at the 福建師範大學 (Fujian Normal University). Professor Cai is experienced in economic research and has been teaching at the Fujian Normal University for over 21 years. Professor Cai graduated with a bachelor's degree in Economics from the 廈門大學 (Xiamen University) in 1984 and obtained a Master degree and PhD in Economics from the 福建師範大學 (Fujian Normal University) in 1989 and 2001 respectively. She was appointed as the independent non-executive Director on 2nd August, 2005.

### SENIOR MANAGEMENT

Mr. LIN Chun Ming (連振明先生), aged 55, is the director of Chinakey and the Senior Manager of the sales department of the Group. Mr. Lin is responsible for the sales and marketing of the Group's yarn dyeing and sweater knitting sections. Mr. Lin obtained a Diploma in Business Management from the Hong Kong Baptist University in 1977. Mr. Lin has over 27 years of sales and marketing experience in the textile industry. Mr. Lin first joined the Group as a sales representative of Addchance in April 1985 but vacated in April 1990 and founded his own textile business, Lynn's Trading Company. He re-joined the Group in January 2004.

Ms. FUNG Ka Lai (馮嘉勵女士), aged 32, is the Financial Controller, Qualified Accountant and Company Secretary of the Group. Ms. Fung had over 10 years of experience in the field of auditing, accounting and corporate finance. Prior to joining the Group in January 2005, she worked in Deloitte Touche Tohmatsu for over 5 years and later joined St. Teresa's Hospital in 2003. Ms. Fung is responsible for financial management and formulating business strategies for corporate restructuring of the Group. She has obtained a bachelor's degree in Accountancy from the City University of Hong Kong with first class honours. Ms. Fung is a fellow member of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a practising certified public accountant in Hong Kong.

Ms. LEUNG Chi Ying (梁熾英女士), aged 40, is the Group's Purchasing and Shipping Manager. She is responsible for the cotton and yarn purchasing as well as logistics management of the Group. Ms. Leung has over 15 years experience in textile industry with over 11 years of experience in yarn purchasing. Ms. Leung first joined the Group as sales coordinator in October 1987 but vacated in April 1992. She re-joined the Group in October 1994 as Purchasing and Shipping Supervisor and was appointed the Purchasing and Shipping Manager in November 2003.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. NIU Zhenjiang (牛振江先生), aged 53, is the director of Anqing Su Song Addchance Textile Company Limited (“Anqing Addchance”) and Xinjiang Bole Addchance Textile Limited (“Xinjiang Bole Addchance”). Mr. Niu is responsible for the production and operation management of the Group’s yarn spinning section. Mr. Niu graduated from the People’s Liberation Army Forces Airforce Engineering College in 1981 and since then he joined the textile industry. He worked as the managers in various textile companies in Shenzhen and Wuhan, the PRC, and has accumulated over 10 years of experience in the textile industry. Mr. Niu joined the Group in February 2002 as the sales manager of Zhangjiagang Addchance Dyeing & Finishing Co., Ltd. and was appointed the factory manager of Anqing Addchance since December 2002.

Mr. TSANG Fai (曾暉先生), aged 35, is the Assistant General Manager of the Group’s sweater knitting section. Mr. Tsang is responsible for the operations and administration of the Group’s sweater knitting section. Mr. Tsang obtained his Bachelor’s degree in Mathematical Science and Master degree in Scientific Computing from the Hong Kong Baptist University in 1998 and in 2003 respectively. He joined the Group in January 1999 as an Assistant to Sales Manager of Addchance and was appointed the Assistant General Manager of the Group’s sweater knitting section in January 2004.

Mr. YEUNG Choi Yee (楊賽儀先生), aged 33, is the Quality Assurance Manager of the Group. Mr. Yeung is responsible for the supervision of the Group’s Information Technology department, and the development of the Group’s ISO9001:2000 management system, quality system and technological research in the Group’s yarn-dyeing section. Mr. Yeung obtained his Bachelor’s degree in Mathematical Science and Master degree in Scientific Computing from the Hong Kong Baptist University in 1998 and in 2003 respectively. He joined the Group in August 1998 as an Assistant to Managing Director and was appointed the Quality Assurance Manager of the Group in November 2003.

## DIRECTORS' REPORT

The directors present the 2007 annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in Note 43 to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 37.

On 12th June, 2007, a dividend of HK3.3 cents per share amounting to HK\$13,200,000 was paid to shareholders as final dividend for the year ended 31st December, 2006. The directors now recommend the payment of a final dividend of HK5.0 cents per share to the shareholders on the register of members of the Company on 27th May, 2008, amounting to HK\$20,000,000.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 33 to the consolidated financial statements.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2007 amounted to approximately HK\$406,887,000 (2006: HK\$420,088,000).

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Dr. Sung Chung Kwun  
Mr. Wong Chiu Hong  
Ms. Mok Pui Mei  
Mr. Ip Siu Lam  
Ms. Sung Lam Ching

### Non-executive director:

Mr. Lau Gary Q.

### Independent non-executive directors:

Mr. Ng Man Kin  
Mr. Chan Tsz Fu, Jacky  
Professor Cai Xiu Ling

In accordance with Article 87(1) and (2) of the Company's Articles of Association, Ms. Sung Lam Ching, Mr. Lau Gary Q. and Mr. Chan Tsz Fu, Jacky shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

Subsequently after the date of this report, Mr. Sung Kim Ping and Mr. Cheung Yung Fat, Albert have been appointed as executive directors of the Company on 17th April, 2008. Pursuant to Article 86(3) of the Articles of Association of the Company, Mr. Sung Kim Ping and Mr. Cheung Yung Fat, Albert shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years commencing from 1st September, 2005, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive director and independent non-executive directors of the Company has entered into letter of appointment with the Company and is appointed for a period of one year commencing from 1st September, 2007 subject to retirement by rotation under the Company's Articles of Association.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long positions in the ordinary shares of HK\$0.01 each of the Company (the "Shares")

| Name of directors                   | Capacity                           | Number of Shares held | Notes | Percentage of shareholding |
|-------------------------------------|------------------------------------|-----------------------|-------|----------------------------|
| Dr. Sung Chung Kwun<br>("Dr. Sung") | Founder of discretionary trusts    | 300,000,000           | 1     | 75%                        |
| Ms. Sung Lam Ching<br>("Ms. Sung")  | Beneficiary of discretionary trust | 267,000,000           | 2     | 66.75%                     |
| Mr. Lau Gary Q.                     | Interest of spouse                 | 267,000,000           | 3     | 66.75%                     |
| Mr. Wong Chiu Hong<br>("Mr. Wong")  | Beneficiary of discretionary trust | 33,000,000            | 4     | 8.25%                      |
| Ms. Mok Pui Mei<br>("Ms. Mok")      | Beneficiary of discretionary trust | 33,000,000            | 5     | 8.25%                      |
| Mr. Ip Siu Lam<br>("Mr. Ip")        | Beneficiary of discretionary trust | 33,000,000            | 6     | 8.25%                      |

#### Notes:

1. Dr. Sung is deemed to be interested in 300,000,000 Shares in the capacity as the founder of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited and founder and settlor of The Addchance Employee's Trust. Under the SFO, Dr. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited, the associated corporation of the Company holding 267,000,000 Shares, representing 66.75% of the issued share capital of the Company.
2. Ms. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited. Ms. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited under the SFO.
3. Mr. Lau Gary Q., the spouse of Ms. Sung, is deemed to be interested in 267,000,000 Shares under the SFO.
4. Mr. Wong is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.

## DIRECTORS' REPORT

5. Ms. Mok is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.
6. Mr. Ip is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.

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 31st December, 2007.

### SHARE OPTION SCHEME

The Company has adopted a share option scheme on 29th August, 2005 (the "Scheme") which enables the Company to grant options to eligible persons as incentive or rewards for their contributions to the Group. Pursuant to the Scheme, the Company may grant options to (a) any full time employee or director of any member of the Group; (b) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the option is offered to such part time employee; or (c) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 40,000,000 Shares, representing 10 per cent of the Shares in issue as at the date of this report. The total number of the Shares issued and to be issued upon exercise of the options granted to a participant under the Scheme (including both exercised and outstanding options) in any 12 month period must not exceed 1 per cent. of the Shares in issue from time to time unless approval from the shareholders of the Company in general meeting is obtained with such participant and his/her associates abstaining from voting.

The exercise period of an option under the Scheme will be notified by the Board to each participant which shall not exceed 10 years from the date upon which the option is deemed to be granted and accepted. The Scheme does not require a minimum period for which an option must be held before an option can be exercised. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the Shares subject to options will be a price determined by the Board and will be at least the highest of (i) the closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share. Subject to the termination provisions, the Scheme will remain valid for a period of 10 years commencing on 29th August, 2005.

No options were granted, exercised, cancelled or lapsed during the year.

# DIRECTORS' REPORT

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements 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.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as provided in the paragraph headed "Connected Transactions" below, no contracts of significance to which the Company, its ultimate holding company, any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON IN SHARES AND UNDERLYING SHARES

As at 31st December, 2007, the following substantial shareholders and other person (other than a director or chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in Shares

#### Interests of substantial shareholders

| Name  | Capacity                           | Number of shares held | Notes | Percentage of shareholding |
|---|------------------------------------|-----------------------|-------|----------------------------|
| GZ Trust Corporation<br>("GZ Trust")          | Trustee of discretionary trusts    | 300,000,000           | 1     | 75%                        |
| Powerlink Industries Limited<br>("Powerlink") | Beneficial owner                   | 267,000,000           | 2     | 66.75%                     |
| Ms. Tse Mui Chu ("Mrs. Sung")                 | Beneficiary of discretionary trust | 267,000,000           | 3     | 66.75%                     |
| Mr. Sung Kim Ping                             | Beneficiary of discretionary trust | 267,000,000           | 4     | 66.75%                     |

#### Notes:

1. The entire issued share capital of Powerlink and Herojoy Trading Limited is owned by GZ Trust in its capacity as the trustee of (i) The CK Sung's Trust, a discretionary trust the founder (as defined in the SFO) of which is Dr. Sung and the discretionary objects of which are Mrs. Sung, Ms. Sung and Mr. Sung Kim Ping (excluding Dr. Sung himself), and (ii) The Addchance Employee's Trust, a discretionary trust the founder (as defined in the SFO) and the settlor of which is Dr. Sung and the discretionary objects of which are the employees of the Group from time to time including Mr. Wong, Ms. Mok and Mr. Ip (excluding Ms. Sung). Accordingly, GZ Trust is deemed to be interested in the 300,000,000 Shares under the SFO.

## DIRECTORS' REPORT

2. The 267,000,000 Shares are beneficially owned by Powerlink.
3. Mrs. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.
4. Mr. Sung Kim Ping is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.

### Interest of other person

| Name                    | Capacity         | Number of Shares held | Percentage of Shareholding |
|-------------------------|------------------|-----------------------|----------------------------|
| Herojoy Trading Limited | Beneficial owner | 33,000,000            | 8.25%                      |

Save as disclosed above, as at 31st December, 2007, 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.

### APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

### CONNECTED TRANSACTIONS

#### Annual review of the continuing connected transactions

The Company entered into a sale and purchase agreement with Wai Yee Knitting Factory Limited ("Wai Yee") on 20th September, 2005 pursuant to which the Group agreed to supply raw white yarn and dyed yarn to Wai Yee from 20th September, 2005 to 31st December, 2007 (the "Wai Yee Raw Material Agreement"). Wai Yee is owned as to 99.99% by Ms. Sung Kit Ching, a daughter of Dr. Sung, and 0.01% by Ms. Wong Chun Fong, a daughter-in-law of Dr. Sung. Wai Yee is principally engaged in the business of production and sale of knitted sweaters, therefore, it has a substantial demand for raw materials such as raw white yarn and dyed yarn for the production of sweaters. For the year ended 31st December, 2007, sales of raw white yarn and dyed yarn under the Wai Yee Raw Material Agreement amounted to approximately HK\$2,423,000.

## DIRECTORS' REPORT

The Company entered into a sale and purchase agreement with PT Shinetama Interfashion (“PT Shinetama”) on 20th September, 2005 pursuant to which PT Shinetama agreed to supply cotton yarn to the Group from 20th September, 2005 to 31st December, 2007 (the “Shinetama Cotton Yarn Agreement”). PT Shinetama is wholly owned by Mr. Sung Chung Man, the youngest brother of Dr. Sung, and his associates. Mr. Sung Chung Man and his associates control the board of directors of PT Shinetama. This transaction was entered into as the Group has a substantial demand for cotton yarn made of cotton outside the PRC for further processing into dyed yarn and/or knitted sweaters, and trading with independent third parties. For the year ended 31st December, 2007, purchase of cotton yarn from PT Shinetama under the Shinetama Cotton Yarn Agreement amounted to approximately HK\$80,443,000.

Particulars of transactions under the Wai Yee Raw Material Agreement and the Shinetama Cotton Yarn Agreement (the “Transactions”) constituted continuing connected transactions pursuant to Chapter 14A of the Listing Rules which are also related party transactions, particulars of which are disclosed in Note 42 of the consolidated financial statements in accordance with IAS 24 “Related Party Disclosures” promulgated by International Accounting Standards Board.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor have reported their factual findings on these procedures to the Board.

Each of the independent non-executive directors of the Company has confirmed that the Transactions have been entered into by the Company in the ordinary and usual course of its business, either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and in accordance with the terms of the agreements governing the Transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### NON-COMPETITION DEED

In accordance with the terms of a deed of non-competition undertakings in favour of the Company dated 20th September, 2005 (the “Non-competition Deed”), each of Dr. Sung, Ms. Sung, Mr. Wong, Ms. Mok and Mr. Ip (all being the executive directors of the Company) has provided with the Company an annual confirmation in respect of his/her compliance with the terms of the Non-competition Deed. Under the terms of the Non-competition Deed, each of the executive directors of the Company has undertaken to the Company to, among others, procure that he/she or any of his/her associates will not directly or indirectly be interested in any business which may compete with or similar to the business of the Group from time to time.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The remuneration of the non-executive directors (including the independent non-executive directors) of the Company are recommended by the Remuneration Committee.

The Company has adopted the Scheme as an incentive to the directors and eligible employees, details of the Scheme are set out in the paragraph headed "Share Option Scheme" above.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 43.3% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 22.0% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 32.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 9.8% of the Group's total purchases.

Save as disclosed in Note 42 to the consolidated financial statements, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

## DIRECTORS' REPORT

### AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

*CHAIRMAN*

**DR. SUNG CHUNG KWUN**

Hong Kong, 11th April, 2008

# INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF ADDCHANCE HOLDINGS LIMITED  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Addchance Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 93, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
Hong Kong  
11th April, 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

|  | NOTES | 2007<br>HK\$'000     | 2006<br>HK\$'000     |
|--|-------|----------------------|----------------------|
| Revenue  | 7     | 1,167,362            | 925,889              |
| Cost of sales  |       | <u>(889,293)</u>     | <u>(711,371)</u>     |
| Gross profit   |       | 278,069              | 214,518              |
| Other income   |       | 15,580               | 11,471               |
| Discount on acquisition of business and subsidiaries | 36    | 49,306               | 23,422               |
| Selling and distribution costs                       |       | <u>(84,419)</u>      | <u>(65,495)</u>      |
| Administrative expenses                              |       | <u>(110,493)</u>     | <u>(92,036)</u>      |
| Finance costs  | 9     | <u>(36,195)</u>      | <u>(18,889)</u>      |
| Profit before taxation                               |       | 111,848              | 72,991               |
| Taxation   | 10    | <u>(13,546)</u>      | <u>(6,801)</u>       |
| Profit for the year                                  | 11    | <u><u>98,302</u></u> | <u><u>66,190</u></u> |
| Profit attributable to:                              |       |                      |                      |
| Equity holders of the Company                        |       | 98,546               | 66,196               |
| Minority interests                                   |       | <u>(244)</u>         | <u>(6)</u>           |
|  |       | <u><u>98,302</u></u> | <u><u>66,190</u></u> |
| Earnings per share, in cents                         | 15    |                      |                      |
| Basic  |       | <u><u>24.64</u></u>  | <u><u>16.55</u></u>  |

# CONSOLIDATED BALANCE SHEET

At 31st December, 2007

|   | NOTES | 2007<br>HK\$'000      | 2006<br>HK\$'000      |
|---|-------|-----------------------|-----------------------|
| <b>NON-CURRENT ASSETS</b>   |       |                       |                       |
| Investment properties   | 16    | 9,461                 | 3,983                 |
| Property, plant and equipment   | 17    | 628,648               | 394,516               |
| Prepaid lease payments  | 18    | 87,200                | 44,318                |
| Available-for-sale investments  | 19    | 1,325                 | 1,325                 |
| Deposit paid for acquisition of property, plant and equipment                           | 20    | 38,588                | 24,031                |
| Club debentures   | 21    | 1,070                 | 1,070                 |
| Deferred tax assets   | 22    | 315                   | 405                   |
|   |       | <u>766,607</u>        | <u>469,648</u>        |
| <b>CURRENT ASSETS</b>   |       |                       |                       |
| Prepaid lease payments  | 18    | 2,110                 | 1,080                 |
| Inventories   | 23    | 417,863               | 217,043               |
| Trade receivables, bills receivables and other receivables,<br>deposits and prepayments | 24    | 259,001               | 191,714               |
| Amounts due from related companies  | 25    | 840                   | 594                   |
| Taxation recoverable  |       | 4,392                 | 5,767                 |
| Pledged bank deposits   | 26    | 6,692                 | 5,950                 |
| Fixed bank deposits   | 26    | 4,680                 | 25,583                |
| Bank balances and cash  | 27    | 25,644                | 65,562                |
|   |       | <u>721,222</u>        | <u>513,293</u>        |
| <b>CURRENT LIABILITIES</b>  |       |                       |                       |
| Trade and other payables  | 28    | 128,751               | 104,462               |
| Bills payable   | 29    | 53,381                | 43,082                |
| Amount due to a related company/related party   | 30    | 305                   | 129                   |
| Amount due to a director  | 30    | 170                   | —                     |
| Bank borrowings - due within one year   | 31    | 440,848               | 227,716               |
| Obligations under finance leases<br>– due within one year                               | 32    | 9,027                 | 4,150                 |
| Taxation payable  |       | 4,519                 | 1,478                 |
|   |       | <u>637,001</u>        | <u>381,017</u>        |
| <b>NET CURRENT ASSETS</b>   |       | <u>84,221</u>         | <u>132,276</u>        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>  |       | <u><u>850,828</u></u> | <u><u>601,924</u></u> |

# CONSOLIDATED BALANCE SHEET

At 31st December, 2007

|   | NOTES | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>CAPITAL AND RESERVES</b>                           |       |                  |                  |
| Share capital   | 33    | 4,000            | 4,000            |
| Reserves  |       | 628,041          | 520,854          |
|   |       | <hr/>            | <hr/>            |
| Equity attributable to equity holders of the Company  |       | 632,041          | 524,854          |
| Minority interests                                    |       | 864              | 148              |
|   |       | <hr/>            | <hr/>            |
|   |       | 632,905          | 525,002          |
|   |       | <hr/>            | <hr/>            |
| <b>NON-CURRENT LIABILITIES</b>                        |       |                  |                  |
| Bank borrowings – due after one year                  | 31    | 187,349          | 70,673           |
| Obligations under finance leases - due after one year | 32    | 13,726           | 359              |
| Deferred tax liabilities                              | 22    | 16,848           | 5,890            |
|   |       | <hr/>            | <hr/>            |
|   |       | 217,923          | 76,922           |
|   |       | <hr/>            | <hr/>            |
|   |       | 850,828          | 601,924          |
|   |       | <hr/> <hr/>      | <hr/> <hr/>      |

The consolidated financial statements on pages 37 to 93 were approved and authorised for issue by the Board of Directors on 11th April, 2008 and are signed on its behalf by:

*DR. SUNG CHUNG KWUN*  
DIRECTOR

*MR. WONG CHIU HONG*  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

|   | Attributable to equity holders of the Company |                           |   |  |  |                                 |                              |                      |                                |                   |
|---|---|---------------------------|---|--|--|---------------------------------|------------------------------|----------------------|--------------------------------|-------------------|
|   | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Contributed surplus<br>HK\$'000<br>(Note a) | Special reserves<br>HK\$'000<br>(Note b) | Statutory reserves<br>HK\$'000<br>(Note c) | Translation reserve<br>HK\$'000 | Retained profits<br>HK\$'000 | Subtotal<br>HK\$'000 | Minority interests<br>HK\$'000 | Total<br>HK\$'000 |
| At 1st January, 2006  | 4,000   | 89,406                    | 192,043                                     | 24,673                                   | 12,347                                     | (655)                           | 139,081                      | 460,895              | 154                            | 461,049           |
| Exchange differences arising on translation of foreign operations directly recognised in equity | —   | —                         | —   | —  | —  | 16,563                          | —                            | 16,563               | —                              | 16,563            |
| Profit for the year   | —   | —                         | —   | —  | —  | —                               | 66,196                       | 66,196               | (6)                            | 66,190            |
| Total recognised income and expenses for the year   | —   | —                         | —   | —  | —  | 16,563                          | 66,196                       | 82,759               | (6)                            | 82,753            |
| Transfer to statutory reserve   | —   | —                         | —   | —  | 57   | —                               | (57)                         | —                    | —                              | —                 |
| Dividend  | —   | —                         | (18,800)                                    | —  | —  | —                               | —                            | (18,800)             | —                              | (18,800)          |
| At 31st December, 2006  | 4,000   | 89,406                    | 173,243                                     | 24,673                                   | 12,404                                     | 15,908                          | 205,220                      | 524,854              | 148                            | 525,002           |
| Exchange differences arising on translation of foreign operations directly recognised in equity | —   | —                         | —   | —  | —  | 21,841                          | —                            | 21,841               | —                              | 21,841            |
| Profit for the year   | —   | —                         | —   | —  | —  | —                               | 98,546                       | 98,546               | (244)                          | 98,302            |
| Total recognised income and expenses for the year   | —   | —                         | —   | —  | —  | 21,841                          | 98,546                       | 120,387              | (244)                          | 120,143           |
| Transfer to statutory reserve   | —   | —                         | —   | —  | 55   | —                               | (55)                         | —                    | —                              | —                 |
| Capital contribution from minority shareholders   | —   | —                         | —   | —  | —  | —                               | —                            | —                    | 960                            | 960               |
| Dividend  | —   | —                         | (13,200)                                    | —  | —  | —                               | —                            | (13,200)             | —                              | (13,200)          |
| At 31st December, 2007  | 4,000   | 89,406                    | 160,043                                     | 24,673                                   | 12,459                                     | 37,749                          | 303,711                      | 632,041              | 864                            | 632,905           |

**Notes:**

- The contributed surplus of the Company represent (i) the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Atlantic 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.
- Special reserves of the Group represent (i) the difference between the nominal value of share capital issued by Interlink Atlantic Limited and the nominal value of the share capital of subsidiaries acquired by Interlink Atlantic Limited on 23rd September, 2005; and (ii) the contribution from minority shareholders of net assets value shared by them to Dr. Sung Chung Kwun, the shareholder of Interlink Atlantic Limited.
- The Group's statutory reserves represent reserves required to be appropriated from profit after taxation of the Company's PRC and Macau subsidiaries 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 reflected in their statutory financial statements presented under the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC/Macau to the statutory surplus reserves.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

|  | NOTE | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>  |      |                  |                  |
| Profit before taxation   |      | 111,848          | 72,991           |
| Adjustments for:   |      |                  |                  |
| Finance costs  |      | 36,195           | 18,889           |
| Interest income  |      | (2,915)          | (2,527)          |
| Depreciation of property, plant and equipment  |      | 52,318           | 32,806           |
| Depreciation of investment properties  |      | 176              | 198              |
| Amortisation of prepaid lease payments   |      | 1,632            | 1,056            |
| Impairment loss on available for sale investments  |      | —                | 1,000            |
| Discount on acquisition of business and subsidiaries   |      | (49,306)         | (23,422)         |
| (Gain) loss on disposal of property, plant and equipment   |      | (317)            | 124              |
| Allowance for bad and doubtful debts   |      | 1,765            | 4,003            |
| Gain on disposal of investment properties  |      | (2,292)          | (835)            |
| Operating cash flows before movements in working capital   |      | 149,104          | 104,283          |
| Increase in inventories  |      | (198,113)        | (9,513)          |
| Increase in trade receivables, bills receivables and other receivables, deposits and prepayments |      | (62,661)         | (61,489)         |
| Decrease in amounts due from related companies   |      | (246)            | 1,990            |
| Increase in bills payable  |      | 10,299           | 16,331           |
| Increase in trade and other payables   |      | 22,589           | 10,730           |
| Increase (decrease) in amount due to a director  |      | 170              | (180)            |
| Increase in amount due to a related company/related party  |      | 176              | 129              |
| Cash (used in) generated from operations   |      | (78,682)         | 62,281           |
| Tax paid   |      | (7,115)          | (13,047)         |
| <b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>                                    |      | <b>(85,797)</b>  | <b>49,234</b>    |
| <b>INVESTING ACTIVITIES</b>  |      |                  |                  |
| Interest received  |      | 2,915            | 2,527            |
| Proceeds from disposal of investment properties  |      | 3,581            | 5,390            |
| Proceeds from disposal of property, plant and equipment  |      | 1,353            | 2,962            |
| Prepaid lease payments   |      | (10,825)         | (6,330)          |
| Purchase of property, plant and equipment  |      | (144,616)        | (62,632)         |
| Deposit paid for acquisition of property, plant and equipment                                    |      | (34,538)         | (24,031)         |
| Acquisition of business and subsidiaries   | 36   | (56,032)         | (5,894)          |
| Decrease (increase) in pledged bank deposits/ fixed bank deposits                                |      | 20,161           | (10,267)         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   |      | <b>(218,001)</b> | <b>(98,275)</b>  |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| <b>FINANCING ACTIVITIES</b>                               |                  |                  |
| Dividend paid   | (13,200)         | (18,800)         |
| Interest paid   | (36,195)         | (18,889)         |
| Repayment of bank loans                                   | (353,309)        | (509,074)        |
| Repayment of obligations under finance leases             | (4,150)          | (4,542)          |
| New bank loans raised                                     | 651,051          | 565,206          |
| Contribution by minority shareholders                     | 960              | —                |
|   | <u>245,157</u>   | <u>13,901</u>    |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                 |                  |                  |
|   | (58,641)         | (35,140)         |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>          |                  |                  |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>            | 1,045            | 5,802            |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b> | <u>56,748</u>    | <u>86,086</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>       | <u>(848)</u>     | <u>56,748</u>    |
| Bank balances and cash                                    | 25,644           | 65,562           |
| Bank overdrafts   | (26,492)         | (8,814)          |
|   | <u>(848)</u>     | <u>56,748</u>    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9th June, 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its holding company is Powerlink Industries Limited, a company incorporated in the British Virgin Islands, which is also its ultimate holding company. The address of the registered office and principal place of business of the Company are set out in the section headed "Corporate Information" of the annual report.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in Note 43.

The consolidated financial statements are presented in Hong Kong Dollars, which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new IFRS") issued by International Accounting Standards Board, which are either effective for the Group's financial year beginning on or after 1st January, 2007.

|                   |  |
|-------------------|--|
| IAS 1 (Amendment) | Capital disclosures  |
| IFRS 7            | Financial Instruments: Disclosures   |
| IFRIC 7           | Applying the Restatement Approach under IAS 29<br>Financial Reporting in Hyperinflationary Economies |
| IFRIC 8           | Scope of IFRS 2  |
| IFRIC 9           | Reassessment of Embedded Derivatives   |
| IFRIC 10          | Interim Financial Reporting and Impairment   |

Except for the changes in disclosures as set out below, the adoption of those new IFRSs has no material impact on the Group's results and financial position for the current or prior years, and does not result in any significant changes in the accounting policies of the Group.

On 1st January, 2007, the Group adopted IFRS 7 "Financial Instruments: Disclosures" and IAS 1 (Amendment) "Capital Disclosures", and has included various and new disclosures in its notes to the consolidated financial statements which relate to the Group's financial instruments and capital management.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

|                    |  |
|--------------------|--|
| IAS 1 (Revised)    | Presentation of Financial Statements <sup>1</sup>  |
| IAS 23 (Revised)   | Borrowing Costs <sup>1</sup>   |
| IAS 27 (Revised)   | Consolidated and Separate Financial Statements <sup>2</sup>  |
| IFRS 2 (Amendment) | Vesting Conditions and Cancellations <sup>1</sup>  |
| IFRS 3 (Revised)   | Business Combinations <sup>2</sup>   |
| IFRS 8             | Operating Segments <sup>1</sup>  |
| IFRIC 11           | IFRS 2: Group and Treasury Share Transactions <sup>3</sup>   |
| IFRIC 12           | Service Concession Arrangements <sup>4</sup>   |
| IFRIC 13           | Customer Loyalty Programmes <sup>5</sup>   |
| IFRIC 14           | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>5</sup> Effective for annual periods beginning on or after 1st July, 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with International Financial Reporting Standards issued by International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of any entity so as to obtain benefit from its activities.

The results of business or subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combination are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Property, plant and equipment – continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Investment properties

Investment properties are properties held to earn rental and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

### Retirement benefits costs

Payments to state-managed retirement benefit scheme and Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

### Intangible assets – club debentures

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### *Financial assets*

The Group's financial assets are classified into available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, other receivables, amounts due from related companies pledged bank deposits fixed bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-120 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Impairment of financial assets* – continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

#### *Financial liabilities*

Financial liabilities include trade and other payables, bills payable, amount due to a director, amount due to a related company/related party, bank borrowings and obligations under finance leases. These financial liabilities are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instrument*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Impairment loss on tangible and intangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **Estimated impairment of trade receivable**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December 2007, the carrying amount of trade receivable is HK\$132,444,000 (2006: HK\$111,309,000) (net of allowance for doubtful debts of HK\$8,934,000 (2006: HK\$7,169,000)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt which includes the bank borrowings and obligations under finance leases disclosed in Notes 31 and 32 respectively, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and new bank borrowings raised and repayment of bank borrowings.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| <b>Financial assets</b>                                    |                  |                  |
| <i>Loans and receivables</i>                               |                  |                  |
| Trade receivables, bills receivables and other receivables | 220,425          | 173,895          |
| Amounts due from related companies                         | 840              | 594              |
| Pledged bank deposits                                      | 6,692            | 5,950            |
| Fixed bank deposits  | 4,680            | 25,583           |
| Bank balances and cash                                     | 25,644           | 65,562           |
|  | <u>258,281</u>   | <u>271,584</u>   |
| <i>Available-for-sale financial assets</i>                 | <u>1,325</u>     | <u>1,325</u>     |
| <b>Financial liabilities stated at amortised cost</b>      |                  |                  |
| Trade and other payables                                   | 66,260           | 43,175           |
| Bills payable  | 53,381           | 43,082           |
| Amount due to a related company/related party              | 305              | 129              |
| Amount due to a director                                   | 170              | —                |
| Bank borrowings  | 628,197          | 298,389          |
|  | <u>748,313</u>   | <u>384,775</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS – continued

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bills receivables, other receivables, amount due from related companies, pledged bank deposits, fixed bank deposits, bank balances, trade and other payables, bills payable, amount due to a director, amount due to a related company/related party, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (i) Credit risk management

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors is the carrying amount of the respective financial assets as stated in the consolidated financial statements.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31st December, 2007, the Group had a concentration of credit risk in its five largest customers which comprised approximately HK\$102,418,000 (2006: HK\$26,758,000) of the Group's trade receivables. Other than that, the Group does not have any other significant concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS – continued

### (b) Financial risk management objectives and policies – continued

#### (ii) Market risk

##### (i) Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade receivables, bills receivables and other receivables, trade payables, bills payable, bank balances and bank borrowings of the Group are denominated in foreign currencies

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

|            | Assets           |                  | Liabilities      |                  |
|------------|------------------|------------------|------------------|------------------|
|            | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| US dollars | 80,560           | 94,386           | 104,656          | 83,287           |
| Renminbi   | 1,079            | 311              | —                | —                |
| Euro       | 69,194           | 50,168           | 76,922           | 51,928           |

#### Sensitivity analysis

The Group is mainly exposed to the Euro and Renminbi.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than the items denominated in USD as the directors consider that the Group's exposure to USD is insignificant on the ground that HKD is pegged to USD. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

|                         | EURO             |                  | Renminbi         |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Profit (loss) after tax | 386              | 88               | (54)             | (16)             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS – continued

### (b) Financial risk management objectives and policies – continued

#### (ii) Market risk – continued

##### (ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and obligations under finance leases as set out in Notes 31 and 32 respectively.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, fixed bank deposits, bank balances and bank borrowings as set out in Notes 26, 27 and 31 respectively. It is the Group's policy to keep its pledged bank deposits/fixed bank deposits, bank balances and bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

##### *Sensitivity Analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates on pledged bank deposit/fixed bank deposits, bank balances and bank borrowings at the balance sheet date. For variable-rate pledged bank deposits/fixed bank deposits, bank balances and bank borrowings, the analysis is prepared assuming the amount of the asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31st December, 2007 would decrease/increase by HK\$3,070,000 (2006: decrease/increase by HK\$1,187,000). The Group's sensitivity to interest rates increased during the year mainly due to increase in bank borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS – continued

### (b) Financial risk management objectives and policies – continued

#### (iii) Liquidity risk management

The Group has net current assets of approximately HK\$84,221,000 as at 31st December, 2007 (2006: HK\$132,276,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings from time to time.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

|  | Weighted<br>average<br>effective<br>interest rate<br>% | On<br>demand<br>HK\$'000 | 1-3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1-2<br>years<br>HK\$'000 | 2-5<br>years<br>HK\$'000 | More<br>than<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Total<br>carrying<br>amount<br>HK\$'000 |
|--|--|--------------------------|---------------------------|-----------------------------------|--------------------------|--------------------------|-------------------------------------|---|---|
| <b>2007</b>                                      |  |                          |                           |                                   |                          |                          |                                     |   |   |
| Trade and other payables                         |  | 30,548                   | 18,862                    | 16,850                            | –                        | –                        | –                                   | 66,260  | 66,260                                  |
| Bills payable                                    |  | 17,488                   | 24,990                    | 10,903                            | –                        | –                        | –                                   | 53,381  | 53,381                                  |
| Amount due to a related<br>company/related party |  | 305                      | –                         | –                                 | –                        | –                        | –                                   | 305   | 305                                     |
| Amount due to a director                         |  | 170                      | –                         | –                                 | –                        | –                        | –                                   | 170   | 170                                     |
| Bank borrowings                                  | 5.6  | 111,622                  | 190,658                   | 148,683                           | 105,903                  | 94,714                   | 8,631                               | 660,211   | 628,197                                 |
| Obligations under finance leases                 | 5  | 1,174                    | 1,619                     | 7,137                             | 9,146                    | 5,139                    | –                                   | 24,215  | 22,753                                  |
|  |  | <u>161,307</u>           | <u>236,129</u>            | <u>183,573</u>                    | <u>115,049</u>           | <u>99,853</u>            | <u>8,631</u>                        | <u>804,542</u>                                  | <u>771,066</u>                          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS – continued

### (b) Financial risk management objectives and policies – continued

#### (iii) Liquidity risk management – continued

|  | Weighted<br>average<br>effective<br>interest rate<br>% | On<br>demand<br>HK\$'000 | 1-3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1-2<br>years<br>HK\$'000 | 2-5<br>years<br>HK\$'000 | More<br>than<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Total<br>carrying<br>amount<br>HK\$'000 |
|--|--|--------------------------|---------------------------|-----------------------------------|--------------------------|--------------------------|-------------------------------------|---|---|
| 2006   |  |                          |                           |                                   |                          |                          |                                     |   |   |
| Trade and other payables                         |  | 25,285                   | 8,403                     | 9,487                             | —                        | —                        | —                                   | 43,175  | 43,175                                  |
| Bills payable                                    |  | 20,118                   | 17,844                    | 5,120                             | —                        | —                        | —                                   | 43,082  | 43,082                                  |
| Amount due to a related<br>company/related party |  | 129                      | —                         | —                                 | —                        | —                        | —                                   | 129   | 129                                     |
| Bank borrowings                                  | 5.9  | 91,481                   | 89,517                    | 61,090                            | 40,290                   | 33,330                   | 7,907                               | 323,615   | 298,389                                 |
| Obligations under finance leases                 | 5  | 360                      | 720                       | 3,247                             | 361                      | —                        | —                                   | 4,688   | 4,509                                   |
|  |  | <u>137,373</u>           | <u>116,484</u>            | <u>78,944</u>                     | <u>40,651</u>            | <u>33,330</u>            | <u>7,907</u>                        | <u>414,689</u>                                  | <u>389,284</u>                          |

### (c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in consolidated financial statements approximate their fair values.

## 7. REVENUE

Revenue represents the amounts received and receivable for goods sold excluding value added taxes, less returns and allowances and services provided by the Group to outside customers during the year.

An analysis of the Group's revenue for the year is as follows:

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Production and sale of cotton yarn      | 50,540           | 65,442           |
| Production and sale of knitted sweaters | 551,628          | 450,538          |
| Production and sale of dyed yarns       | 464,212          | 354,340          |
| Provision of dyeing services            | 31,531           | 36,105           |
| Trading of cotton and yarns             | 69,451           | 19,464           |
|   | <u>1,167,362</u> | <u>925,889</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 8. SEGMENT INFORMATION

### Business segments

For management purpose, the Group is currently organised into the following five operating divisions. These divisions are the basis on which the Group reports its primary segment information:

An analysis of the Group's revenue and contribution to operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December, 2007

|   | Production                               |                                    |   |                                    |                                   |                    |                  |
|---|--|------------------------------------|---|------------------------------------|-----------------------------------|--------------------|------------------|
|   | Production<br>and sale of<br>cotton yarn | and sale<br>of knitted<br>sweaters | Production<br>and sale of<br>dyed yarns | Provision<br>of dyeing<br>services | Trading<br>of cotton<br>and yarns | Elimination        | Total            |
|   | HK\$'000                                 | HK\$'000                           | HK\$'000                                | HK\$'000                           | HK\$'000                          | HK\$'000           | HK\$'000         |
| <b>REVENUE</b>  |  |                                    |   |                                    |                                   |                    |                  |
| External  | 50,540                                   | 551,628                            | 464,212                                 | 31,531                             | 69,451                            | —                  | 1,167,362        |
| Inter – segment sales                                   | 139,248                                  | 379,380                            | 428,203                                 | 11,099                             | 197,193                           | (1,155,123)        | —                |
|   | <u>189,788</u>                           | <u>931,008</u>                     | <u>892,415</u>                          | <u>42,630</u>                      | <u>266,644</u>                    | <u>(1,155,123)</u> | <u>1,167,362</u> |
| <b>RESULTS</b>  |  |                                    |   |                                    |                                   |                    |                  |
| Segment results   | <u>(2,876)</u>                           | <u>65,266</u>                      | <u>37,472</u>                           | <u>6,231</u>                       | <u>(2,543)</u>                    | <u>—</u>           | 103,550          |
| Discount on acquisition of<br>business and subsidiaries |  |                                    |   |                                    |                                   |                    | 49,306           |
| Interest income   |  |                                    |   |                                    |                                   |                    | 2,915            |
| Rental income   |  |                                    |   |                                    |                                   |                    | 1,014            |
| Unallocated corporate expense                           |  |                                    |   |                                    |                                   |                    | (8,742)          |
| Finance costs   |  |                                    |   |                                    |                                   |                    | <u>(36,195)</u>  |
| Profit before taxation                                  |  |                                    |   |                                    |                                   |                    | 111,848          |
| Taxation  |  |                                    |   |                                    |                                   |                    | <u>(13,546)</u>  |
| Profit for the year                                     |  |                                    |   |                                    |                                   |                    | <u>98,302</u>    |

Inter segment sales were charged at cost plus margin basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 8. SEGMENT INFORMATION – continued

### Business segments – continued

As at 31st December, 2007

|                                       | Production                               |                                    |   |                                    |                                   | Total<br>HK\$'000 |
|---------------------------------------|--|------------------------------------|---|------------------------------------|-----------------------------------|-------------------|
|                                       | Production<br>and sale of<br>cotton yarn | and sale<br>of knitted<br>sweaters | Production<br>and sale of<br>dyed yarns | Provision<br>of dyeing<br>services | Trading<br>of cotton<br>and yarns |                   |
|                                       | HK\$'000                                 | HK\$'000                           | HK\$'000                                | HK\$'000                           | HK\$'000                          |                   |
| <b>ASSETS</b>                         |  |                                    |   |                                    |                                   |                   |
| Segment assets                        | 351,691                                  | 563,391                            | 413,871                                 | 18,726                             | 86,571                            | 1,434,250         |
| Unallocated corporate assets          |  |                                    |   |                                    |                                   | 53,579            |
| <b>CONSOLIDATED TOTAL ASSETS</b>      |  |                                    |   |                                    |                                   | <b>1,487,829</b>  |
| <b>LIABILITIES</b>                    |  |                                    |   |                                    |                                   |                   |
| Segment liabilities                   | 20,780                                   | 50,753                             | 86,303                                  | 3,842                              | 20,929                            | 182,607           |
| Unallocated corporate liabilities     |  |                                    |   |                                    |                                   | 672,317           |
| <b>CONSOLIDATED TOTAL LIABILITIES</b> |  |                                    |   |                                    |                                   | <b>854,924</b>    |

For the year ended 31st December, 2007

|  | Production                               |                                    |   |                                    |                                   | Unallocated<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|------------------------------------|---|------------------------------------|-----------------------------------|-------------------------|-------------------|
|  | Production<br>and sale of<br>cotton yarn | and sale<br>of knitted<br>sweaters | Production<br>and sale of<br>dyed yarns | Provision<br>of dyeing<br>services | Trading<br>of cotton<br>and yarns |                         |                   |
|  | HK\$'000                                 | HK\$'000                           | HK\$'000                                | HK\$'000                           | HK\$'000                          |                         |                   |
| <b>OTHER INFORMATION:</b>                            |  |                                    |   |                                    |                                   |                         |                   |
| Capital expenditure                                  | 161,085                                  | 98,805                             | 13,910                                  | 767                                | 1,163                             | 6,943                   | 282,673           |
| Allowance for bad and<br>doubtful debts              | –  | –                                  | 1,641                                   | 124                                | –                                 | –                       | 1,765             |
| Depreciation of property,<br>plant and equipment     | 8,775                                    | 23,446                             | 18,288                                  | 833                                | 976                               | –                       | 52,318            |
| Depreciation of investment<br>properties             | –  | –                                  | –                                       | –                                  | –                                 | 176                     | 176               |
| Amortisation of prepaid<br>lease payments            | 489                                      | 396                                | 502                                     | 245                                | –                                 | –                       | 1,632             |
| Gain on disposal of property,<br>plant and equipment | 41                                       | 166                                | 110                                     | –                                  | –                                 | –                       | 317               |
| Gain on disposal of<br>investment properties         | –  | –                                  | –                                       | –                                  | –                                 | 2,292                   | 2,292             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 8. SEGMENT INFORMATION – continued

Business segments – continued

For the year ended 31st December, 2006

|  | Production                         |   |                                   |                              |                             | Elimination      | Total          |
|--|------------------------------------|---|-----------------------------------|------------------------------|-----------------------------|------------------|----------------|
|  | Production and sale of cotton yarn | Production and sale of knitted sweaters | Production and sale of dyed yarns | Provision of dyeing services | Trading of cotton and yarns |                  |                |
|  | HK\$'000                           | HK\$'000                                | HK\$'000                          | HK\$'000                     | HK\$'000                    | HK\$'000         | HK\$'000       |
| <b>REVENUE</b>                                       |                                    |   |                                   |                              |                             |                  |                |
| External   | 65,442                             | 450,538                                 | 354,340                           | 36,105                       | 19,464                      | —                | 925,889        |
| Inter – segment sales                                | 74,802                             | —                                       | 346,544                           | 10,141                       | 168,470                     | (599,957)        | —              |
|  | <u>140,244</u>                     | <u>450,538</u>                          | <u>700,884</u>                    | <u>46,246</u>                | <u>187,934</u>              | <u>(599,957)</u> | <u>925,889</u> |
| <b>RESULTS</b>                                       |                                    |   |                                   |                              |                             |                  |                |
| Segment results                                      | <u>8,442</u>                       | <u>34,157</u>                           | <u>31,241</u>                     | <u>7,034</u>                 | <u>(7,692)</u>              | <u>—</u>         | 73,182         |
| Discount on acquisition of business and subsidiaries |                                    |   |                                   |                              |                             |                  | 23,422         |
| Interest income                                      |                                    |   |                                   |                              |                             |                  | 2,527          |
| Rental income  |                                    |   |                                   |                              |                             |                  | 1,127          |
| Unallocated corporate expense                        |                                    |   |                                   |                              |                             |                  | (8,378)        |
| Finance costs  |                                    |   |                                   |                              |                             |                  | (18,889)       |
| Profit before taxation                               |                                    |   |                                   |                              |                             |                  | 72,991         |
| Taxation   |                                    |   |                                   |                              |                             |                  | (6,801)        |
| Profit for the year                                  |                                    |   |                                   |                              |                             |                  | <u>66,190</u>  |

Inter segment sales were charged at cost plus margin basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 8. SEGMENT INFORMATION – continued

### Business segments – continued

As at 31st December, 2006

|                                       | Production                               |  |   |                                    |                                   | Total<br>HK\$'000 |
|---------------------------------------|--|--|---|------------------------------------|-----------------------------------|-------------------|
|                                       | Production<br>and sale of<br>cotton yarn | Production<br>and sale<br>of knitted<br>sweaters | Production<br>and sale of<br>dyed yarns | Provision<br>of dyeing<br>services | Trading<br>of cotton<br>and yarns |                   |
|                                       | HK\$'000                                 | HK\$'000   | HK\$'000                                | HK\$'000                           | HK\$'000                          |                   |
| <b>ASSETS</b>                         |  |  |   |                                    |                                   |                   |
| Segment assets                        | 126,893                                  | 368,617  | 309,672                                 | 25,930                             | 47,951                            | 879,063           |
| Unallocated corporate assets          |  |  |   |                                    |                                   | 103,878           |
| <b>CONSOLIDATED TOTAL ASSETS</b>      |  |  |   |                                    |                                   | <b>982,941</b>    |
| <b>LIABILITIES</b>                    |  |  |   |                                    |                                   |                   |
| Segment liabilities                   | 18,144                                   | 51,291   | 61,128                                  | 4,121                              | 12,989                            | 147,673           |
| Unallocated corporate liabilities     |  |  |   |                                    |                                   | 310,266           |
| <b>CONSOLIDATED TOTAL LIABILITIES</b> |  |  |   |                                    |                                   | <b>457,939</b>    |

For the year ended 31st December, 2006

|   | Production                               |  |   |                                    |                                   | Unallocated<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|---|------------------------------------|-----------------------------------|-------------------------|-------------------|
|   | Production<br>and sale of<br>cotton yarn | Production<br>and sale<br>of knitted<br>sweaters | Production<br>and sale of<br>dyed yarns | Provision<br>of dyeing<br>services | Trading<br>of cotton<br>and yarns |                         |                   |
|   | HK\$'000                                 | HK\$'000   | HK\$'000                                | HK\$'000                           | HK\$'000                          |                         |                   |
| Capital expenditure   | 7,356                                    | 135,312  | 3,537                                   | 192                                | 344                               | —                       | 146,741           |
| Allowance for bad and<br>doubtful debts                     | 241                                      | —  | 2,915                                   | 282                                | 565                               | —                       | 4,003             |
| Depreciation of property,<br>plant and equipment            | 6,516                                    | 7,688  | 16,261                                  | 1,577                              | 764                               | —                       | 32,806            |
| Depreciation of investment<br>properties                    | —  | —  | —                                       | —                                  | —                                 | 198                     | 198               |
| Amortisation of prepaid<br>lease payments                   | 220                                      | 191  | 562                                     | 83                                 | —                                 | —                       | 1,056             |
| Loss (gain) on disposal of property,<br>plant and equipment | 358                                      | —  | (234)                                   | —                                  | —                                 | —                       | 124               |
| Gain on disposal of<br>investment properties                | —  | —  | —                                       | —                                  | —                                 | 835                     | 835               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 8. SEGMENT INFORMATION – continued

### Geographical segments

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods.

|                       | Turnover by<br>geographical market |                  |
|-----------------------|------------------------------------|------------------|
|                       | 2007<br>HK\$'000                   | 2006<br>HK\$'000 |
| PRC                   | 287,310                            | 277,671          |
| Hong Kong             | 318,024                            | 192,824          |
| Other Asian countries | 37,178                             | 19,025           |
| Europe                | 509,193                            | 404,966          |
| North America         | 15,657                             | 31,403           |
|                       | <u>1,167,362</u>                   | <u>925,889</u>   |

The following is an analysis of the carrying amount of segment assets and additions to investment properties and property, plant and equipment, analysed by the geographical area in which the assets are located:

|                         | Carrying amount<br>of segment assets |                  |
|-------------------------|--------------------------------------|------------------|
|                         | 2007<br>HK\$'000                     | 2006<br>HK\$'000 |
| PRC                     | 880,575                              | 467,254          |
| Hong Kong               | 366,978                              | 260,631          |
| The Kingdom of Cambodia | 185,922                              | 150,762          |
| Macau                   | 775                                  | 416              |
|                         | <u>1,434,250</u>                     | <u>879,063</u>   |

|                         | Additions to<br>investment properties<br>and property,<br>plant and equipment |                  |
|-------------------------|---|------------------|
|                         | 2007<br>HK\$'000  | 2006<br>HK\$'000 |
| PRC                     | 258,460   | 22,328           |
| Hong Kong               | 12,082  | 1,776            |
| The Kingdom of Cambodia | 12,124  | 122,634          |
| Macau                   | 7   | 3                |
|                         | <u>282,673</u>  | <u>146,741</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 9. FINANCE COSTS

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Interest on:   |                  |                  |
| Bank borrowings wholly repayable within five years     | 34,798           | 18,256           |
| Bank borrowings not wholly repayable within five years | 645              | 193              |
| Finance lease  | 752              | 440              |
|  | <u>36,195</u>    | <u>18,889</u>    |

## 10. TAXATION

|                                 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| The charge comprises:           |                  |                  |
| Hong Kong Profits Tax           |                  |                  |
| – Current year                  | 6,616            | 3,334            |
| – Underprovision in prior years | 990              | —                |
| Taxation in PRC                 | 3,925            | 380              |
| Deferred taxation (Note 22)     | 2,015            | 3,087            |
|                                 | <u>13,546</u>    | <u>6,801</u>     |

Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profits for the year.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from the PRC enterprise income tax for the following three years. The first profit-making year of these PRC subsidiaries is the year of 2002 to 2007. Accordingly, the tax relief period of these PRC subsidiaries will expire in 2007 to 2011.

On 16th March, 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the People's Republic of China. The New Law imposed a single income tax rate of 25% for both invested enterprises. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for all PRC subsidiaries of the Company from 1st January, 2008. The Company's subsidiaries in PRC applied tax rate of 33% to provide for current tax for the year before the New Law becomes effective.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 10. TAXATION – continued

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Applicable tax rate (Hong Kong statutory tax rate)                                 | 17.5%            | 17.5%            |
| Profit before taxation   | <u>111,848</u>   | <u>72,991</u>    |
| Taxation at the applicable tax rate  | 19,573           | 12,773           |
| Effect of tax exemption granted to PRC subsidiaries                                | (5,918)          | (6,582)          |
| Tax effect of income not taxable in determining taxable profit                     | (9,659)          | (4,618)          |
| Tax effect of expenses not deductible in determining taxable profit                | 1,436            | 845              |
| Underprovision in prior years  | 990              | —                |
| Tax effect of unrecognised tax losses  | 6,830            | 2,492            |
| Utilisation of tax losses not previously recognised                                | (450)            | (112)            |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | 744              | 86               |
| Tax effect of adjustment to tax base in calculation of deferred taxation           | —                | 1,917            |
| Taxation charge for the year   | <u>13,546</u>    | <u>6,801</u>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 11. PROFIT FOR THE YEAR

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Profit for the year has been arrived at after charging:  |                  |                  |
| Directors' remuneration ( <i>Note 12</i> )   | 6,360            | 6,412            |
| Other staff costs  | 199,357          | 86,165           |
| Retirement benefits scheme contributions, excluding directors  | 5,231            | 2,812            |
|  | <hr/>            | <hr/>            |
| Total staff costs  | 210,948          | 95,389           |
|  | <hr/>            | <hr/>            |
| Allowance for bad and doubtful debts   | 1,765            | 4,003            |
| Amortisation of prepaid lease payments   | 1,632            | 1,056            |
| Auditor's remuneration   | 2,500            | 2,913            |
| Cost of inventories expensed   | 865,739          | 683,196          |
| Depreciation of property, plant and equipment  | 52,318           | 32,806           |
| Depreciation of investment properties  | 176              | 198              |
| Impairment loss recognised in respect of available<br>for sale investments included in administrative expenses | —                | 1,000            |
| Exchange loss  | —                | 777              |
| Loss on disposal of property, plant and equipment  | —                | 124              |
| and after crediting the following other income items:  |                  |                  |
| Interest income  | 2,915            | 2,527            |
| Exchange gain  | 4,213            | —                |
| Gain on disposal of investment properties  | 2,292            | 835              |
| Gain on disposal of property, plant and equipment  | 317              | —                |
| Gross rental income from investment properties   | 1,014            | 1,127            |
| Less: direct operating expenses from investment properties<br>that generated rental income during the year     | (230)            | (274)            |
|  | <hr/>            | <hr/>            |
|  | 784              | 853              |
|  | <hr/> <hr/>      | <hr/> <hr/>      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of 9 (2006: 9) directors were as follows:

For the year ended 31st December, 2007

|  | Dr. Sung<br>Chung<br>Kwun<br>HK\$'000 | Mr. Wong<br>Chiu Hong<br>HK\$'000 | Ms. Mok<br>Pui Mei<br>HK\$'000 | Mr. Ip<br>Siu Lam<br>HK\$'000 | Ms. Sung<br>Lam Ching<br>HK\$'000 | Mr. Lau<br>Gary Q<br>HK\$'000 | Mr. Chan<br>Tsz Fu,<br>Jacky<br>HK\$'000 | Mr. Ng<br>Man Kin<br>HK\$'000 | Professor<br>Cai Xiu Ling<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------------------|-----------------------------------|--------------------------------|-------------------------------|-----------------------------------|-------------------------------|--|-------------------------------|---------------------------------------|-------------------|
| Directors                                    |                                       |                                   |                                |                               |                                   |                               |  |                               |                                       |                   |
| - fees                                       | —                                     | —                                 | —                              | —                             | —                                 | 144                           | 153                                      | 153                           | 153                                   | 603               |
| - salaries and other benefits                | 1,800                                 | 1,320                             | 900                            | 506                           | 540                               | —                             | —  | —                             | —                                     | 5,066             |
| - bonus                                      | 200                                   | 180                               | 100                            | 60                            | 60                                | —                             | —  | —                             | —                                     | 600               |
| - retirement benefit scheme<br>contributions | 12                                    | 12                                | 12                             | 12                            | 12                                | 7                             | 8  | 8                             | 8                                     | 91                |
|  | <u>2,012</u>                          | <u>1,512</u>                      | <u>1,012</u>                   | <u>578</u>                    | <u>612</u>                        | <u>151</u>                    | <u>161</u>                               | <u>161</u>                    | <u>161</u>                            | <u>6,360</u>      |

For the year ended 31st December, 2006

|  | Dr. Sung<br>Chung<br>Kwun<br>HK\$'000 | Mr. Wong<br>Chiu Hong<br>HK\$'000 | Ms. Mok<br>Pui Mei<br>HK\$'000 | Mr. Ip<br>Siu Lam<br>HK\$'000 | Ms. Sung<br>Lam Ching<br>HK\$'000 | Mr. Lau<br>Gary Q<br>HK\$'000 | Mr. Chan<br>Tsz Fu,<br>Jacky<br>HK\$'000 | Mr. Ng<br>Man Kin<br>HK\$'000 | Professor<br>Cai Xiu Ling<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------------------|-----------------------------------|--------------------------------|-------------------------------|-----------------------------------|-------------------------------|--|-------------------------------|---------------------------------------|-------------------|
| Directors                                    |                                       |                                   |                                |                               |                                   |                               |  |                               |                                       |                   |
| - fees                                       | —                                     | —                                 | —                              | —                             | —                                 | 144                           | 144                                      | 144                           | 144                                   | 576               |
| - salaries and other benefits                | 1,800                                 | 1,320                             | 900                            | 506                           | 540                               | —                             | —  | —                             | —                                     | 5,066             |
| - bonus                                      | 200                                   | 211                               | 133                            | 85                            | 53                                | —                             | —  | —                             | —                                     | 682               |
| - retirement benefit scheme<br>contributions | 12                                    | 12                                | 12                             | 12                            | 12                                | 7                             | 7  | 7                             | 7                                     | 88                |
|  | <u>2,012</u>                          | <u>1,543</u>                      | <u>1,045</u>                   | <u>603</u>                    | <u>605</u>                        | <u>151</u>                    | <u>151</u>                               | <u>151</u>                    | <u>151</u>                            | <u>6,412</u>      |

No directors waived any emoluments for both years.

The bonus payment for both years is determined at the discretion of the board of directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosure in Note 12 above. The emoluments of the remaining two (2006: two) individuals were as follows:

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Employees                                 |                  |                  |
| - salaries and other benefits             | 1,904            | 1,650            |
| - bonus                                   | 200              | 140              |
| - retirement benefit scheme contributions | 24               | 24               |
|   | <u>2,128</u>     | <u>1,814</u>     |

Their emoluments were within the following band:

|                                | 2007<br>No. of<br>employees | 2006<br>No. of<br>employees |
|--------------------------------|-----------------------------|-----------------------------|
| Nil to HK\$1,000,000           | —                           | 1                           |
| HK\$1,000,001 to HK\$1,500,000 | 2                           | 1                           |
|                                | <u>2</u>                    | <u>1</u>                    |

During the year ended 31st December, 2007 and 31st December, 2006, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

## 14. DIVIDENDS

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Proposed final dividend of HK5.0 cents<br>(2006: HK3.3 cents) per share | <u>20,000</u>    | <u>13,200</u>    |

A final dividend for the 2006 year of HK3.3 cents per share amounting to HK\$13,200,000 was paid to shareholders during the year.

A final dividend for the 2005 year of HK4.7 cents per share amounting to HK\$18,800,000 was paid to shareholders during the year ended 31st December, 2006.

The directors have resolved to recommend the payment of a final dividend of approximately HK5.0 cents per share amounting to HK\$20,000,000 (2006: HK\$13,200,000 representing HK3.3 cents per share) in respect of the year ended 31st December, 2007. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the Company of HK\$98,546,000 (2006: HK\$66,196,000) and on the share in issue during the year of 400,000,000 (2006: 400,000,000).

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

## 16. INVESTMENT PROPERTIES

|  | HK\$'000    |
|--|-------------|
| COST   |             |
| At 1st January, 2006   | 11,673      |
| Disposals  | (5,660)     |
|  | <hr/>       |
| At 31st December, 2006   | 6,013       |
| Acquired on acquisition of a subsidiary ( <i>note 36(ii)</i> ) | 6,943       |
| Disposals  | (1,823)     |
|  | <hr/>       |
| At 31st December, 2007   | 11,133      |
|  | <hr/>       |
| ACCUMULATED DEPRECIATION                                       |             |
| At 1st January, 2006   | 3,074       |
| Provided for the year  | 198         |
| Eliminated on disposals  | (1,242)     |
|  | <hr/>       |
| At 31st December, 2006   | 2,030       |
| Provided for the year  | 176         |
| Eliminated on disposals  | (534)       |
|  | <hr/>       |
| At 31st December, 2007   | 1,672       |
|  | <hr/>       |
| NET BOOK VALUES  |             |
| At 31st December, 2007   | 9,461       |
|  | <hr/> <hr/> |
| At 31st December, 2006   | 3,983       |
|  | <hr/> <hr/> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 16. INVESTMENT PROPERTIES – continued

The fair value of the Group's investment properties at 31st December, 2007 was HK\$14,150,000 (2006: HK\$6,490,000). The fair value has been arrived at based on a valuation carried out by Vigers Appraisal & Consulting Limited, independent valuers not connected with the Group. The valuation was determined based on the basis of capitalization of net rental income derived from the existing tenancy and made allowance for reversionary income potential of the properties and by reference to comparable market transactions.

The above investment properties are depreciated on a straight-line basis at a rate of 1.6% to 2% per annum, which is based on the relevant lease term.

All investment properties are situated on land under medium term lease at the following locations:

|                   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------|------------------|------------------|
| Hong Kong         | 9,062            | 3,573            |
| Outside Hong Kong | 399              | 410              |
|                   | <u>9,461</u>     | <u>3,983</u>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 17. PROPERTY, PLANT AND EQUIPMENT

|  | Leasehold<br>improvement<br>HK\$'000 | Buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|-----------------------|------------------------------------|---------------------------------------|-------------------------------|---|-------------------|
| <b>COST</b>                                |                                      |                       |                                    |                                       |                               |   |                   |
| At 1st January, 2006                       | 246                                  | 106,673               | 288,074                            | 15,324                                | 18,459                        | 19,544                                  | 448,320           |
| Exchange adjustments                       | —                                    | 3,360                 | 10,398                             | 137                                   | 325                           | 781                                     | 15,001            |
| Additions                                  | —                                    | 624                   | 40,812                             | 677                                   | 988                           | 20,729                                  | 63,830            |
| Acquired on acquisition<br>of subsidiaries | —                                    | 50,257                | 24,083                             | 607                                   | 845                           | 7,119                                   | 82,911            |
| Transfer                                   | —                                    | 5,495                 | 5,978                              | —                                     | —                             | (11,473)                                | —                 |
| Disposals                                  | (246)                                | (275)                 | (5,427)                            | —                                     | (400)                         | —                                       | (6,348)           |
| At 31st December, 2006                     | —                                    | 166,134               | 363,918                            | 16,745                                | 20,217                        | 36,700                                  | 603,714           |
| Exchange adjustments                       | —                                    | 4,808                 | 12,450                             | 174                                   | 486                           | 1,036                                   | 18,954            |
| Additions                                  | —                                    | 29,066                | 140,612                            | 2,009                                 | 3,579                         | 15,384                                  | 190,650           |
| Acquired on acquisition<br>of business     | —                                    | 39,110                | 45,266                             | 638                                   | 66                            | —                                       | 85,080            |
| Transfer                                   | —                                    | 31,296                | 597                                | —                                     | —                             | (31,893)                                | —                 |
| Disposals                                  | —                                    | —                     | (1,409)                            | (21)                                  | (876)                         | (705)                                   | (3,011)           |
| At 31st December, 2007                     | —                                    | 270,414               | 561,434                            | 19,545                                | 23,472                        | 20,522                                  | 895,387           |
| <b>DEPRECIATION</b>                        |                                      |                       |                                    |                                       |                               |   |                   |
| At 1st January, 2006                       | 246                                  | 21,528                | 123,154                            | 12,246                                | 17,034                        | —                                       | 174,208           |
| Exchange adjustments                       | —                                    | 510                   | 4,553                              | 110                                   | 280                           | —                                       | 5,453             |
| Provided for the year                      | —                                    | 4,376                 | 26,307                             | 1,054                                 | 1,069                         | —                                       | 32,806            |
| Eliminated on disposals                    | (246)                                | (42)                  | (2,581)                            | —                                     | (400)                         | —                                       | (3,269)           |
| At 31st December, 2006                     | —                                    | 26,372                | 151,433                            | 13,410                                | 17,983                        | —                                       | 209,198           |
| Exchange adjustments                       | —                                    | 704                   | 5,910                              | 134                                   | 450                           | —                                       | 7,198             |
| Provided for the year                      | —                                    | 8,774                 | 40,773                             | 1,227                                 | 1,544                         | —                                       | 52,318            |
| Eliminated on disposals                    | —                                    | —                     | (1,139)                            | (1)                                   | (835)                         | —                                       | (1,975)           |
| At 31st December, 2007                     | —                                    | 35,850                | 196,977                            | 14,770                                | 19,142                        | —                                       | 266,739           |
| <b>CARRYING VALUES</b>                     |                                      |                       |                                    |                                       |                               |   |                   |
| At 31st December, 2007                     | —                                    | 234,564               | 364,457                            | 4,775                                 | 4,330                         | 20,522                                  | 628,648           |
| At 31st December, 2006                     | —                                    | 139,762               | 212,485                            | 3,335                                 | 2,234                         | 36,700                                  | 394,516           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 17. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

|                        |   |
|------------------------|---|
| Leasehold improvements | Over the shorter of the term of the lease or 25 years       |
| Buildings              | Over the shorter of the term of the lease or 25 to 62 years |
| Plant and machinery    | 10% - 20%   |
| Furniture and fixtures | 4% - 30%  |
| Motor vehicles         | 30%   |

The carrying value of plant and machinery of approximately HK\$11,595,000 (2006: HK\$ 13,528,000) is in respect of assets held under finance leases.

The carrying value of the Group's buildings comprises:

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Properties in the PRC held under land use rights           |                  |                  |
| – short term   | 768              | 846              |
| – medium term  | 163,159          | 80,035           |
| Properties held under medium terms lease in Hong Kong      | 8,073            | 8,553            |
| Properties held under medium terms lease outside Hong Kong | 62,564           | 50,328           |
|  | <u>234,564</u>   | <u>139,762</u>   |

## 18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

|                                     | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Leasehold land in Hong Kong:        |                  |                  |
| – Medium-term lease                 | 22,232           | 6,458            |
| Leasehold land outside Hong Kong:   |                  |                  |
| – Medium-term lease                 | 66,749           | 38,577           |
| – Short lease                       | 329              | 363              |
|                                     | <u>89,310</u>    | <u>45,398</u>    |
| Analysed for reporting purposes as: |                  |                  |
| – Current asset                     | 2,110            | 1,080            |
| – Non-current asset                 | 87,200           | 44,318           |
|                                     | <u>89,310</u>    | <u>45,398</u>    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 19. AVAILABLE FOR SALE INVESTMENTS

The available-for-sale investment represents an investment in a 15% equity interest in a company which was incorporated in Hong Kong and commenced its trading business in early 2006. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 20. DEPOSIT PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The amount represented the deposit paid for the acquisition of property, plant and equipment for the Group's expansion of business.

## 21. CLUB DEBENTURES

The club debenture represents the club membership of Aberdeen Marine Club. The directors are of opinion that there is no impairment of the club debentures since the market price are higher than its carrying value.

## 22. DEFERRED TAX ASSETS/LIABILITIES

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the year:

|  | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Tax<br>losses<br>HK\$'000 | Unrealised<br>loss on<br>inventories<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|---------------------------|--|-------------------|
| At 1st January, 2006   | 1,838  | (487)                     | 1,047  | 2,398             |
| Charge to consolidated income<br>statement for the year          | 2,098  | 82                        | 907  | 3,087             |
| At 31st December, 2006   | 3,936  | (405)                     | 1,954  | 5,485             |
| (Credit) charge to consolidated<br>income statement for the year | (119)  | 90                        | 2,044  | 2,015             |
| Acquisition of business (note 36(i))                             | 9,033  | —                         | —  | 9,033             |
| At 31st December, 2007   | 12,850   | (315)                     | 3,998  | 16,533            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 22. DEFERRED TAX ASSETS/LIABILITIES – continued

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred taxation for financial reporting purposes:

|                          | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax liabilities | 16,848           | 5,890            |
| Deferred tax assets      | <u>(315)</u>     | <u>(405)</u>     |
|                          | <u>16,533</u>    | <u>5,485</u>     |

At the balance sheet dates, the Group's unused tax losses available for offset against future profits were as follows:

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Unused tax losses                         |                  |                  |
| – Recognised as deferred tax asset        | 1,800            | 2,315            |
| – Unrecognised tax losses ( <i>Note</i> ) | <u>53,528</u>    | <u>17,071</u>    |
|   | <u>55,328</u>    | <u>19,386</u>    |

Included in unused tax losses as at 31st December, 2007 is an amount of approximately HK\$3,856,000 (2006: HK\$2,660,000) which will expire between 2009 to 2010; all other unused tax losses can be carried forward indefinitely.

*Note:* Deferred tax asset has not been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams.

## 23. INVENTORIES

|                  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|------------------|------------------|------------------|
| Raw materials    | 258,402          | 149,615          |
| Work in progress | 75,107           | 39,057           |
| Finished goods   | <u>84,354</u>    | <u>28,371</u>    |
|                  | <u>417,863</u>   | <u>217,043</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 24. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group generally allows an average credit period of 30 days to 120 days to its trade customers.

Included in trade receivables, bills receivables and other receivables, deposits and prepayments are trade receivables of HK\$132,444,000 and bills receivables of HK\$82,841,000 (31.12.2006: HK\$111,309,000 and HK\$60,174,000 respectively) and their aged analysis is follows:

|                                    | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Aged:                              |                  |                  |
| 0 - 30 days                        | 77,524           | 73,492           |
| 31 - 60 days                       | 67,696           | 61,046           |
| 61 - 90 days                       | 30,204           | 19,928           |
| 91 - 120 days                      | 18,467           | 4,363            |
| Over 120 days                      | 30,328           | 19,823           |
|                                    | <u>224,219</u>   | <u>178,652</u>   |
| Less: Allowance for doubtful debts | (8,934)          | (7,169)          |
|                                    | <u>215,285</u>   | <u>171,483</u>   |
| Prepaid expenses                   | 29,730           | 13,100           |
| VAT receivables                    | 5,140            | 2,412            |
| Deposits                           | 2,317            | 1,163            |
| Others                             | 6,529            | 3,556            |
|                                    | <u>259,001</u>   | <u>191,714</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 24. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – continued

Before accepting any new customers, the Group will assess and understand the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly.

Ageing of trade receivables which are past due but not impaired

|               | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---------------|------------------|------------------|
| Over 120 days | <u>21,394</u>    | <u>12,654</u>    |

The above amounts were subsequently settled.

### Movement in allowance for doubtful debts

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Balance at beginning of the year                  | 7,169            | 3,166            |
| Impairment losses recognised on trade receivables | <u>1,765</u>     | <u>4,003</u>     |
| Balance at the end of the year                    | <u>8,934</u>     | <u>7,169</u>     |

The impairment losses recognised on trade receivable is mainly because of those trade receivables have financial difficulties.

The amount of the Group's trade receivables, bills receivables and other receivables denominated other than the functional currency of the relevant group entities are set out below:

|  | US Dollar<br>HK\$'000 | Euro<br>HK\$'000 | Renminbi<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------|------------------|----------------------|-------------------|
| At 31st December, 2007                                     |                       |                  |                      |                   |
| Trade receivables, bills receivables and other receivables | <u>64,801</u>         | <u>69,194</u>    | <u>1,075</u>         | <u>135,070</u>    |
| At 31st December, 2006                                     |                       |                  |                      |                   |
| Trade receivables, bills receivables and other receivables | <u>58,118</u>         | <u>50,168</u>    | <u>311</u>           | <u>108,597</u>    |

*Note:* Included in trade receivables, bills receivables and other receivables, deposits and prepayments is bills receivables of approximately HK\$77,897,000 (2006: HK\$51,687,000) representing bills discounted with recourse with maturity period of 0-90 days. The Group retains all the risk and rewardship of such discounted bills receivables and accordingly, the Group continues to recognise the full carrying amount as of such bills receivables and has recognised the cash received on such discount of HK\$77,897,000 (2006: HK\$51,687,000) as secured bank borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 25. AMOUNTS DUE FROM RELATED COMPANIES

Details of amounts due from related companies are as follows:

|                                  | Notes | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|----------------------------------|-------|------------------|------------------|
| Anford Trading Limited           | (i)   | 37               | 37               |
| China Light Investment Limited   | (i)   | 11               | 10               |
| Soundyet Enterprises Limited     | (ii)  | 9                | 5                |
| Wai Yee Knitting Factory Limited | (iii) | 783              | 542              |
|                                  |       | <u>840</u>       | <u>594</u>       |

The amounts due from related companies are unsecured, non-interest bearing and are repayable on demand.

Note:

- (i) Dr. Sung Chung Kwun, Wong Chiu Hong and Mok Pui Mei, being directors of the Company, have beneficial interest in the company.
- (ii) Dr. Sung Chung Kwun, Wong Chiu Hong, Sung Kim Ping and Sung Kim Wa have beneficial interest in this company. Sung Kim Ping and Sung Kim Wa are the sons of Dr. Sung Chung Kwun.
- (iii) Details of the relationship of the above companies with the Group are set out in Note 42.

## 26. PLEDGED BANK DEPOSITS/FIXED BANK DEPOSITS

The pledged bank deposits represents bank deposits pledged to banks to secure bank overdraft and trust receipts loans facilities granted to the Group and therefore are classified as current asset. The amount bears variable interest rate at ranged from 3% to 4% per annum (2006: 3% to 5% per annum).

Fixed bank deposits are short-term bank deposits with an original maturity of six months period. Fixed bank deposits carry variable interest rate ranged from 3% to 4% per annum (2006: 3% to 5% per annum).

The amount of the Group's pledged bank deposits and fixed bank deposits denominated other than the functional currency of the relevant group entities are set out below:

|   | US Dollar<br>HK\$'000 |
|---|-----------------------|
| As at 31st December, 2007                   |                       |
| Pledged bank deposits/pledged bank deposits | <u>9,280</u>          |
| As at 31st December, 2006                   |                       |
| Pledged bank deposits/pledged bank deposits | <u>30,183</u>         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The amount carries variable interest rate at ranged from 2% to 3% per annum (2006: 2% to 3% per annum).

The amount of the Group's bank balances and cash denominated in other than the functional currency of the relevant group entities are set out below:

|                        | Renminbi<br>HK\$'000 | US Dollar<br>HK\$'000 |
|------------------------|----------------------|-----------------------|
| At 31st December, 2007 |                      |                       |
| Bank balances and cash | 4                    | 6,479                 |
|                        | <u>4</u>             | <u>6,479</u>          |
| At 31st December, 2006 |                      |                       |
| Bank balances and cash | —                    | 6,085                 |
|                        | <u>—</u>             | <u>6,085</u>          |

## 28. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Aged:  |                  |                  |
| 0 - 60 days  | 31,452           | 20,323           |
| 61 - 90 days   | 5,906            | 2,866            |
| Over 90 days   | 15,820           | 7,566            |
|  | <u>53,178</u>    | <u>30,755</u>    |
| Receipt in advance                                       | 4,146            | 1,381            |
| Payable for acquisition of property, plant and equipment | 3,560            | 4,187            |
| Payable for acquisition of prepaid lease payments        | 1,450            | 1,253            |
| Accrued expenses   | 62,491           | 61,287           |
| VAT tax payables   | 898              | 2,009            |
| Other payables   | 3,028            | 3,590            |
|  | <u>128,751</u>   | <u>104,462</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 28. TRADE AND OTHER PAYABLES – continued

The amount of the Group's trade payables and other payables denominated in other than the functional currency of the relevant group entities are set out below:

|                          | US Dollar<br>HK\$'000 |
|--------------------------|-----------------------|
| At 31st December, 2007   |                       |
| Trade and other payables | <u>2,598</u>          |
| At 31st December, 2006   |                       |
| Trade and other payables | <u>3,981</u>          |

## 29. BILLS PAYABLE

The amounts carry interest ranging from 4% to 6% per annum (2006: 1% to 6% per annum) and are repayable on demand or within three months.

The amount of the Group's bills payable denominated other than the functional currency of the relevant group entities are set out below:

|                        | US Dollar<br>HK\$'000 |
|------------------------|-----------------------|
| At 31st December, 2007 |                       |
| Bills payable          | <u>14,178</u>         |
| At 31st December, 2006 |                       |
| Bills payable          | <u>1,534</u>          |

## 30. AMOUNT DUE TO A RELATED COMPANY/RELATED PARTY/DIRECTOR

The amounts are unsecured, non-interest bearing and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 31. BANK BORROWINGS

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Bank overdrafts   | 26,492           | 8,814            |
| Bank loans  | 461,585          | 207,018          |
| Trust receipt loans   | 140,120          | 82,557           |
|   | <u>628,197</u>   | <u>298,389</u>   |
| Analysed by:  |                  |                  |
| Secured   | 92,841           | 54,890           |
| Unsecured   | 535,356          | 243,499          |
|   | <u>628,197</u>   | <u>298,389</u>   |
| Total bank borrowings:  |                  |                  |
| Fixed-rate  | 87,492           | 35,000           |
| Variable-rate   | 540,705          | 263,389          |
|   | <u>628,197</u>   | <u>298,389</u>   |
| The bank borrowings are repayable as follows:                     |                  |                  |
| On demand or within one year                                      | 440,848          | 227,716          |
| In more than one year but not more than two years                 | 96,609           | 36,126           |
| In more than two years but not more than three years              | 48,158           | 14,252           |
| In more than three years but not more than four years             | 21,345           | 7,166            |
| In more than four years but not more than five years              | 14,147           | 6,992            |
| In more than five years   | 7,090            | 6,137            |
|   | <u>628,197</u>   | <u>298,389</u>   |
| Less: Amounts due within one year shown under current liabilities | <u>(440,848)</u> | <u>(227,716)</u> |
| Shown under non-current liabilities                               | <u>187,349</u>   | <u>70,673</u>    |

Bank overdrafts are repayable on demand. Trust receipt loans are repayable within one year. The bank borrowings were secured by the Group's certain property, plant and equipment and bank deposits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 31. BANK BORROWINGS – continued

The amounts of the Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

|                           | US Dollars<br>HK\$'000 | Euro<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------|------------------------|------------------|-------------------|
| As at 31st December, 2007 |                        |                  |                   |
| Bank loans                | 15,260                 | 76,922           | 92,182            |
| Trust receipt loans       | 72,620                 | —                | 72,620            |
|                           | <u>87,880</u>          | <u>76,922</u>    | <u>164,802</u>    |
| As at 31st December, 2006 |                        |                  |                   |
| Bank loans                | 10,142                 | 51,928           | 62,070            |
| Trust receipt loans       | 67,630                 | —                | 67,630            |
|                           | <u>77,772</u>          | <u>51,928</u>    | <u>129,700</u>    |

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

Fixed-rate borrowings:

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| On demand or within one year                      | 87,492           | 15,000           |
| In more than one year but not more than two years | —                | 20,000           |
|   | <u>87,492</u>    | <u>35,000</u>    |

In addition, the Group has variable-rate borrowings which carry interest at HIBOR/LIBOR. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

|                          | 2007     | 2006     |
|--------------------------|----------|----------|
| Effective interest rate: |          |          |
| Fixed-rate borrowings    | 5% to 8% | 5% to 7% |
| Variable-rate borrowings | 4% to 7% | 3% to 8% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 32. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its plant and machinery and furniture and fixtures under finance leases. The average lease term is three years. The average effective interest rate is 5% (2006: 5%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

|   | Minimum<br>lease payments |                  | Present value of<br>minimum lease payments |                  |
|---|---------------------------|------------------|--|------------------|
|   | As at<br>31st December,   |                  | As at<br>31st December,                    |                  |
|   | 2007<br>HK'000            | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Amounts payable under finance leases:   |                           |                  |  |                  |
| Within one year   | 9,930                     | 4,327            | 9,027                                      | 4,150            |
| In more than one year but not more<br>than two years                                      | 9,146                     | 361              | 8,669                                      | 359              |
| In more than two years but not more<br>than three years                                   | 5,139                     | —                | 5,057                                      | —                |
|   | <u>24,215</u>             | <u>4,688</u>     | <u>22,753</u>                              | <u>4,509</u>     |
| Less: future finance charges  | <u>(1,462)</u>            | <u>(179)</u>     | <u>—</u>                                   | <u>—</u>         |
| Present value of lease obligations  | <u>22,753</u>             | <u>4,509</u>     | <u>22,753</u>                              | <u>4,509</u>     |
| Less: Amount due for settlement<br>within one year and shown<br>under current liabilities |                           |                  | <u>(9,027)</u>                             | <u>(4,150)</u>   |
| Amount due for settlement after one year  |                           |                  | <u>13,726</u>                              | <u>359</u>       |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The fair value of the Group's finance leases obligations, determined based on the net present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates their carrying amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 33. SHARE CAPITAL

|  | Number of shares      | Amount<br>HK\$'000 |
|--|-----------------------|--------------------|
| Ordinary shares of HK\$0.01 each                                       |                       |                    |
| Authorised share capital:  |                       |                    |
| At 1st January, 2006 at 31st December, 2006<br>and 31st December, 2007 | <u>10,000,000,000</u> | <u>100,000</u>     |
| Ordinary shares of HK\$0.01 each                                       |                       |                    |
| Issued and fully paid:   |                       |                    |
| At 1st January, 2006, 31st December, 2006<br>and 31st December, 2007   | <u>400,000,000</u>    | <u>4,000</u>       |

## 34. SUMMARISED BALANCE SHEET OF THE COMPANY

The Company's summarised balance sheet at the balance sheet dates are as follows:

|                               | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Total assets                  |                  |                  |
| Interests in subsidiaries     | 160,803          | 160,803          |
| Amounts due from subsidiaries | 255,515          | 263,518          |
| Cash                          | 2                | —                |
|                               | <u>416,320</u>   | <u>424,321</u>   |
| Total liability               |                  |                  |
| Amount due to a subsidiary    | (5,433)          | (233)            |
|                               | <u>410,887</u>   | <u>424,088</u>   |
| Capital and reserves          |                  |                  |
| Share capital                 | 4,000            | 4,000            |
| Reserves ( <i>Note</i> )      | 406,887          | 420,088          |
|                               | <u>410,887</u>   | <u>424,088</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 34. SUMMARISED BALANCE SHEET OF THE COMPANY – continued

Note:

|                        | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------|------------------------------|------------------------------------|-----------------------------------|-------------------|
| At 1st January, 2006   | 89,406                       | 349,668                            | (38)                              | 439,036           |
| Loss for the year      | —                            | —                                  | (148)                             | (148)             |
| Dividend               | —                            | (18,800)                           | —                                 | (18,800)          |
|                        | <hr/>                        | <hr/>                              | <hr/>                             | <hr/>             |
| At 31st December, 2006 | 89,406                       | 330,868                            | (186)                             | 420,088           |
| Loss for the year      | —                            | —                                  | (1)                               | (1)               |
| Dividend               | —                            | (13,200)                           | —                                 | (13,200)          |
|                        | <hr/>                        | <hr/>                              | <hr/>                             | <hr/>             |
| At 31st December, 2007 | <u>89,406</u>                | <u>317,668</u>                     | <u>(187)</u>                      | <u>406,887</u>    |

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 Atlantic Limited, over the nominal value of the share capital of the Company issued in exchange thereof and (ii) less dividend paid.

## 35. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 29th August, 2005 (the "Scheme") for the primary purpose of providing incentives to directors, eligible employees and consultants and adviser ("Eligible Persons") of the Group.

Pursuant to the terms of the Scheme which will expire on 28th August, 2015, the board of directors of the Company may grant options to Eligible Persons to subscribe for shares in the Company at a consideration of HK\$1 per grant. Options granted are exercisable at any time during a period to be notified by the board of directors of the Company but limited to a maximum period of ten years after the date the options are granted.

No options were outstanding at 31st December, 2007 and 31st December, 2006 under the Scheme. No options were granted, exercised, cancelled or lapsed during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. ACQUISITION OF BUSINESS AND SUBSIDIARIES

### (i) Acquisition of business

On 24th April, 2007, the Group entered into an agreement (the "Agreement") with the liquidation committee of 博州博棉紡織(集團)有限公司 Bozhou Bo Mian Textile (Group) Limited Liability Company ("Bozhou Bo Mian") in relation to the acquisition of certain assets and the business owned by Bozhou Bo Mian at an aggregate consideration of RMB45,000,000 (equivalent to HK\$45,764,000). The acquisition was completed on 30th April, 2007. Bozhou Bo Mian was a state-owned enterprise established in the PRC in 1998 and was principally engaged in cotton yarn spinning. Bozhou Bo Mian has been incurring loss since 2001 and applied to the Intermediate People's Court of Mongol Autonomous Prefecture, Boertala, Xinjiang 中國新疆博爾塔拉蒙古自治州中級人民法院 (the "Court") for winding-up. On 30th December, 2006, the Court declared the winding-up of Bozhou Bo Mian and made an order that a liquidation committee appointed by the Court to take over the management and control of Bozhou Bo Mian.

In accordance with the Agreement, the Group was required to continue to employ the existing employees of Bozhou Bo Mian and continue to complete the sales orders of customers received by Bozhou Bo Mian. In addition, the Group was required to continue to carry out the existing business of cotton yarn spinning owned by Bozhou Bo Mian.

The fair value of the assets acquired in the transaction, and the discount on acquisition arising, are as follows:

|                                     | Carrying<br>amount<br>before<br>acquisition<br>HK\$'000 | Fair value<br>adjustments<br>HK\$'000 | Fair value<br>HK\$'000 |
|-------------------------------------|---|---------------------------------------|------------------------|
| Assets acquired:                    |   |                                       |                        |
| Prepaid lease payment               | 32  | —                                     | 32                     |
| Premium on prepaid lease payment    | —   | 16,284                                | 16,284                 |
| Property, plant and equipment       | 65,721  | 19,359                                | 85,080                 |
| Inventories                         | 2,707   | —                                     | 2,707                  |
| Deferred taxation                   | —   | (9,033)                               | (9,033)                |
|                                     | <u>68,460</u>   | <u>26,610</u>                         | <u>95,070</u>          |
| Discount on acquisition of business |   |                                       | <u>(49,306)</u>        |
| Total consideration                 |   |                                       | <u><u>45,764</u></u>   |
| Cash outflow arising on acquisition |   |                                       |                        |
| Cash consideration paid             |   |                                       | <u><u>(45,764)</u></u> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. ACQUISITION OF BUSINESS AND SUBSIDIARIES – continued

### (i) Acquisition of business – continued

The discount on acquisition was a result of losses incurred by Bozhou Bo Mian in prior years' operation and the additional capital to be injected by the Group to expand the production facilities in future.

The business acquired contributed HK\$1,137,000 to the Group's profit for the period between the date of acquisition and 31st December, 2007. The directors are of the view that it is impracticable to disclose the revenue and the result of Bozhou Bo Mian for the period from 1st January, 2007 to 31st December, 2007 as if the acquisition had been effected at the 1st January, 2007 since the pre-acquisition financial information was not provided by the liquidation committee of Bozhou Bo Mian.

### (ii) Acquisition of subsidiaries

For the year ended 31st December, 2007

On 9th August, 2007, the Group acquired the 100% interest in King On (China) Limited ("King On") for a consideration of approximately HK\$10,272,000. King On is a property holding company.

The net assets acquired in the transaction is as follows:

|  | Fair value<br>HK\$'000 |
|--|------------------------|
| Net assets acquired:                     |                        |
| Investment properties                    | 6,943                  |
| Prepaid lease payment                    | 16,318                 |
| Trade and other receivables              | 31                     |
| Bank balances and cash                   | 4                      |
| Other payables                           | (94)                   |
| Bank borrowings                          | (12,930)               |
|  | <u>10,272</u>          |
| Total consideration satisfied by:        |                        |
| Cash                                     | <u>10,272</u>          |
| Net cash outflow arising on acquisition: |                        |
| Cash consideration paid                  | (10,272)               |
| Cash and cash equivalents acquired       | 4                      |
|  | <u>(10,268)</u>        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. ACQUISITION OF BUSINESS AND SUBSIDIARIES – continued

### (ii) Acquisition of subsidiaries – continued

For the year ended 31st December, 2006

On 7th July, 2006 and 23rd October, 2006, the Group acquired the 100% interest in River Rich Textile Limited (“River Rich”) and 100% interest in Winner Knitting Factory Limited (“Winner”) for a consideration of approximately HK\$48,269,000 and HK\$39,392,000 respectively. The two newly acquired subsidiaries are incorporated in the Kingdom of Cambodia and engaged in the business of manufacturing and trading of knitted clothes, hat, gloves, socks and scarves. These transactions have been accounted for using the purchase method.

The net assets acquired in the transactions, and the discount on acquisition arising, are as follows:

|  | River Rich   |                                       |                        | Winner   |                                       |                        | Total<br>HK\$'000 |
|--|--|---------------------------------------|------------------------|--|---------------------------------------|------------------------|-------------------|
|  | Acquiree's<br>carrying<br>amount before<br>combination<br>HK\$'000 | Fair value<br>adjustments<br>HK\$'000 | Fair value<br>HK\$'000 | Acquiree's<br>carrying<br>amount before<br>combination<br>HK\$'000 | Fair value<br>adjustments<br>HK\$'000 | Fair value<br>HK\$'000 |                   |
| Net assets acquired:                     |  |                                       |                        |  |                                       |                        |                   |
| Property, plant and equipment            | 35,412   | 11,710                                | 47,122                 | 23,615   | 12,174                                | 35,789                 | 82,911            |
| Inventory                                | 12,675   | —                                     | 12,675                 | 9,472  | —                                     | 9,472                  | 22,147            |
| Trade and other receivables              | 58   | —                                     | 58                     | 7,091  | —                                     | 7,091                  | 7,149             |
| Bank balances and cash                   | 2,376  | —                                     | 2,376                  | 4,552  | —                                     | 4,552                  | 6,928             |
| Trade and other payables                 | (3,766)  | —                                     | (3,766)                | (4,286)  | —                                     | (4,286)                | (8,052)           |
|  | 46,755   | 11,710                                | 58,465                 | 40,444   | 12,174                                | 52,618                 | 111,083           |
| Discount on acquisition                  |  |                                       | (10,196)               |  |                                       | (13,226)               | (23,422)          |
| Total consideration                      |  |                                       | 48,269                 |  |                                       | 39,392                 | 87,661            |
| Total consideration satisfied by:        |  |                                       |                        |  |                                       |                        |                   |
| Cash                                     |  |                                       | 6,241                  |  |                                       | 6,581                  | 12,822            |
| Other payables                           |  |                                       | —                      |  |                                       | 7,752                  | 7,752             |
| Trade receivables (Note)                 |  |                                       | 42,028                 |  |                                       | 25,059                 | 67,087            |
|  |  |                                       | 48,269                 |  |                                       | 39,392                 | 87,661            |
| Net cash outflow arising on acquisition: |  |                                       |                        |  |                                       |                        |                   |
| Cash consideration paid                  |  |                                       | (6,241)                |  |                                       | (6,581)                | (12,822)          |
| Cash and cash equivalents acquired       |  |                                       | 2,376                  |  |                                       | 4,552                  | 6,928             |
|  |  |                                       | (3,865)                |  |                                       | (2,029)                | (5,894)           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. ACQUISITION OF BUSINESS AND SUBSIDIARIES – continued

### (ii) Acquisition of subsidiaries – continued

The discount on acquisition was a result of losses incurred by River Rich and Winner and because of additional capital required to expand the production facilities of these companies.

River Rich and Winner contributed a loss of HK\$3,755,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

*Note:* The amount represented the trade receivables due from River Rich and Winner before the acquisition. At the time of acquisition, these amounts were not received and eliminated on consolidation when River Rich and Winner became subsidiaries of the Group.

## 37. MAJOR NON-CASH TRANSACTION

The Group entered into finance lease arrangements in respect of property, plant and equipment with capital value of HK\$22,394,000 for the year ended 31st December, 2007. No finance lease arrangement in respect of property, plant and equipment was entered by the Group for the year ended 31st December, 2006.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 38. OPERATING LEASE COMMITMENTS

### The Group as lessee

Minimum lease payments paid under operating leases:

|                 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-----------------|------------------|------------------|
| Office premises | <u>550</u>       | <u>292</u>       |

At the balance sheet dates, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|------------------|------------------|
| Within one year                        | 310              | 217              |
| In the second to fifth years inclusive | <u>279</u>       | <u>196</u>       |
|  | <u>589</u>       | <u>413</u>       |

Operating lease payment represents rentals payable by the Group for its office premises. Lease terms ranged for two to five years with fixed rental.

### The Group as lessor

Property rental income earned was HK\$1,014,000 (2006: HK\$1,127,000). All of the properties held have committed tenants for the next five years.

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease payments:

|  | As at 31st December, |                  |
|--|----------------------|------------------|
|  | 2007<br>HK\$'000     | 2006<br>HK\$'000 |
| Within one year                        | 885                  | 469              |
| In the second to fifth years inclusive | <u>686</u>           | <u>664</u>       |
|  | <u>1,571</u>         | <u>1,133</u>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 39. PLEDGE OF ASSETS

At the balance sheet dates, the Group pledged the following assets to banks for the credit facilities granted to the Group:

|                               | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Investment properties         | 6,878            | 2,715            |
| Prepaid lease payments        | 16,148           | 5,247            |
| Property, plant and equipment | 5,556            | 16,242           |
| Bank deposit                  | 6,692            | 5,950            |
|                               | <u>35,274</u>    | <u>30,154</u>    |

The Group also had bill receivables discounted with recourse amounted to HK\$77,897,000 (2006: HK\$51,687,000).

## 40. COMMITMENTS

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | <u>4,328</u>     | <u>24,601</u>    |

## 41. PENSION/RETIREMENT BENEFITS SCHEME

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The qualified employees employed by the operations in the PRC are members of the state-managed retirement benefits schemes operated by the PRC. The PRC operations are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

During the year, the retirement benefit scheme contributions amounted to approximately HK\$5,231,000 (2006: HK\$2,812,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 42. RELATED PARTY DISCLOSURES

Details of the balance with related parties are set out in Notes 25 and 30.

During the year, the Group entered into the following transactions with related companies/parties:

| Related companies/parties            | Relationship    | Nature of transactions                          | 2007<br>HK\$'000  | 2006<br>HK\$'000  |
|--------------------------------------|-----------------|---|-------------------|-------------------|
| Dr. Sung Chung Kwun                  | <i>(Note 1)</i> | Sales proceeds of investment properties         | —                 | 5,390             |
|                                      |                 | Sales proceeds of property, plant and equipment | —                 | 400               |
|                                      |                 | Rental expense paid                             | 240               | 240               |
| P.T. Shinetama Interfashion          | <i>(Note 2)</i> | Purchases of cotton yarn                        | 80,443            | 73,783            |
| Harvest Cosmos Textile Limited       | <i>(Note 3)</i> | Subcontracting fee                              | —                 | 7                 |
| Wai Yee Knitting Factory Limited     | <i>(Note 4)</i> | Sales of raw white and dyed yarn                | 2,423             | 2,626             |
|                                      |                 | Sales of dyed materials                         | 6                 | —                 |
|                                      |                 | Subcontracting fee                              | —                 | 1                 |
|                                      |                 | Rental income                                   | 120               | 200               |
| Dinghu Yongsheng Textiles Fty., Ltd. | <i>(Note 5)</i> | Purchases of raw white yarn                     | 928               | 963               |
|                                      |                 |   | <u>          </u> | <u>          </u> |

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Group and the related parties.

*(Note 1)* Dr. Sung Chung Kwun is a director and substantial shareholder of the Group.

*(Note 2)* Sung Chung Man, a brother of Dr. Sung Chung Kwun has beneficial interests in this company.

*(Note 3)* Sung Kim Wa and Sung Kim Ping, sons of Dr. Sung Chung Kwun, have beneficial interest in this company.

*(Note 4)* Sung Kit Ching and Wong Chun Fong, a daughter and daughter-in-law of Dr. Sung Chung Kwun, have beneficial interest in this Company.

*(Note 5)* Sung Liang Hua, a brother of Dr. Sung Chung Kwun, has beneficial interest in this company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2007 are as follows:

| Name of subsidiary   | Notes | Place and date of incorporation/ establishment        | Issued and fully paid share capital/ registered capital              | Proportion of nominal value of issued share capital/registered capital held by the Company |            | Principal activities  |
|--|-------|---|--|--|------------|---|
|  |       |   |  | Directly   | Indirectly |   |
| Interlink Atlantic Limited   | (i)   | British Virgin Islands ("BVI")<br>24th November, 1999 | Ordinary share<br>US\$1  | 100%   | —          | Investment holding  |
| Addchance Limited  | (i)   | Hong Kong<br>2nd October, 1981                        | Ordinary shares<br>HK\$1,500,000                                     | —  | 100%       | Manufacturing and trading of dyed yarn, provision of yarn-dyeing services, trading of cotton raw white yarn and fancy yarn and property holding |
| Chinakey (Hong Kong) Limited   | (i)   | Hong Kong<br>22nd October, 1997                       | Ordinary shares<br>HK\$1,000,000                                     | —  | 100%       | Manufacturing and trading of knitted sweaters   |
| Sky Emperor International Limited  | (i)   | Hong Kong<br>12th March, 1997                         | Ordinary shares<br>HK\$10,000  | —  | 100%       | Trading of knitted sweaters   |
| Sure Win International Textiles Limited  | (i)   | Hong Kong<br>15th July, 1993                          | Ordinary shares<br>HK\$15,000  | —  | 100%       | Provision of knitting services  |
| Charm Shine (Macau) Wool Yarn Industrial Limited   | (i)   | Macau<br>15th September, 1987                         | MOP\$500,000   | —  | 100%       | Trading of dyed yarn and raw white yarn   |
| Mei Pan Dyeing Factory Limited   | (i)   | Hong Kong<br>1st May, 1987                            | Ordinary shares<br>HK\$1,240,000<br>Ordinary Shares A<br>HK\$760,000 | —  | 100%       | Investment holding  |
| Billion Art Enterprise Limited   | (i)   | Hong Kong<br>17th October, 2005                       | Ordinary shares<br>HK\$2,000,000                                     | —  | 100%       | Incorporated for the purpose of manufacturing and sales of knitted sweaters but operations not yet commenced                                    |
| Addchance Thread Manufacturing Limited   | (i)   | Hong Kong<br>24th April, 2007                         | Ordinary shares<br>HK\$2,000,000                                     | —  | 52%        | Manufacturing and sales of thread   |
| King On (China) Limited  | (i)   | Hong Kong<br>3rd October, 2006                        | Ordinary shares<br>HK\$10,000  | —  | 100%       | Property holding  |
| 張家港互益染整有限公司<br>Zhangjiagang Addchance Dyeing & Finishing Co., Ltd.<br>("Zhangjiagang Addchance") | (ii)  | PRC<br>9th March, 2001                                | Registered capital<br>US\$12,000,000                                 | —  | 100%       | Manufacturing of dyed yarn and provision of dyeing services   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

| Name of subsidiary   | Notes | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital                   | Proportion of nominal value of issued share capital/registered capital held by the Company |            | Principal activities   |
|--|-------|--|---|--|------------|--|
|  |       |  |   | Directly   | Indirectly |  |
| 羅定互益染廠有限公司<br>Luoding Addchance Dyeing Factory Ltd. ("Luoding Addchance")                    | (ii)  | PRC<br>6th November, 1986                      | Registered capital<br>US\$5,044,000                                       | —  | 100%       | Provision of yarn dyeing services                                    |
| 羅定市美鵬染廠有限公司<br>Luoding Mei Pan Dyeing Factory Ltd. ("Luoding Mei Pan")                       | (ii)  | PRC<br>10th June, 1993                         | Registered capital<br>US\$8,000,000                                       | —  | 100%       | Provision of yarn dyeing services                                    |
| 安慶市宿松互益紡織有限公司<br>Anqing Su Song Addchance Textiles Co., Ltd. ("Anqing Addchance")            | (ii)  | PRC<br>9th September, 2002                     | Registered capital<br>US\$10,000,000                                      | —  | 100%       | Manufacturing of cotton yarn   |
| 羅定忠益織造廠有限公司<br>Luoding Addchance Knitting Factory Ltd. ("Luoding Addchance Knitting")        | (ii)  | PRC<br>8th November, 1999                      | Registered capital<br>US\$10,000,000                                      | —  | 100%       | Provision of knitting services                                       |
| 張家港互益紡織有限公司<br>Zhangjiagang Addchance Spinnery Co., Ltd. ("Zhangjiagang Addchance Spinnery") | (ii)  | PRC<br>12th December, 2003                     | Registered capital<br>US\$12,000,000                                      | —  | 100%       | Manufacturing of knitted sweaters and provision of knitting services |
| 廣西岑溪互益紡織有限公司<br>Cenxi Addchance Textile Factory Ltd. ("Cenxi Addchance")                     | (ii)  | PRC<br>27th September, 2003                    | Registered capital<br>US\$2,000,000                                       | —  | 100%       | Provision of knitting services                                       |
| 羅定市誠益織造有限公司<br>Luoding Honour Rich Textile Factory Ltd. ("Luoding Honour")                   | (ii)  | PRC<br>11th August, 2003                       | Registered capital<br>US\$1,080,000                                       | —  | 100%       | Provision of knitting services                                       |
| 廣西梧州互益紡織有限公司<br>Wu Zhou Addchance Textile Factory Limited ("Wu Zhou Addchance")              | (ii)  | PRC<br>16th December, 2005                     | Registered capital<br>US\$3,500,000<br>Paid up capital<br>US\$1,248,301   | —  | 100%       | Manufacturing of knitted sweaters                                    |
| 安慶市宿松互益精紡有限公司<br>An Qing Su Song Addchance Spinning Company Limited ("Su Song Addchance")    | (ii)  | PRC<br>14th April, 2006                        | Registered capital<br>US\$10,000,000                                      | —  | 100%       | Manufacturing of cotton yarn   |
| 新疆博樂互益紡織有限公司<br>Xinjiang Bole Addchance Textile Limited                                      | (ii)  | PRC<br>3rd April, 2007                         | Registered capital<br>US\$15,000,000<br>Paid up capital<br>US\$10,900,000 | —  | 100%       | Manufacturing of cotton yarn   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

| Name of subsidiary              | Notes | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/registered capital held by the Company |            | Principal activities   |
|---------------------------------|-------|--|---|--|------------|--|
|                                 |       |  |   | Directly   | Indirectly |  |
| River Rich Textile Limited      | (i)   | Kingdom of Cambodia<br>13th August, 2004       | Registered capital<br>US\$1,000,000                     | —  | 100%       | Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves |
| Winner Knitting Factory Limited | (i)   | Kingdom of Cambodia<br>3rd April, 1997         | Registered capital<br>US\$1,000,000                     | —  | 100%       | Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves |

*Notes:*

- (i) These companies are limited liability companies.
- (ii) These companies are wholly-foreign owned enterprise.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# FINANCIAL SUMMARY

For the year ended 31st December, 2007

## RESULTS

|                               | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| Turnover                      | <u>609,296</u>   | <u>772,202</u>   | <u>900,482</u>   | <u>925,889</u>   | <u>1,167,362</u> |
| Profit before taxation        | 38,718           | 54,652           | 83,346           | 72,991           | 111,848          |
| Taxation                      | <u>(7,524)</u>   | <u>(6,907)</u>   | <u>(7,929)</u>   | <u>(6,801)</u>   | <u>(13,546)</u>  |
| Profit for the year           | <u>31,194</u>    | <u>47,745</u>    | <u>75,417</u>    | <u>66,190</u>    | <u>98,302</u>    |
| Profit attributable to:       |                  |                  |                  |                  |                  |
| Equity holders of the Company | 25,856           | 42,021           | 75,413           | 66,196           | 98,546           |
| Minority interests            | <u>5,338</u>     | <u>5,724</u>     | <u>4</u>         | <u>(6)</u>       | <u>(244)</u>     |
|                               | <u>31,194</u>    | <u>47,745</u>    | <u>75,417</u>    | <u>66,190</u>    | <u>98,302</u>    |

## ASSETS AND LIABILITIES

|  | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000<br>(Note) | 2006<br>HK\$'000 | 2007<br>HK\$'000 |
|--|------------------|------------------|----------------------------|------------------|------------------|
| Total assets   | 751,110          | 790,205          | 840,658                    | 982,941          | 1,487,829        |
| Total liabilities                                    | <u>(708,277)</u> | <u>(697,252)</u> | <u>(379,609)</u>           | <u>(457,939)</u> | <u>(854,924)</u> |
|  | <u>42,833</u>    | <u>92,953</u>    | <u>461,049</u>             | <u>525,002</u>   | <u>632,905</u>   |
| Equity attributable to equity holders of the Company | 28,793           | 92,803           | 460,895                    | 524,854          | 632,041          |
| Minority interests                                   | <u>14,040</u>    | <u>150</u>       | <u>154</u>                 | <u>148</u>       | <u>864</u>       |
|  | <u>42,833</u>    | <u>92,953</u>    | <u>461,049</u>             | <u>525,002</u>   | <u>632,905</u>   |

Note: The Company was incorporated in the Cayman Islands on 9th June, 2004 and became the holding company of the Group with effect from 29th August, 2005 as a result of a group reorganisation. The results of the Group for each of the two years ended 31st December, 2004 and the assets and liabilities as at 31st December, 2003 and 2004 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated 23rd September, 2005.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Addchance Holdings Limited (the “Company”) will be held at Hilltop Country Club, No.10 Hill Top Road, Lo Wai, Tsuen Wan, New Territories, Hong Kong on Tuesday, 27th May, 2008 at 12:00 noon for the following purposes :

1. To receive and consider the audited consolidated financial statements of the Company and the reports of the directors and auditor for the year ended 31st December, 2007.
2. To declare a final dividend of HK5.0 cents per share for the year ended 31st December, 2007.
3. To re-elect directors and to authorise the remuneration committee of the Company to fix their remuneration.
4. To re-appoint auditor and to authorise the board of directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions :

## ORDINARY RESOLUTIONS

A. “THAT :

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or scrip dividend scheme or similar arrangement of the Company or the exercise of the subscription rights under the share option scheme of the Company shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution :

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of :

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

# NOTICE OF ANNUAL GENERAL MEETING

B. "THAT :

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and
- (c) for the purposes of this resolution :

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of :

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

- C. "THAT conditional upon resolution no. 5B above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 5B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no.5A above."

By Order of the Board  
**Fung Ka Lai**  
*Company Secretary*

Hong Kong, 23rd April, 2008

Principal Office :  
Sung's Tower  
15-19 Lam Tin Street  
Kwai Chung  
New Territories  
Hong Kong.

*Notes :*

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) The register of members of the Company will be closed from Thursday, 22nd May, 2008 to Tuesday, 27th May, 2008 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the final dividend and the entitlement to attend and vote at the annual general meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 21st May, 2008.