HUAFENG
華 豐

# HUAFENG GROUP HOLDINGS LIMITED
# 華豐集團控股有限公司

Stock Code 股份代號：364

# 2008
# Annual Report 年報

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon

### Independent Non-Executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

## AUDIT COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

## REMUNERATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Li Mow Ming, Sonny *SB St. John, FCPA, CPA (Aust.)*

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2107, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

## REGISTRARS

### Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Ltd.
P.O. Box 513
Strathvale House
North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

### Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Rooms 1901-02, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

## AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

## LEGAL ADVISERS

### As to Cayman Islands laws

Conyers Dill & Pearman

### As to Hong Kong laws

D. S. Cheung & Co.

## PRINCIPAL BANKERS

Bangkok Bank Public Company Limited,
  Hong Kong Branch
CITIC Ka Wah Bank Limited
DBS Bank (China) Limited, Guangzhou Branch
Hang Seng Bank Limited
UOB Asia Limited

## WEBSITE

www.huafeng.com.hk

## STOCK CODE

364

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for the last five financial years:

## RESULTS

| | Year ended 30 September | | | | |
|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 |
| TURNOVER | **806,695** | 747,063 | 586,335 | 518,047 | 380,409 |
| PROFIT FROM OPERATIONS | **123,215** | 126,358 | 100,933 | 80,572 | 73,401 |
| Finance costs | **(21,240)** | (23,516) | (13,495) | (10,773) | (5,207) |
| PROFIT BEFORE TAX | **101,975** | 102,842 | 87,438 | 69,799 | 68,194 |
| Income tax expense | **(10,786)** | (3,899) | (2,375) | (1,713) | (1,616) |
| PROFIT BEFORE MINORITY INTERESTS | **91,189** | 98,943 | 85,063 | 68,086 | 66,578 |
| Minority interests | **(173)** | 6,418 | 2,203 | 914 | 319 |
| NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS | **91,016** | 105,361 | 87,266 | 69,000 | 66,897 |

## ASSETS, LIABILITIES AND MINORITY INTERESTS

| | At 30 September | | | | |
|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 |
| NON-CURRENT ASSETS | **889,463** | 745,710 | 543,470 | 517,235 | 456,371 |
| CURRENT ASSETS | **922,356** | 564,357 | 429,484 | 250,609 | 205,094 |
| TOTAL ASSETS | **1,811,819** | 1,310,067 | 972,954 | 767,844 | 661,465 |
| CURRENT LIABILITIES | **506,003** | 381,345 | 187,555 | 176,846 | 171,144 |
| NON-CURRENT LIABILITIES | **152,237** | 201,764 | 185,232 | 92,107 | 54,601 |
| MINORITY INTERESTS | **1,953** | 1,747 | 8,160 | 10,724 | 11,662 |
| TOTAL LIABILITIES | **658,240** | 583,109 | 372,787 | 268,953 | 225,745 |
| NET ASSETS | **1,153,579** | 726,958 | 600,167 | 498,891 | 435,720 |

Note 1: The summary of the results, assets, liabilities and minority interests of the Group for the years ended 30 September 2005 and 2004 are extracted from the Company's annual report 2005 prepared in accordance with Hong Kong Financial Reporting Standards.

Note 2: The summary of the results, assets, liabilities and minority interests of the Group for the years ended 30 September 2007 and 2006 are extracted from the Company's annual report 2007 prepared in accordance with International Financial Reporting Standards.

Note 3: The summary of the results, assets, liabilities and minority interests of the Group for the year ended 30 September 2008 are extracted from the Company's annual report 2008 prepared in accordance with International Financial Reporting Standards.

# Chairman's Statement

## FINAL RESULTS

On behalf of the board of directors (the "Board") of Huafeng Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), I have pleasure in presenting the Group's audited results for the year ended 30 September 2008. The Group's consolidated revenue for the year grew 8.0% to approximately HK$806.7 million as compared to the corresponding period last year. Profit after tax attributable to equity shareholders amounted to approximately HK$91.0 million or 7.3 HK cents per share, representing decreases of 13.6% and 39.0% respectively over last year.

## BUSINESS REVIEW

The Group continued to record steady growth during the year ended 30 September 2008 despite the worsening global economy. The Group's fabric processing business reported a remarkable enhancement which contributed to the Group with a new high turnover record of HK$686.2 million. Meanwhile, sale of spinning yarn business has maintained a moderate growth at HK$120.5 million due to the softening of demanded from fabrics manufactures. Having said that, the Group observes that the impact of the financial tsunami is global, and is not just industry-specific. We foresee the demand in the textile industry as well as fabric processing sectors will decline by a certain degree.

## PROSPECTS

Due to the decrease in international coal price and the other related production costs, it is expected that the Group will continue to record a steady growth in business revenue and profitable operation in the coming fiscal year. Though global consumer demand will worsen in 2009 to 2011, the Chinese Central Government will continue to institute economic policies in maintaining a steady growth in the domestic consumer market. The Group will continue to benefit from such policies by increasing its domestic sales volume.

## APPRECIATION

I would like to take this opportunity to express my hearty thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

**Cai Zhenrong**
*Chairman*

Hong Kong, 16 January 2009

## FINANCIAL PERFORMANCE

The Group's revenue for the year ended 30 September 2008 amounted to approximately HK$806.7 million (2007: approximately HK$747.1 million), representing an increase of approximately 8.0% over last year. Profit attributable to shareholders for the year was approximately HK$91.0 million, representing a decrease of approximately 13.6% over last year. The turnover of fabric segment amounted to approximately HK$686.2 million during the year ended 30 September 2008, and the turnover of yarn segment registered a stable growth during the year under review.

The Group took efforts in suppressing expenditures and managed to reduce administrative expenses from previous year's approximately HK$46.0 million to this year's approximately HK$41.7 million. On finance costs, interest on bank loans, overdrafts and bank charges reduced to approximately HK$21.0 million. The gross profit of Group amounted to approximately HK$195.5 million, approximately the same as last year. However, due to the recognition of the fair value change on financial liabilities of approximately HK$43.3 million, profit after tax dropped approximately 7.8% to approximately HK$91.2 million.

## ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the Greater China region remained stable at approximately 57.6% of total sales in 2008. The Philippines market continued to be a strong base of customers of the Group, accounted for approximately 33.2% of the Group's total sales. The remaining approximately 9.2% of sales were generated from customers located in Africa, Australia and North America.

## LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2008, the Group had current assets of approximately HK$922.4 million (2007: approximately HK$564.4 million) and current liabilities of approximately HK$506.0 million (2007: approximately HK$381.3 million). The current ratio (calculated as current assets to current liabilities) increased from 1.48 as at 30 September 2007 to 1.82 as at 30 September 2008. The gearing ratio (calculated as the total bank borrowings to total shareholders' equity) had dropped from 0.49 as at 30 September 2007 to 0.25 as at 30 September 2008. These ratios were at reasonably adequate levels as at 30 September 2008 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the year under review, the Group principally met its funding requirements by cash flows from a dual listing in Korea Exchange ("KRX") by way of a Korea Depository Receipts Programme ("KDR") with a net proceeds of about HK$253.8 million, trading operations and bank borrowings. The net cash inflow from operating activities and financing activities were approximately HK$129.1 million and HK$205.7 million respectively (2007: approximately HK$234.4 million and HK$21.9 million respectively).

Total bank borrowings decreased by around 20.3% to approximately HK$284.4 million (2007: approximately HK$356.9 million) due to no additional utilization of banking facilities during the year ended 30 September 2008. The Group had total bank borrowings of approximately HK$284.4 million (2007: approximately HK$356.9 million), of which approximately HK$155.0 million (2007: approximately HK$169.8 million) was repayable within one year and approximately HK$129.4 million (2007: approximately HK$187.1 million) was repayable more than one year. Approximately 18.0% of the total bank borrowings was subject to fixed interest rates while approximately 82.0% was subject to floating interest rates. The Group's bank borrowings were primarily denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"). For the Group's total bank borrowings as at 30 September 2008, 30.0% of the balance was denominated in RMB and 70.0% of the balance was denominated in HKD. There were no seasonal adjustments with respect to the Group's borrowings.

At 30 September 2008, the Group's bank borrowings were secured by (i) certain prepaid land lease payments and investment properties of the Group; (ii) corporate guarantees given by its subsidiaries; and (iii) charges over the equity of its subsidiaries.

## CAPITAL STRUCTURE

During the year ended 30 September 2008, there were changes in capital structure and the total number of issued share capital of the Company as at 30 September 2008 was 1,239,503,580 shares. On 26 November 2007, the Company issued 6,000,000 units which represents 300,000,000 ordinary new shares at a subscription price of Korean Won 5,600 (approximately HK$0.944 per share at the exchange rate as of 26 November 2007) per unit under the KDR on KRX for a total cash consideration of approximately HK$283.2 million. On 23 January 2008, the directors of the Company (the "Directors") recommended a bonus issue of shares ("Bonus Issue") and approved in the Company's annual general meeting held on 18 March 2008. The Bonus Issue has been made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held, therefore subsequently totalling 59,023,980 shares have been issued by the Company.

## CAPITAL EXPENDITURE AND MATERIAL ACQUISITION

During the year under review, the total capital expenditure and material acquisition of the Group was approximately HK$98.7 million which mainly invested on the development of various plants and the upgrading and acquisition of additional machineries.

## FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB and HKD. In view of the currency peg between HKD and United States dollars ("USD") and a relatively strong RMB at HKD1.00 equal to RMB0.88 (as at 30 September 2008) the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

The Group at first has entered into a USD80 Million Interest Rate Swap Contract ("First Contract") with Deutsche Bank to which the Company has reported in the Annual Report of 2007. With a vision that US dollar interest rate approached its low end and eying Euro interest rate falling, the Group has unwound the First Contract with a gain of USD200,000 in April 2008. The Group then subsequently entered into an Euro Currency Interest Rate Swap Contract with Deutsche Bank at a notional amount of USD100 million ("Second Contract"). On the Second Contract, Deutsche Bank has provided an upfront cash of USD10.0 million after the Group has settled USD7.8 million under the First Contract. Due to an unexpected interest rate rise of 0.5% on Euro in June 2008, the Second Contract brought about an unrealized loss of approximately HK$43.3 million for the fiscal year ended 30 September 2008. However, with a series of bankruptcy of major international financial institutions and global depression sweeping across the world, worldwide interest rates have declined to new lows. Euro interest rate has since then dropped to 2.0% as of 15 January 2009. In such cases, the Group has fully recovered the HK$43.3 million unrealised loss and instead the Group would make a windfall of about USD3.0 million if the Group unwinds the Second Contract at current levels.

## PROFIT WARNING DATED 17 NOVEMBER 2008

On 17 November 2008, the Group has made an announcement pursuant to rule 13.09(1) of the Listing Rules in relation to a possible deterioration of profit for the year ended 30 September 2008 as compared with last financial year. The assumption was made under the unrealised loss of HK$43.3 million arising from the Second Contract entered into with Deutsche Bank in April 2008. However, due to the strong growth of the Group's business for the year, the additional profit gained from trading has overcome the unrealised loss to a great extent. As such, the net effect of after the unrealised loss of HK$43.3 million made was insignificant now.

## CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2008 (2007: Nil).

## PLEDGE OF ASSETS

The Group's bank borrowings are secured by prepaid land lease payments and investment properties of certain subsidiaries of the Group with a total carrying value of approximately HK$34.1 million as at 30 September 2008 (2007: prepaid land lease payments, buildings and plants and machineries of HK$150.5 million).

## EMPLOYMENT INFORMATION

At 30 September 2008, the Group had a total of 2,370 (2007: 2,398) employees in Hong Kong, Macau and the PRC. The Group's emoluments policies are based on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the year ended 30 September 2008, the total staff costs (including directors' emoluments) amounted to approximately HK$59.3 million (2007: HK$59.7 million).

The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

## BUSINESS DEVELOPMENT AND OUTLOOK

The Group continued to seek business diversification but has frozen its search for fashion retailing chain in mid 2008 due to the weakening consumer market outlook.

Plant facilities in Jiangxi Province have almost been completed with a floor space of 32,000 sq.m. The facilities are expected to be operational in the second quarter of 2009 after installation of machineries in the first quarter of 2009.

Lingfeng Dyeing and Weaving Co., Ltd. (wholly-owned subsidiary of the Company) reported slight increase in fabric processing capacity to approximately 40,000 tonnes per annum. Its additional facilities are also approaching near-completion, and is expected to be operational in the third quarter of 2009.

Shenyang Huafeng Dyeing & Printing Co. Ltd. (53.57% owned subsidiary of the Company) has ceased operation last year, and has been totally disposed on 30 December 2008. It is expected that the gain on disposal will be included in the next financial report.

Shishi Huarun Knitting & Dyeing Co., Ltd. (wholly-owned subsidiary of the Company) reported slight increase in fabric processing capacity to approximately 37,000 tonnes per annum.

The Group recorded continued turnover increase in 2008. Although the world experienced a financial tsunami in a global scale, with the consolidation of the fabric processing and dyeing industry, the Group expects steady business growth in the coming year.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save as disclosed under “Management Discussion and Analysis”, the Group had no material acquisition or disposal of any subsidiaries and associated companies for the year ended 30 September 2008.

## DUAL LISTING

On 28 December 2006, the Company made a pre-application to the KRX for the establishment of the KDR on the KRX and the Company applied to the relevant authorities for the listing of not more than 300 million new shares (equivalent to 6 million KDRs) under the KDR, by way of public offering in KRX on 16 February 2007. The offering was approved by the Financial Supervisory Service of Korea on 9 November 2007. Subsequently the Company was successfully dual listing in both Hong Kong and Korea on 26 November 2007.

For further details, please refer to the Company’s announcements dated 27 December 2006, 16 February 2007, 27 June 2007, 23 October 2007 and 9 November 2007 together with the Company’s circular dated 28 February 2007.

On 5 January 2009, the disclosure agent in Korea was changed from Hanul Accounting Corporation to Hanul Disclosure Services Co., Ltd.

The Company has adopted most of the code provisions as stated in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Board is committed to complying with the CG Code to the extent that the Directors consider it to be practical and applicable to the Company.

The corporate governance principles of the Group emphasize an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to all shareholders of the Company (the "Shareholders"). The Board will continue to monitor and revise the Company's governance policies in order to ensure that such policies may meet the general rules and standards required by the Listing Rules and Shareholders. The Company had complied with the CG Code throughout the year ended 30 September 2008 with the following deviations:

### Code Provision A.2.1

Up to the date of this annual report, no individual was appointed as chief executive officer of the Company. The role of the chief executive officer has been performed collectively by all the executive Directors, including the chairman of the Company (the "Chairman"). The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of Shareholders as a whole.

### Code Provision A.4.1

The non-executive Directors are not appointed for a specific term during the year ended 30 September 2008. They are, however, subject to retirement, rotation and re-election at the annual general meeting of the Company pursuant to the Company's articles of association. However, on 16 January 2009, each of the independent non-executive Directors has re-entered into a letter of appointment with the Company for a terms of two years from 16 January 2009 to 15 January 2011.

The key corporate governance principles and practices of the Company are summarized as follows:

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code during the year ended 30 September 2008.

## BOARD

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group.

## A) Board Composition

The Board currently comprises five executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the year ended 30 September 2008 and up to the date of this annual report were:

*Executive Directors*

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon
Mr. Mak Shiu Chung, Godfrey (resigned on 2 October 2007)

*Independent Non-executive Directors*

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

The biographical details of the Directors and the relationships among them are set out in "Directors' Biographies" on pages 23 to 24 of this annual report. Save as disclosed in the section headed "Directors' Biographies", none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

## B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to the Shareholders, for the manner in which the affairs of the Company are managed and operated.

As and when necessary, the Directors can access to the advice and services of the company secretary, and in the appropriate circumstances, seeking of independent professional advice at the Group's expense to ensure that the Board procedures, and all applicable rules and regulations are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board fully supports the senior management to discharge its duties and responsibilities in all circumstances. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Appropriate insurance cover for the directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group is being arranged by the Company.

## C) Meeting Records

There were 5 Board meetings held for the year ended 30 September 2008. The following was an attendance record of the Board meetings held:

| Board Members | Attendance at meetings held for the year ended 30 September 2008 |
|---|---|
| *Executive Directors* | |
| Mr. Cai Zhenrong *(Chairman)* | 4/5 |
| Mr. Cai Zhenyao | 4/5 |
| Mr. Cai Zhenying | 4/5 |
| Mr. Cai Yangbo | 5/5 |
| Mr. Choi Wing Toon | 5/5 |
| Mr. Mak Shiu Chung, Godfrey (resigned on 2 October 2007) | 0/0 |
| *Independent Non-executive Directors* | |
| Mr. Lawrence Gonzaga | 4/5 |
| Ms. Choy So Yuk | 3/5 |
| Mr. Wong Siu Hong | 4/5 |

## D) Independent Non-executive Directors

During the year ended 30 September 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that all three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is Mr. Cai Zhenrong while the Company does not at present have any individual with the title of "chief executive officer".

The Chairman's responsibility is to manage the Board and the role of the chief executive officer has been performed collectively by all the executive Directors, including the Chairman.

The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the Shareholders as a whole.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

According to the recommended best practice A.4.4 of the CG code, the listed issuers are recommended to set up a nomination committee with a majority of members thereof being independent non-executive directors. The Company does not have a nomination committee as the role and function of such a committee are performed by the Board. The Board is responsible for the formulation of nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominating directors to fill casual vacancies.

The Chairman may in conjunction with the other directors from time to time review the composition of the Board in particular to ensure there is an appropriate number of directors on the Board. The Board also may identify and nominate qualified individuals for appointment as new directors of the Company. During the year under review, no meeting was held by the Board for nomination of new director.

According to code provision A.4.1 of the CG code, non-executive Directors should be appointed for a specific term of service. During the year ended 30 September 2008, all the independent non-executive Directors are not appointed for specific terms but they are subject to retirement by rotation at least once every three years under the articles of association of the Company. On 16 January 2009, each of the independent non-executive Directors has re-entered into a letter of appointment with the Company for a terms of two years from 16 January 2009 to 15 January 2011.

## BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:—

- Audit Committee

- Remuneration Committee

Each Board committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

## A) Audit Committee

The Company has established an audit committee which consists of three independent non-executive Directors.

*Composition of Audit Committee*

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

*Role and function*

The audit committee is mainly responsible for:

i. discussing with the external auditors before the audit commences and the nature and scope of audit;

ii. reviewing the draft Company's annual and interim accounts before submission to, and providing advice and comments to the Board;

iii. reviewing the external auditors' management letter and considering the appointment of external auditors, their audit fees and questions of resignation or dismissal;

iv. discussing problems and reservations arising from the annual and interim accounts and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

v. assessing the risk environment and reviewing internal control procedure of the Group.

*Meeting Record*

The audit committee met twice during the year, particular in reviewing the interim and annual results, and the internal control of the Group. The following was an attendance record of the audit committee meetings for the year ended 30 September 2008:

| **Audit Committee Members** | **Attendance at meetings held for the year ended 30 September 2008** |
|---|---|
| Mr. Lawrence Gonzaga *(Chairman)* | 2/2 |
| Ms. Choy So Yuk | 1/2 |
| Mr. Wong Siu Hong | 2/2 |

During the year ended 30 September 2008, the audit committee has discussed the auditing and financial reporting matters, the internal control and risk management systems; and the annual and interim accounts.

## B) Remuneration Committee

The Company has established a remuneration committee which consists of three independent non-executive Directors.

*Composition of Remuneration Committee*

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

*Role and function*

The remuneration committee is mainly responsible for:

i. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

ii. making recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

iii. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

iv. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

v. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

vi. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

vii. reviewing and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

viii. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

ix. advising the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of Shareholders (in accordance with the provisions of rule 13.68 of the Listing Rules).

*Meeting Record*

The remuneration committee met twice during the year. The following was an attendance record of the remuneration committee meeting for the year ended 30 September 2008:

| **Remuneration Committee Members** | **Attendance at meetings held for the year ended 30 September 2008** |
|---|---|
| Mr. Lawrence Gonzaga *(Chairman)* | 2/2 |
| Ms. Choy So Yuk | 1/2 |
| Mr. Wong Siu Hong | 2/2 |

During the year ended 30 September 2008, the remuneration committee has reviewed the remuneration package of the Board members and the senior management of the Company.

## SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure the Shareholder's interest. To do so, the Company maintains on-going dialogue with the Shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings by sending the notice of meeting, circular and proxy form.

Any registered Shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the register of members of the Company. Detailed procedures for conducting a poll will be explained to the Shareholders at the commencement of the general meeting and the chairman of the meeting will answer all questions from the Shareholders in relation to the voting by way of poll.

In order to comply with the new code provision with effect from 1 January 2009, adequate notice period and all the relevant materials will be given and sent to the Shareholders at least 20 clear business days before the annual general meetings and at least 10 clear business days before extraordinary general meetings respectively.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another Shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:—

Hotline no.: 2549 0669

By post: Room 2107, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

## AUDITORS' REMUNERATION

During the year ended 30 September 2008, the remuneration paid and payable to the auditors of the Company, RSM Nelson Wheeler, for the provision of the Group's audit services and non-audit services amounted to HK$1,850,000 and HK$1,156,500 respectively.

## DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 30 September 2008, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and on a going concern basis. The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware any material uncertainties relating to events or conditions which may cost significant doubt over the Group's ability to continue as a going concern.

It is the auditor's responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion solely to the Shareholders, as a body, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditor's report.

## INTERNAL CONTROL

During the year ended 30 September 2008, the Board complied with the code provision on internal control as set out in the CG code. The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

The Board also considered that there is adequate resources, qualifications and experience of staff in the Group to monitor the Group's accounting and financial reporting functions. The Group will ensure such matters are under review by the Board periodically and training programmes will be provided to the staff whenever necessary to ensure their knowledge and experience are adequate to discharge their duties.

## INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to Shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

The Group's investors relation firm in Hong Kong is Jetum Communication Consultants Limited while handling corporate relations in Korea is Value C&I in Seoul.

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 30 September 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the principal subsidiaries are set out in note 32 to the financial statements. There was no significant changes in the nature of the Group's principal activities during the year ended 30 September 2008.

## CHANGE OF COMPANY NAME

The change of the Company name from "Huafeng Textile International Group Limited 華豐紡織國際集團有限公司" to "Huafeng Group Holdings Limited 華豐集團控股有限公司" was approved by the Shareholders at the annual general meeting of the Company held on 18 March 2008.

## SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 30 September 2008 are set out in note 8 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 30 September 2008 and the state of affairs of the Group as at that date are set out in the financial statements on pages 27 to 82.

During the year under review, the Board has declared and paid an interim dividend of HK0.5 cent per share.

The Board recommended the payment of a final dividend of HK0.5 cent per ordinary share in respect of the year ended 30 September 2008 to the Shareholders whose names appear on the register of members of the Company on 26 February 2009. The proposed final dividend is subject to Shareholders' approval at the forthcoming annual general meeting of the Company and will be paid on around 13 March 2009.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 19 February 2009 to Thursday, 26 February 2009, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed final dividend and attending the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 18 February 2009.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 30 September 2008 are set out in note 28 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements and the consolidated statement of changes in equity on page 29 of this annual report.

## DISTRIBUTABLE RESERVES

At 30 September 2008, the Company had distributable reserves of approximately HK$689,970,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK$547,602,000 as at 30 September 2008, is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 September 2008, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 36.3% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 10.9% of the Group's total purchases.

For the year ended 30 September 2008, the percentage of sales attributable to the Group's five largest customers was less than 30%.

Neither the Directors, any of their associates nor any Shareholders (which to the best knowledge of the Directors who owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year ended 30 September 2008.

## DIRECTORS

The Directors during the year ended 30 September 2008 and up to the date of this annual report were as follows:

### Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon
Mr. Mak Shiu Chung, Godfrey (resigned on 2 October 2007)

### Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

In accordance with article 108 of the Company's articles of association, Mr. Choi Wing Toon, Mr. Cai Zhenying and Mr. Lawrence Gonzaga will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out on pages 23 to 24 of this annual report.

## DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

As at the date of this annual report, each of the independent non-executive Directors has re-entered into a letter of appointment with the Company for a terms of two years from 16 January 2009 to 15 January 2011, which can be terminated by either party giving not less than one month notice in writing to the other party.

Each of the Directors is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year ended 30 September 2008.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or in existence during the year ended 30 September 2008.

## CONNECTED TRANSACTIONS

There was no transaction which should be disclosed in this annual report as connected transaction in accordance with the requirements of the Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 36 to the financial statements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2008, the interests of the Directors or chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

### Long Positions

**Ordinary shares of HK$0.01 each of the Company**

| Director | Capacity | Type of interest | Number of shares held | Approximate percentage of shareholding in the Company |
|---|---|---|---|---|
| Mr. Cai Zhenrong | Beneficial owner | Personal | 451,122,000 | 36.40% |
| Mr. Cai Yangbo | Beneficial owner | Personal | 1,050,000 | 0.08% |

Save as disclosed above, as at 30 September 2008, none of the Directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in shares or short positions in shares and underlying shares" and "Share option scheme", at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "Scheme") and the details of the movements in share options which were granted under the scheme are set out in note 29 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2008, to the best knowledge of the Directors, the following person (other than Directors) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO:

### Long Positions

**Ordinary Shares of HK$0.01 each of the Company**

| Name of shareholder | Capacity | Number of shares held | Approximate percentage of shareholding in the Company |
|---|---|---|---|
| Ms. Su Liyuan | Interest of spouse | 451,122,000 (Note) | 36.40% |

Note: These 451,122,000 shares are held and beneficially owned by Mr. Cai Zhenrong, an executive Director. Ms. Su Liyuan is the wife of Mr. Cai Zhenrong and accordingly deemed to be interested in these 451,122,000 shares, under SFO.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no Directors or their respective associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

## POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in note 37 to the financial statements.

## PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this annual report as required under the Listing Rules.

## AUDITORS

The financial statements have been audited by RSM Nelson Wheeler who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Cai Zhenrong**
*Chairman*

Hong Kong, 16 January 2009

## EXECUTIVE DIRECTORS

**Mr. Cai Zhenrong**, aged 61, is the founder, the chairman and an executive director of the Group. Mr. Cai is responsible for the overall strategic planning, business developments and strategic investments of the Group. Mr. Cai has over 20 years of experience in the textile industry. He established East South Asia Trading Co. Ltd. in 1988 as an investment vehicle for the investment and establishment of Huafeng Knitting. Since the establishment of Huafeng Knitting, Mr. Cai has devoted a significant amount of time in the Philippines for the Group's business management and development. Mr. Cai Zhenrong is the brother of Mr. Cai Zhenyao and Mr. Cai Zhenying; the father of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

**Mr. Cai Zhenyao**, aged 54, is an executive director and the finance director of the Group. Mr. Cai was the factory and operations manager in Fujian Province Shishi City Hanjiang Liantang Plastic and Metal Manufactory during the period from 1985 to 1988, and was the deputy general manager of Fujian Province Shishi City Hanjiang Liantang Xinda Knitting Manufactory during the period from 1988 to 1992. Mr. Cai has been responsible for the Group's overall organisational and finance systems management since joining the Group in 1993, including the establishment of employees benefits system, production management system, accounting and treasury system and internal control system. Mr. Cai Zhenyao is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenying; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

**Mr. Cai Zhenying**, aged 52, is an executive director and the marketing director of the Group. Mr. Cai was the sales manager of Fujian Province Shishi City Huangguanba Textile Company Limited during the period from 1988 to 1992. Mr. Cai has been responsible for the Group's sales, marketing and promotion functions since joining the Group in 1993. Mr. Cai is principally responsible for the formulation and administration of the marketing and promotion activities of the Group as well as customers' liaison for the Group. He has accumulated in-depth knowledge in relation to the fabric processing industry, the credit standing and the needs and preferences of the Group's customers. Mr. Cai Zhenying is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenyao; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

**Mr. Cai Yangbo**, aged 34, is an executive director and the operation director of the Group. Mr. Cai was the deputy general manager of Fujian Province Shishi City Yongningzi Yingmingfeng Knitting Factory during the period from 1993 to 1996 and was principally responsible for production and business management. Mr. Cai has been responsible for the overall production factory management and human resources of the Group since joining the Group in 1996. Mr. Cai Yangbo is the son of Mr. Cai Zhenrong; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

**Mr. Choi Wing Toon**, aged 58, is an executive director and the marketing and promotion manager of the Group. Mr. Choi was a proprietor engaged in fabrics trading and processing agency services prior to joining the Group. Mr. Choi has been responsible for the overseas sales and marketing activities of the Group since joining the Group in 1997. Mr. Choi is the cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lawrence Gonzaga**, aged 35, was appointed as independent non-executive director in August 2002. Mr. Gonzaga graduated from De La Salle University in the Philippines in 1993 with a bachelor of science degree in Commerce majoring in Business Management. Mr. Gonzaga has worked in a securities company in the Philippines for over 14 years. Mr. Gonzaga is a member of the Market Technicians Association and holds the Chartered Market Technician ("CMT") designation.

**Ms. Choy So Yuk**, aged 58, was appointed as independent non-executive director in August 2002. Ms. Choy obtained her bachelor's degree in science and her master's degree in philosophy from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was one of the founding management members of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a variety of political, social and academic committee memberships, such as the delegate of the National People's Congress of China, member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference, and director of Fujian Middle School. Ms. Choy was a member of the Legislative Council in Hong Kong from 1998 to 2008.

**Mr. Wong Siu Hong**, aged 41, was appointed as independent non-executive director in September 2004. Mr. Wong obtained a bachelor of business degree, majoring in accounting and commercial law in Australia. Mr. Wong is currently the Chief Financial Officer and Company Secretary of Heng Tai Consumables Group Limited ("Heng Tai"), a company listed on the Main Board of the Stock Exchange, who is responsible for Heng Tai's financial planning and management, and corporate governance. Prior to joining Heng Tai, Mr. Wong had worked in a multinational accounting firm and has over 12 years of experience in accounting and auditing. Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
**HUAFENG GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Huafeng Group Holdings Limited (the "Company") set out on pages 27 to 82, which comprise the consolidated balance sheet as at 30 September 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 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 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 International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 September 2008 and of the Group's results 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.

**RSM Nelson Wheeler**
*Certified Public Accountants*

Hong Kong
16 January 2009

# Consolidated Income Statement

For the year ended 30 September 2008

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **TURNOVER** | 6 | **806,695** | 747,063 |
| Cost of services provided and cost of sales | | **(611,169)** | (550,633) |
| Gross profit | | **195,526** | 196,430 |
| Other income | 7 | **16,937** | 11,484 |
| Selling and distribution expenses | | **(23,935)** | (22,316) |
| Administrative expenses | | **(41,727)** | (46,009) |
| Fair value change on investment properties | 17 | **20,428** | — |
| Fair value change on financial liabilities at fair value through profit or loss | | **(43,306)** | — |
| Other operating expenses | | **(708)** | (13,231) |
| **PROFIT FROM OPERATIONS** | | **123,215** | 126,358 |
| Finance costs | 10 | **(21,240)** | (23,516) |
| **PROFIT BEFORE TAX** | | **101,975** | 102,842 |
| Income tax expense | 11 | **(10,786)** | (3,899) |
| **PROFIT FOR THE YEAR** | 12 | **91,189** | 98,943 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **91,016** | 105,361 |
| Minority interests | | **173** | (6,418) |
| | | **91,189** | 98,943 |
| **DIVIDENDS** | 13 | **12,396** | 30,595 |
| **EARNINGS PER SHARE** | 14 | | |
| | | | (restated) |
| Basic | | **HK7.64 cents** | HK11.40 cents |
| Diluted | | **HK7.64 cents** | HK11.25 cents |

# Consolidated Balance Sheet

At 30 September 2008

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **665,846** | 578,521 |
| Prepaid land lease payments | 16 | **62,480** | 56,975 |
| Investment properties | 17 | **44,304** | — |
| Intangible assets | 18 | **40,627** | 40,964 |
| Available-for-sale financial assets | 19 | **3,584** | 3,257 |
| Deposits paid for acquisition of long-term assets | 20 | **72,622** | 65,993 |
| | | **889,463** | 745,710 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **91,021** | 106,247 |
| Trade receivables | 22 | **203,644** | 182,070 |
| Prepayments, deposits and other receivables | | **121,561** | 45,457 |
| Prepaid land lease payments | 16 | **1,473** | 1,263 |
| Bank and cash balances | 23 | **504,657** | 229,320 |
| | | **922,356** | 564,357 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 24 | **55,122** | 51,463 |
| Other payables and accruals | | **162,048** | 151,419 |
| Financial liabilities at fair value through profit or loss | 25 | **121,156** | — |
| Due to a related company | 36 | **3,408** | 3,097 |
| Interest-bearing borrowings | 26 | **154,975** | 169,832 |
| Current tax liabilities | | **9,294** | 5,534 |
| | | **506,003** | 381,345 |
| **NET CURRENT ASSETS** | | **416,353** | 183,012 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,305,816** | 928,722 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing borrowings | 26 | **129,385** | 187,067 |
| Deferred tax liabilities | 27 | **22,852** | 14,697 |
| | | **152,237** | 201,764 |
| **NET ASSETS** | | **1,153,579** | 726,958 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **12,395** | 8,805 |
| Reserves | | **1,139,231** | 716,406 |
| Equity attributable to equity holders of the Company | | **1,151,626** | 725,211 |
| Minority interests | | **1,953** | 1,747 |
| **TOTAL EQUITY** | | **1,153,579** | 726,958 |

Approved by the Board of Directors

**Cai Yangbo**
*Director*

**Choi Wing Toon**
*Director*

| | Note | Attributable to equity holders of the Company | | | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | |
| | | Share capital HK$'000 | Share premium HK$'000 | Properties revaluation reserve HK$'000 | Share-based payment reserve HK$'000 (note 31(b)) | Translation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | HK$'000 | HK$'000 |
| At 1 October 2006 | | 8,805 | 164,835 | 22,128 | – | 12,468 | 383,771 | 592,007 | 8,160 | 600,167 |
| Surplus on revaluation of buildings | 15 | – | – | 6,247 | – | – | – | 6,247 | – | 6,247 |
| Surplus on revaluation of buildings shared by minority shareholders | | – | – | (6) | – | – | – | (6) | 6 | – |
| Effect on deferred tax | 27(a) | – | – | (237) | – | – | – | (237) | – | (237) |
| Effect on deferred tax shared by minority shareholders | | – | – | 1 | – | – | – | 1 | (1) | – |
| Exchange differences on translation of foreign operations | | – | – | – | – | 38,447 | – | 38,447 | – | 38,447 |
| Net income recognised directly in equity | | – | – | 6,005 | – | 38,447 | – | 44,452 | 5 | 44,457 |
| Profit for the year | | – | – | – | – | – | 105,361 | 105,361 | (6,418) | 98,943 |
| Total recognised income and expense for the year | | – | – | 6,005 | – | 38,447 | 105,361 | 149,813 | (6,413) | 143,400 |
| Recognition of share-based payments | | – | – | – | 5,403 | – | – | 5,403 | – | 5,403 |
| Dividends paid | | – | – | – | – | – | (22,012) | (22,012) | – | (22,012) |
| At 30 September 2007 | | 8,805 | 164,835 | 28,133 | 5,403 | 50,915 | 467,120 | 725,211 | 1,747 | 726,958 |
| Representing: | | | | | | | | | | |
| At 30 September 2007 after proposed final dividend | | | | | | | | 712,226 | | |
| Proposed final dividend | 13 | | | | | | | 12,985 | | |
| Equity attributable to equity holders of the Company | | | | | | | | 725,211 | | |
| At 1 October 2007 | | 8,805 | 164,835 | 28,133 | 5,403 | 50,915 | 467,120 | 725,211 | 1,747 | 726,958 |
| Surplus on revaluation of buildings | 15 | – | – | 9,338 | – | – | – | 9,338 | – | 9,338 |
| Surplus on revaluation of buildings shared by minority shareholders | | – | – | (47) | – | – | – | (47) | 47 | – |
| Effect on deferred tax | 27(a) | – | – | (2,406) | – | – | – | (2,406) | – | (2,406) |
| Effect on deferred tax shared by minority shareholders | | – | – | 14 | – | – | – | 14 | (14) | – |
| Transfers | | – | – | (1,268) | – | – | 1,268 | – | – | – |
| Exchange differences on translation of foreign operations | | – | – | – | – | 93,873 | – | 93,873 | – | 93,873 |
| Net income recognised directly in equity | | – | – | 5,631 | – | 93,873 | 1,268 | 100,772 | 33 | 100,805 |
| Profit for the year | | – | – | – | – | – | 91,016 | 91,016 | 173 | 91,189 |
| Total recognised income and expense for the year | | – | – | 5,631 | – | 93,873 | 92,284 | 191,788 | 206 | 191,994 |
| Shares issued in the form of KDR | 28(a) | 3,000 | 280,200 | – | – | – | – | 283,200 | – | 283,200 |
| Issues of bonus shares | 28(b) | 590 | (590) | – | – | – | – | – | – | – |
| Share issue expenses paid | | – | (29,390) | – | – | – | – | (29,390) | – | (29,390) |
| Dividends paid | | – | – | – | – | – | (19,183) | (19,183) | – | (19,183) |
| At 30 September 2008 | | 12,395 | 415,055 | 33,764 | 5,403 | 144,788 | 540,221 | 1,151,626 | 1,953 | 1,153,579 |
| Representing: | | | | | | | | | | |
| At 30 September 2008 after proposed final dividend | | | | | | | | 1,145,428 | | |
| Proposed final dividend | 13 | | | | | | | 6,198 | | |
| Equity attributable to equity holders of the Company | | | | | | | | 1,151,626 | | |

Note: The share premium account of the Group includes:

(i) the premium arising from the issue of new shares; and

(ii) the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 August 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in Appendix III "Statutory and General Information" in the Company's prospectus dated 20 August 2002.

# Consolidated Cash Flow Statement

For the year ended 30 September 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **101,975** | 102,842 |
| Adjustments for: | | | |
| Bank interest income | | **(7,927)** | (6,154) |
| Finance cost | | **21,240** | 23,516 |
| Depreciation | | **54,236** | 46,923 |
| Amortisation of prepaid land lease payments | | **1,330** | 606 |
| Loss on disposal of property, plant and equipment | | **544** | 338 |
| (Reversal)/deficit on revaluation of buildings | | **(274)** | 138 |
| Amortisation of technical know-how | | **1,100** | 1,035 |
| Impairment loss on property, plant and equipment | | **—** | 8,545 |
| Allowance for inventories | | **—** | 1,895 |
| Allowance for trade receivables | | **—** | 98 |
| Allowance for other receivables | | **—** | 1,628 |
| Fair value change on investment properties | | **(20,428)** | — |
| Fair value change on financial liabilities at fair value through profit or loss | | **43,306** | — |
| Written off of property, plant and equipment | | **46** | — |
| Written off of trade receivable | | **96** | — |
| Equity-settled share-based payments | | **—** | 5,403 |
| Operating profit before working capital changes | | **195,244** | 186,813 |
| Decrease/(increase) in inventories | | **15,226** | (27,788) |
| Increase in trade receivables | | **(21,670)** | (36,896) |
| Increase in prepayment, deposits and other receivables | | **(70,353)** | (453) |
| Increase in trade payables | | **3,659** | 15,681 |
| Increase in other payables and accruals | | **10,629** | 99,720 |
| Decrease in amounts due to a related company | | **—** | 184 |
| Cash generated from operations | | **132,735** | 237,261 |
| Income tax paid | | **(3,662)** | (2,907) |
| Net cash generated from operating activities | | **129,073** | 234,354 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(98,740)** | (98,575) |
| Acquisition of interests in available-for-sale financial assets | | **—** | (1,359) |
| Proceeds from disposals of property, plant and equipment | | **1,430** | 608 |
| Acquisition of a subsidiary | 33 | **—** | (56,807) |
| Deposits paid for acquisition of long-term assets | | **—** | (65,993) |
| Purchase of prepaid land lease payments | | **(6,836)** | (9,610) |
| Interest received | | **2,176** | 6,154 |
| Net cash used in investing activities | | **(101,970)** | (225,582) |

For the year ended 30 September 2008

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Inception of financial liabilities at fair value through profit or loss | **77,850** | — |
| Bank loans raised | **134,978** | 207,451 |
| Repayment of bank loans | **(220,475)** | (139,981) |
| Proceeds from issue of shares | **283,200** | — |
| Share issue expenses paid | **(29,390)** | — |
| Finance costs paid | **(21,240)** | (23,516) |
| Dividends paid | **(19,183)** | (22,012) |
| Net cash generated from financing activities | **205,740** | 21,942 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **232,843** | 30,714 |
| Effect of foreign exchange rate changes | **42,494** | 6,809 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **229,320** | 191,797 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **504,657** | 229,320 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **504,657** | 229,320 |

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its place of business is Room 2107, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Korea Exchange under the Korea Depository Receipts Programme.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 32 to the financial statements.

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

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 October 2007. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IRFSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, investment properties and financial liabilities at fair value through profit or loss which are carried at their fair values.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies applied in the preparation of these financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 September. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests 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. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. 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 is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

### (c) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Foreign currency translation (continued)

*(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (d) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the properties revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against properties revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

| | |
|---|---|
| Buildings | The shorter of the lease terms and 10 to 40 years |
| Plant and machinery | 5 - 15 years |
| Furniture, fixtures, office equipment and motor vehicles | 5 - 10 years |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation and, is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

### (f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are included in the income statement for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Technical know-how

Technical know-how acquired by the Group is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of technical know-how unless such lives are indefinite. Technical know-how with an indefinite useful life is systematically tested for impairment at each balance sheet date. Technical know-how are amortised from the date they are available for use and the estimated useful lives are ten years from the date they are available for use according to the agreements entered by the Group for acquisition of the technical know-how.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the 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 the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

*(ii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### (l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Financial liabilities and equity instruments (continued)

*Trade and other payables*

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*Equity instruments*

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

### (n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the provision of fabric processing services is recognised when the services are rendered.

Revenue from the sales of manufactured goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Subcontracting fee income is recognised when the services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

### (o) Employee benefits

*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Employee benefits (continued)

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (p) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### (q) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

### (r) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 financial statements and the corresponding tax bases 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, unused tax losses or unused tax credits 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

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, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
(ii) the party is an associate;
(iii) the party is a joint venture;
(iv) the party is a member of the key management personnel of the Company or its parent;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### (u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, goodwill, other intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, investment properties, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (x) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

*(a) Legal titles of certain lands and buildings*

As stated in notes 15, 16 and 17 to the financial statements, the titles of certain buildings and lands were not transferred to the Group as at 30 September 2008. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings and land use right as property, plant and equipment, prepaid land lease payments and investment properties on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those buildings and lands.

### Key sources of estimation uncertainty

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, are discussed below.

*(a) Property, plant and equipment and depreciation; technical know-how and amortisation*

The Group determines the estimated useful lives and related depreciation charges and amortisation charges for the Group's property, plant and equipment and technical know-how. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and technical know-how of similar nature and functions. The Group will revise the depreciation and amortisation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

### Key sources of estimation uncertainty (continued)

(b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was HK$33,015,000 after an impairment loss of HK$Nil.

(c) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) *Allowance for slow-moving inventories*

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(e) *Fair values of investment properties*

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD") and Renminbi ("RMB") which are the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 30 September 2008, if the HKD had weakened one per cent against the United States Dollars ("USD") with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,413,000 (2007: HK$1,356,000) lower, arising mainly as a result of the net foreign exchange loss on bank and cash balances and receivables denominated in USD. If the HKD had strengthened one per cent against the USD with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,413,000 (2007: HK$1,356,000) higher, arising mainly as a result of the net foreign exchange gain on bank and cash balances and receivables denominated in USD.

### (b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## 5. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk (continued)

The maturity analysis of the Group's financial liabilities is as follows:

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 |
|---|---|---|---|---|
| **At 30 September 2008** | | | | |
| Interest bearing borrowings | 167,806 | 71,231 | 63,882 | — |
| Financial liabilities at fair value through profit or loss | 121,156 | — | — | — |
| Trade payables | 55,122 | — | — | — |
| Other payables and accruals | 162,048 | — | — | — |
| Due to a related company | 3,408 | — | — | — |
| **At 30 September 2007** | | | | |
| Interest bearing borrowings | 188,792 | 69,659 | 126,852 | 2,487 |
| Trade payables | 51,463 | — | — | — |
| Other payables and accruals | 151,419 | — | — | — |
| Due to a related company | 3,097 | — | — | — |

### (d) Interest rate risk

At 30 September 2008 the Group's bank and cash balances included fixed deposits denominated in USD amounting to approximately HK$136 million (2007: HK$136 million) and at fixed interest rate of 3.65% per annum (2007: 4.3% per annum) and therefore are subject to fair value interest rate risk.

The Group's exposure to interest-rate risk also arises from its bank borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition.

At 30 September 2008, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,246,000 (2007: HK$2,847,000) higher, arising mainly as a result of lower interest expense on bank borrowings. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,246,000 (2007: HK$2,847,000) lower, arising mainly as a result of higher interest expense on bank borrowings.

At 30 September 2008, if the index for computation of interest rate at that date had increased 1% with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$70,465,000 (2007: HK$Nil) higher, arising mainly as a result of change in fair value of derivative financial instruments. If the index for computation of interest rate at that date had decreased 1% with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$37,246,000 (2007: HK$Nil) lower, arising mainly as a result of change in fair value of derivative financial instruments.

## 5. FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

## 6. TURNOVER

The Group's turnover which represents the net invoiced value of services rendered and goods sold to customers, after allowances for trade discounts and returns.

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Provision of fabric processing services | **655,727** | 601,319 |
| Sale of goods | **150,968** | 145,744 |
| | **806,695** | 747,063 |

## 7. OTHER INCOME

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **7,927** | 6,154 |
| Gain on termination of interest rate swap contract | **1,557** | — |
| Subcontracting income | **6,077** | 2,318 |
| Government grants | **6** | 93 |
| Net foreign exchange gains | **229** | 1,872 |
| Reversal on revaluation of buildings | **274** | — |
| Rental income | **673** | — |
| Others | **194** | 1,047 |
| | **16,937** | 11,484 |

## 8. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

The principal activities of the Group are the provision of fabric processing services, manufacture and sale of fabrics and manufacture and sale of yarns, which are managed according to the geographical location of customers.

Each of the Group's geographical segment, based on the location of customers, represents a strategic business unit that offers services to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

### (a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenue, results, assets and liabilities are attributed to the segments based on the location of the customers.

## 8. SEGMENT INFORMATION (continued)

### (a) Geographical segments based on the location of customers (continued)

| | The Philippines | | Greater China | | Africa, Australia and North America | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| Segment revenue: | | | | | | | | |
| Revenue | **267,521** | 268,859 | **464,717** | 408,678 | **74,457** | 69,526 | **806,695** | 747,063 |
| Segment results | **107,719** | 114,403 | **23,366** | 5,320 | **14,186** | 18,024 | **145,271** | 137,747 |
| Other income | | | | | | | **16,937** | 11,484 |
| Fair value change on investment properties | | | | | | | **20,428** | – |
| Fair value change on financial liabilities at fair value through profit or loss | | | | | | | **(43,306)** | – |
| Unallocated expenses | | | | | | | **(16,115)** | (22,873) |
| Profit from operations | | | | | | | **123,215** | 126,358 |
| Finance costs | | | | | | | **(21,240)** | (23,516) |
| Profit before tax | | | | | | | **101,975** | 102,842 |
| Income tax expense | | | | | | | **(10,786)** | (3,899) |
| Profit for the year | | | | | | | **91,189** | 98,943 |
| Segment assets | **181,406** | 170,513 | **1,015,730** | 839,192 | **50,489** | 44,094 | **1,247,625** | 1,053,799 |
| Unallocated assets | | | | | | | **564,194** | 256,268 |
| Total assets | | | | | | | **1,811,819** | 1,310,067 |
| Segment liabilities | **36,994** | 32,756 | **164,486** | 96,219 | **10,296** | 8,470 | **211,776** | 137,445 |
| Unallocated liabilities | | | | | | | **446,464** | 445,664 |
| Total liabilities | | | | | | | **658,240** | 583,109 |
| Other segment information: | | | | | | | | |
| Capital expenditure | **3,716** | 5,750 | **93,990** | 91,338 | **1,034** | 1,487 | **98,740** | 98,575 |
| Impairment loss on property, plant and equipment | **–** | – | **–** | 8,545 | **–** | – | **–** | 8,545 |
| Depreciation and amortisation | **8,126** | 8,237 | **44,948** | 37,591 | **2,262** | 2,130 | **55,336** | 47,958 |
| Write-off/allowance of trade receivables and other receivables | **–** | – | **96** | 1,726 | **–** | – | **96** | 1,726 |
| Allowance for inventories | **–** | – | **–** | 1,895 | **–** | – | **–** | 1,895 |
| Write-off of property, plant and equipment | **–** | – | **46** | – | **–** | – | **46** | – |
| Loss on disposal of property, plant and equipment | **–** | – | **544** | 338 | **–** | – | **544** | 338 |

## 8. SEGMENT INFORMATION (continued)

### (b) Geographical segments based on the location of assets

All of the Group's assets are located in the Greater China. No additional information in respect of segment assets and capital expenditure information are presented.

### (c) Business segments

The following table presents revenue, assets and capital expenditure information for the Group's business segments.

| | Provision of fabric processing services, manufacture and sale of fabrics | | Manufacture and sale of yarns | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| Segment revenue | **686,190** | 631,653 | **120,505** | 115,410 | **806,695** | 747,063 |
| Segment assets | **813,087** | 693,623 | **434,538** | 384,074 | **1,247,625** | 1,077,697 |
| Unallocated assets | | | | | **564,194** | 232,370 |
| | | | | | **1,811,819** | 1,310,067 |
| Capital expenditure | **79,192** | 58,131 | **19,548** | 40,444 | **98,740** | 98,575 |

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

**For the year ended 30 September 2008**

| Name of director | Fees<br>HK$'000 | Salaries, allowances and benefits in kind<br>HK$'000 | Discretionary bonus<br>HK$'000 | Retirement benefits scheme contributions<br>HK$'000 | Total emoluments<br>HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Cai Zhenrong | – | 450 | 20 | – | 470 |
| Mr. Cai Zhenyao | – | 304 | – | – | 304 |
| Mr. Cai Zhenying | – | 304 | – | – | 304 |
| Mr. Cai Yangbo | – | 304 | – | – | 304 |
| Mr. Choi Wing Toon | – | 301 | 24 | 12 | 337 |
| **Independent non-executive directors** | | | | | |
| Ms. Choy So Yuk | 120 | – | – | – | 120 |
| Mr. Lawrence Gonzaga | 120 | – | – | – | 120 |
| Mr. Wong Siu Hong | 120 | – | – | – | 120 |
| Total | 360 | 1,663 | 44 | 12 | 2,079 |

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 30 September 2007

| Name of director | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonus HK$'000 | Retirement benefits scheme contributions HK$'000 | Total emoluments HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Mr. Cai Zhenrong | — | 450 | — | — | 450 |
| Mr. Cai Zhenyao | — | 304 | — | — | 304 |
| Mr. Cai Zhenying | — | 304 | — | — | 304 |
| Mr. Cai Yangbo | — | 304 | — | — | 304 |
| Mr. Choi Wing Toon | — | 264 | — | 12 | 276 |
| Mr. Mak Shiu Chung, Godfrey (Note) | — | 840 | — | 12 | 852 |
| Independent non-executive directors | | | | | |
| Ms. Choy So Yuk | 120 | — | — | — | 120 |
| Mr. Lawrence Gonzaga | 120 | — | — | — | 120 |
| Mr. Wong Siu Hong | 120 | — | — | — | 120 |
| Total | 360 | 2,466 | — | 24 | 2,850 |

Note: Mr. Mak Shiu Chung, Godfrey resigned on 2 October 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: HK$Nil).

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid individuals in the Group for the year ended 30 September 2008 included two (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2007: two) individuals which fell within the "HK$Nil to HK$1,000,000" band, are set out below:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Basic salaries, housing benefits, other allowances and benefits in kind | 1,753 | 1,315 |
| Retirement benefits scheme contributions | 12 | 12 |
| | 1,765 | 1,327 |

During the year, no emoluments were paid or payable by the Group to any of the directors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2007: HK$Nil).

## 10. FINANCE COSTS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | 20,240 | 22,517 |
| Bank charges | 1,000 | 999 |
| | 21,240 | 23,516 |

## 11. INCOME TAX EXPENSE

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Current tax — PRC enterprise income tax | | |
| Provision for the year | 6,571 | 4,535 |
| Under provision in prior years | 78 | — |
| | 6,649 | 4,535 |
| Deferred tax (note 27) | 4,137 | (636) |
| | 10,786 | 3,899 |

## 11. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2007: HK$Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the People's Republic of China ("PRC") enterprise income tax rate is as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit before tax | **101,975** | 102,842 |
| Tax at PRC enterprise income tax rate of 25% (2007: 33%) | **25,494** | 33,938 |
| Tax effect of income that is not taxable | **(38,903)** | (49,155) |
| Tax effect of expenses that are not deductible | **23,529** | 19,522 |
| Tax effect of income tax on concessionary rates | **—** | 62 |
| Over provision for the current year | **666** | — |
| Effect of different tax rates of subsidiaries | **—** | (468) |
| Income tax expense | **10,786** | 3,899 |

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements is not material.

## 12. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging/(crediting):

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Allowance for inventories (included in other operating expenses) | — | 1,895 |
| Allowance for other receivables | — | 1,628 |
| Allowance for trade receivables | — | 98 |
| Amortisation of technical know-how (included in cost of services provided and costs of sales) | 1,100 | 1,035 |
| Auditor's remuneration | 1,850 | 1,720 |
| Cost of inventories sold | 161,285 | 146,686 |
| Depreciation | 54,236 | 46,923 |
| Fair value change on investment properties | (20,428) | — |
| Impairment loss on property, plant and equipment (included in other operating expenses) | — | 8,545 |
| Loss on disposal of property, plant and equipment | 544 | 338 |
| Operating lease charges on leasehold land and buildings | 2,248 | 1,692 |
| (Reversal)/deficit on revaluation of buildings | (274) | 138 |
| Staff costs (excluding directors' remuneration (note 9)): | | |
| Wages and salaries | 55,432 | 49,850 |
| Retirement benefits scheme contributions | 1,763 | 1,590 |
| Equity-settled share-based payments | — | 5,403 |
| | 57,195 | 56,843 |
| Write-off of property, plant and equipment | 46 | — |
| Write-off of trade receivables | 96 | — |

Cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$21,933,000 (2007: HK$20,492,000) which are included in the amounts disclosed separately above.

## 13. DIVIDENDS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Interim of HK0.5 cent (2007: HK2 cents) per ordinary share paid | **6,198** | 17,610 |
| Proposed final of HK0.5 cent (2007: HK1.1 cents) per ordinary share | **6,198** | 12,985 |
| | **12,396** | 30,595 |

## 14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

| | 2008<br>HK$'000 | 2007<br>HK$'000<br>(restated) |
|---|---|---|
| **Earnings** | | |
| Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation | **91,016** | 105,361 |
| **Number of shares** | | |
| Weighted average number of ordinary shares except for bonus issue | **1,134,577,961** | 880,479,600 |
| Effect of bonus issue | **56,728,898** | 44,023,980 |
| Weighted average number of ordinary shares used in basic earnings per share calculation | **1,191,306,859** | 924,503,580 |
| Effect of dilutive potential ordinary shares arising from share options | **–** | 11,644,284 |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | **1,191,306,859** | 936,147,864 |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 October 2006 | 162,036 | 330,936 | 7,556 | 14,917 | 515,445 |
| Additions | 5,275 | 36,137 | 422 | 56,741 | 98,575 |
| Acquisition of a subsidiary (note 33) | 24,099 | 33,419 | 823 | 7,513 | 65,854 |
| Transfers | 27,185 | — | — | (27,185) | — |
| Disposals | — | (1,392) | — | — | (1,392) |
| Deficit on revaluation | (4,760) | — | — | — | (4,760) |
| Exchange differences | 11,720 | 18,836 | 519 | 1,719 | 32,794 |
| At 30 September 2007 and 1 October 2007 | 225,555 | 417,936 | 9,320 | 53,705 | 706,516 |
| Additions | 6,783 | 12,398 | 791 | 78,768 | 98,740 |
| Transfers | 19,803 | 485 | — | (20,288) | — |
| Transfer to investment properties | (18,062) | — | — | — | (18,062) |
| Disposals | — | (3,401) | — | — | (3,401) |
| Written off | — | (110) | (633) | — | (743) |
| Deficit on revaluation | (3,889) | — | — | — | (3,889) |
| Exchange differences | 22,617 | 35,187 | 888 | 5,307 | 63,999 |
| At 30 September 2008 | 252,807 | 462,495 | 10,366 | 117,492 | 843,160 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | |
| At 1 October 2006 | — | 74,717 | 3,423 | — | 78,140 |
| Charge for the year | 10,869 | 34,432 | 1,622 | — | 46,923 |
| Disposals | — | (446) | — | — | (446) |
| Write back on revaluation | (10,869) | — | — | — | (10,869) |
| Exchange differences | — | 3,089 | 204 | — | 3,293 |
| At 30 September 2007 and 1 October 2007 | — | 111,792 | 5,249 | — | 117,041 |
| Charge for the year | 13,501 | 39,374 | 1,361 | — | 54,236 |
| Disposals | — | (1,427) | — | — | (1,427) |
| Written off | — | (95) | (602) | — | (697) |
| Write-back on revaluation | (13,501) | — | — | — | (13,501) |
| Exchange differences | — | 9,163 | 532 | — | 9,695 |
| At 30 September 2008 | — | 158,807 | 6,540 | — | 165,347 |
| **Impairment** | | | | | |
| At 1 October 2006 | — | 2,000 | — | — | 2,000 |
| Charge for the year | — | 7,672 | — | 873 | 8,545 |
| Exchange differences | — | 409 | — | — | 409 |
| At 30 September 2007 and 1 October 2007 | — | 10,081 | — | 873 | 10,954 |
| Exchange differences | — | 1,013 | — | — | 1,013 |
| At 30 September 2008 | — | 11,094 | — | 873 | 11,967 |
| **Carrying amount** | | | | | |
| At 30 September 2008 | 252,807 | 292,594 | 3,826 | 116,619 | 665,846 |
| At 30 September 2007 | 225,555 | 296,063 | 4,071 | 52,832 | 578,521 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The analysis of cost or valuation of the above assets is as follows:

| | Buildings | Plant and machinery | Furniture, fixtures, office equipment and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At cost** | **—** | **462,495** | **10,366** | **117,492** | **590,353** |
| **At valuation** | **252,807** | **—** | **—** | **—** | **252,807** |
| **At 30 September 2008** | **252,807** | **462,495** | **10,366** | **117,492** | **843,160** |
| At cost | — | 417,936 | 9,320 | 53,705 | 480,961 |
| At valuation | 225,555 | — | — | — | 225,555 |
| At 30 September 2007 | 225,555 | 417,936 | 9,320 | 53,705 | 706,516 |

At 30 September 2008, the Group's buildings with carrying amount of approximately HK$Nil (2007: HK$45,522,000) and plant and machinery with an aggregate carrying amounts of approximately HK$Nil (2007: HK$52,936,000) were pledged to secure certain banking facilities granted to the Group (note 26).

At 30 September 2008, the Group's buildings, including certain buildings of approximately HK$209,879,000 (2007: HK$180,033,000) for which the Group are in the process of obtaining the relevant building ownership certificates, were revalued by BMI Appraisals Limited, an independent firm of professional valuers, at open market value of approximately HK$252,807,000 (2007: HK$225,555,000). The resulting revaluation surplus of approximately HK$9,338,000 (2007: HK$6,247,000) and revaluation surplus of approximately HK$274,000 (2007: revaluation deficit of HK$138,000) has been credited to the properties revaluation reserve and charged to income statement respectively.

Had the Group's buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2008 would have been approximately HK$210,189,000 (2007: HK$191,937,000).

## 16. PREPAID LAND LEASE PAYMENTS

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 October 2006 | 13,095 |
| Acquisition of a subsidiary (note 33) | 5,893 |
| Additions | 9,610 |
| Transfers from deposits paid for acquisition of long-term assets (note 20) | 28,634 |
| Exchange differences | 2,987 |
| At 30 September 2007 and 1 October 2007 | 60,219 |
| Additions | 6,836 |
| Transfers to investment properties | (5,813) |
| Exchange differences | 5,595 |
| At 30 September 2008 | 66,837 |
| **Accumulated amortisation** | |
| At 1 October 2006 | 1,296 |
| Charge for the year | 606 |
| Exchange differences | 79 |
| At 30 September 2007 and 1 October 2007 | 1,981 |
| Charge for the year | 1,330 |
| Transfer to investment properties | (669) |
| Exchange differences | 242 |
| At 30 September 2008 | 2,884 |
| **Carrying amount** | |
| At 30 September 2008 | 63,953 |
| At 30 September 2007 | 58,238 |

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current assets | **62,480** | 56,975 |
| Current assets | **1,473** | 1,263 |
| | **63,953** | 58,238 |

The Group's prepaid land lease payments represent payments for land use rights in the PRC and Hong Kong.

## 16. PREPAID LAND LEASE PAYMENTS (continued)

The Group's prepaid land lease payments are analysed as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| In Hong Kong — Long leases | **4,105** | 4,142 |
| Outside Hong Kong — Medium-term leases | **59,848** | 54,096 |
| | **63,953** | 58,238 |

At 30 September 2008 the Group's prepaid land lease payments, included certain leasehold lands of approximately HK$9,545,000 (2007: HK$2,528,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

At 30 September 2008 the Group's prepaid land lease payments with carrying amounts of approximately HK$1,751,000 (2007: HK$52,089,000) were pledged to secure certain banking facilities granted to the Group (note 26).

## 17. INVESTMENT PROPERTIES

| | 2008 HK$'000 |
|---|---|
| At 1 October 2007 | **—** |
| Transfers from buildings | **18,062** |
| Transfers from prepaid land lease payments | **5,144** |
| Fair value change on investment properties | **20,428** |
| Exchange differences | **670** |
| At 30 September 2008 | **44,304** |

At 30 September 2008, investment properties included certain buildings of approximately HK$11,996,000 for which the Group were in the process of obtaining the relevant building ownership certificates.

Investment properties were revalued at 30 September 2008 on the open market value by BMI Appraisal Limited, an independent firm of professional valuers.

The Group's investment properties are located outside Hong Kong with medium-term leases. At 30 September 2008, the carrying amount of investment properties pledged as security for the Company's bank loans amounted to approximately HK$32,308,000.

Property leasing revenue includes gross rental income from investment properties of approximately HK$673,000 (2007: HK$Nil).

## 18. INTANGIBLE ASSETS

| | Technical know-how HK$'000 | Goodwill HK$'000 (Note) | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2006 | 9,710 | 30,133 | 39,843 |
| Acquisition of a subsidiary (note 33) | — | 2,882 | 2,882 |
| Exchange differences | 613 | — | 613 |
| At 30 September 2007 and 1 October 2007 | 10,323 | 33,015 | 43,338 |
| Exchange differences | 1,037 | — | 1,037 |
| At 30 September 2008 | 11,360 | 33,015 | 44,375 |
| **Accumulated amortisation** | | | |
| At 1 October 2006 | 1,263 | — | 1,263 |
| Charge for the year | 1,035 | — | 1,035 |
| Exchange differences | 76 | — | 76 |
| At 30 September 2007 and 1 October 2007 | 2,374 | — | 2,374 |
| Charge for the year | 1,100 | — | 1,100 |
| Exchange differences | 274 | — | 274 |
| At 30 September 2008 | 3,748 | — | 3,748 |
| **Carrying amount** | | | |
| At 30 September 2008 | 7,612 | 33,015 | 40,627 |
| At 30 September 2007 | 7,949 | 33,015 | 40,964 |

## 18. INTANGIBLE ASSETS (continued)

Note:

Goodwill acquired in a business combination is allocated, at acquisition, to the cash- generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Provision of fabric processing services: | | |
| Lingfeng Dyeing & Weaving Co., Ltd., Shishi ("Lingfeng") | **30,133** | 30,133 |
| United Glory Development Limited ("United Glory") | **2,882** | 2,882 |
| | **33,015** | 33,015 |

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 14.6% to 3.5% decreasing by 30% (2007: 10.8%).

The rate used to discount the forecast cash flows from the Group's provision of fabric processing services is 13.02% (2007: 13.95%).

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Unlisted equity securities, at cost | **3,584** | 3,257 |

Unlisted equity securities with carrying amount of approximately HK$3,584,000 (2007: HK$3,257,000) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

## 20. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Deposits paid for the prepaid land lease payments | **72,622** | 65,993 |

Deposits paid for the prepaid land lease payments of approximately HK$28,634,000 at 30 September 2006 were transferred to prepaid land lease payments in 2007 (note 16).

## 21. INVENTORIES

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Consumables | **41,437** | 39,465 |
| Raw materials | **15,647** | 44,378 |
| Work in progress | **1,254** | 1,095 |
| Finished goods | **32,683** | 21,309 |
| | **91,021** | 106,247 |

## 22. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

An aging analysis of trade receivables as at the balance sheet date, based on the date of recognition of the service income or goods sold, is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 - 30 days | **69,816** | 64,234 |
| 31 - 60 days | **65,446** | 60,974 |
| 61 - 90 days | **54,228** | 40,888 |
| Over 90 days | **14,154** | 15,974 |
| | **203,644** | 182,070 |

As of 30 September 2008, trade receivables of approximately HK$2,901,000 (2007: HK$8,392,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are considered fully recoverable. The ageing analysis of these trade receivables is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 - 30 days | **1,735** | 6,356 |
| 31 - 60 days | **464** | 1,091 |
| 61 - 90 days | **40** | 259 |
| Over 90 days | **662** | 686 |
| | **2,901** | 8,392 |

The carrying amounts of the trade receivables are denominated in the following currencies:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **108,126** | 99,732 |
| RMB | **95,518** | 82,338 |
| | **203,644** | 182,070 |

## 23. BANK AND CASH BALANCES

At 30 September 2008, the bank and cash balances of the Group denominated in RMB amounting to approximately HK$368 million (2007: HK$93 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 24. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of consumables or goods purchased, is as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| 0 - 30 days | **24,588** | 20,115 |
| 31 - 60 days | **16,964** | 20,153 |
| 61 - 90 days | **8,612** | 6,323 |
| Over 90 days | **4,958** | 4,872 |
| | **55,122** | 51,463 |

The carrying amounts of the trade payables are denominated in the following currencies:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| USD | **25,903** | 22,023 |
| RMB | **29,219** | 29,440 |
| | **55,122** | 51,463 |

## 25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Interest rate swap contract | **121,156** | — |

The Group utilises interest rate derivatives to mitigate currency exposure of significant future transactions and cash flows in foreign currency. The underlining currency of interest rate swap contract is denominated in USD.

At the balance sheet date, the total notional amount of outstanding interest rate swap contract to which the Group is committed is as follows:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Interest rate swap contract | **778,500** | — |

At 30 September 2008, the fair value of the Group's interest rate derivatives is estimated to be HK$121,156,000 (2007: HK$Nil).

The fair value is based on the valuation performed by BMI Appraisals Limited, an independent firm of professional valuers. The methodology adopted is Discount Cash Flow Method and is based on 4.5 years cash flow forecasts and discount rate from 7.05% to 8.84%.

## 26. INTEREST-BEARING BORROWINGS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Trust receipt loans | **–** | 29,957 |
| Bank loans | **284,360** | 326,942 |
| | **284,360** | 356,899 |
| Trust receipt loans repayable within one year | **–** | 29,957 |
| Bank loans are repayable as follows: | | |
| On demand or within one year | **154,975** | 139,875 |
| In the second year | **67,041** | 63,206 |
| In the third to fifth years, inclusive | **62,344** | 121,375 |
| After five years | **–** | 2,486 |
| | **284,360** | 326,942 |
| | **284,360** | 356,899 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(154,975)** | (169,832) |
| Amount due for settlement after 12 months | **129,385** | 187,067 |

## 26. INTEREST-BEARING BORROWINGS (continued)

(a) At 30 September 2008, the Group's banking facilities (other than the syndicated loan as disclosed below) were secured by the following:

(i) fixed charges on the Group's prepaid land lease payments and investment properties with carrying amounts of approximately HK$34,197,000 (2007: prepaid land lease payments and buildings of HK$97,611,000) and plant and machinery with an aggregate carrying amounts of approximately HK$Nil (2007: HK$52,936,000) (notes 15, 16 and 17); and

(ii) corporate guarantees given by three (2007: three) subsidiaries of the Company for the year ended 30 September 2008.

(b) Included in the bank loans was a syndicated loan facility as at 30 September 2008 secured by the following:

(i) charge over the Company's shareholding in the subsidiaries;
(ii) pledge over the paid-up shareholdings in the PRC subsidiaries of the Company;
(iii) corporate guarantee given by one subsidiary of the Company ("the Guarantor");
(iv) the controlling shareholder, Mr. Cai Zhenrong, is required to own in aggregate, either directly or indirectly, at least 30% of the total issued share capital of the Company during the term life of these facilities and placed for safe-custody with the agent of the banks which provided the syndicated loan; and
(v) comply with certain financial covenants throughout term life of the facilities.

(c) The average interest rates at the balance sheet date were as follows:

| | **2008** | 2007 |
|---|---|---|
| Trust receipt loans | **–** | 6.135% |
| Syndicated loans | **3.804%** | 7.389% |
| Other bank loans | **5.844%** | 6.986% |

## 26. INTEREST-BEARING BORROWINGS (continued)

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| HKD | **199,160** | 263,992 |
| RMB | **85,200** | 92,907 |
| | **284,360** | 356,899 |

(e) Included in the other bank loans of approximately HK$2,733,000 (2007: HK$6,833,000) being the finance lease facility obtained from a bank to finance the future acquisition of property, plant and equipment.

## 27. DEFERRED TAX LIABILITIES

(a) The following are the major deferred tax liabilities and (assets) recognised by the Group:

| | Decelerated tax depreciation HK$'000 | Revaluation of buildings HK$'000 | Investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 October 2006 | (1,462) | 15,659 | — | 14,197 |
| Charge to equity for the year | — | 237 | — | 237 |
| Credit to income statement for the year (note 11) | (636) | — | — | (636) |
| Exchange differences | (91) | 990 | — | 899 |
| At 30 September 2007 and 1 October 2007 | (2,189) | 16,886 | — | 14,697 |
| Charge to equity for the year | — | 2,406 | — | 2,406 |
| (Credit)/charge to income statement for the year (note 11) | (970) | — | 5,107 | 4,137 |
| Exchange differences | (277) | 1,722 | 167 | 1,612 |
| At 30 September 2008 | (3,436) | 21,014 | 5,274 | 22,852 |

## 27. DEFERRED TAX LIABILITIES (continued)

(b) At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$2,283,000 (2007: HK$Nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 28. SHARE CAPITAL

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 2,000,000,000 ordinary shares of HK$0.01 each | **20,000** | 20,000 |
| Issued and fully paid: | | |
| 1,239,503,580 (2007: 880,479,600) ordinary shares of HK$0.01 each | **12,395** | 8,805 |

A summary of the movements in the issued share capital of the Company is as follows:

| | Note | **Number of shares issued**<br>'000 | **Nominal value of shares issued**<br>HK$'000 |
|---|---|---|---|
| At 1 October 2006, 30 September 2007 and 1 October 2007 | | 880,480 | 8,805 |
| Shares issued in the form of KDR | (a) | 300,000 | 3,000 |
| Issue of bonus shares | (b) | 59,024 | 590 |
| At 30 September 2008 | | 1,239,504 | 12,395 |

## 28. SHARE CAPITAL (continued)

Note:

(a) On 26 November 2007, the Company issued 6,000,000 units which represents 300,000,000 ordinary new shares at a subscription price of Korean Won 5,600 (approximately HK$0.944 per share) per unit under the Korea Depository Receipts Programme ("KDR") on the Korea Exchange for a total cash consideration of approximately HK$283 million.

(b) On 23 January 2008, the directors recommended a bonus issue of shares ("Bonus Issue") and approved in the Company's annual general meeting held on 18 March 2008. The Bonus Issue has been made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interests, retained profits and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

## 29. SHARE-BASED PAYMENTS

### Equity-settled share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants include the Company’s directors (including independent non-executive directors), employees of the Group, suppliers of goods or services, customers, persons or entities providing research, development or other technological support to the Group, and any minority shareholders in the Company’s subsidiaries. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company’s shares on the date of the offer of the grant.

## 29. SHARE-BASED PAYMENTS (continued)

### Equity-settled share option scheme (continued)

Details of the specific category of options are as follows:

| Date of grant | Vesting date | Exercise period | Exercise price HK$ |
|---|---|---|---|
| 23 March 2007 | 23 March 2007 | 23 March 2007 to 22 March 2010 | 0.522 |

If the options remain unexercised after a period of 3 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The Board announced that the ordinary resolution approving the Bonus Issue was duly passed at the annual general meeting of the Company held on 18 March 2008.

In accordance with the terms of the Share Option Scheme and the supplementary guidance dated 5 September 2005 issued by the Stock Exchange regarding adjustment of share options under rule 17.03(13) of the Listing Rules, the exercise price of and the number of shares falling to be allotted and issued upon full exercise of the outstanding share options have been adjusted in the following manner:

| Before adjustments of exercise price HK$ | Number of outstanding options | After adjustments of exercise price HK$ | Number of outstanding options |
|---|---|---|---|
| 0.522 | 88,000,000 | 0.49714 | 92,400,000 |

Other than the above adjustments, the respective terms and/or conditions of the Share Option Scheme remain unchanged.

## 29. SHARE-BASED PAYMENTS (continued)

### Equity-settled share option scheme (continued)

Details of the share options outstanding during the year are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price HK$** | Number of share options | Weighted average exercise price HK$ |
| Outstanding at the beginning of the year (adjusted) | **92,400,000** | **0.49714** | — | |
| Granted during the year | **–** | | 88,000,000 | 0.522 |
| Exercised during the year | **–** | | — | |
| Outstanding at the end of the year | **92,400,000** | **0.49714** | 88,000,000 | 0.522 |
| Exercisable at the end of the year | **92,400,000** | **0.49714** | 88,000,000 | 0.522 |

During the year, no share options were exercised. The options outstanding at the end of the year have a weighted average remaining contractual life 1.47 years (2007: 2.47 years) and the exercise price of HK$0.49714. In 2007, options were granted on 23 March 2007. The estimated fair value of the options granted on this date is approximately HK$5,403,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

| | **2008** | 2007 |
|---|---|---|
| Weighted average share price | **–** | HK$0.52 |
| Weighted average exercise price | **–** | HK$0.522 |
| Expected volatility | **–** | 47.89% |
| Expected life | **–** | 0.5 year |
| Risk free rate | **–** | 3.66% |
| Expected dividend yield | **–** | 4% |

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 0.5 year for the share options issued in 2007. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

## 30. BALANCE SHEET OF THE COMPANY

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Investments in subsidiaries | **133,900** | 133,900 |
| Due from subsidiaries | **1,212,253** | 811,188 |
| Other current assets | **982** | 3,313 |
| Due to subsidiaries | **(322,073)** | (184,607) |
| Interest-bearing borrowings | **(199,160)** | (260,992) |
| Other current liabilities | **(123,537)** | (65,352) |
| **NET ASSETS** | **702,365** | 437,450 |
| **Capital and reserves** | | |
| Share capital | **12,395** | 8,805 |
| Reserves | **689,970** | 428,645 |
| | **702,365** | 437,450 |

## 31. RESERVES

### Company

| | **Share premium** HK$'000 (note (a)) | **Share-based payment reserve** HK$'000 (note (b)) | **Retained profits** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 October 2006 | 297,382 | — | 83,864 | 381,246 |
| Recognition of share-based payments | — | 5,403 | — | 5,403 |
| Profit for the year | — | — | 64,008 | 64,008 |
| Dividends paid | — | — | (22,012) | (22,012) |
| At 30 September 2007 | 297,382 | 5,403 | 125,860 | 428,645 |
| Representing: | | | | |
| At 30 September 2007 after proposed final dividend | | | | 415,660 |
| Proposed final dividend (note 13) | | | | 12,985 |
| | | | | 428,645 |

## 31. RESERVES (continued)

### Company (continued)

| | Share premium HK$'000 (note (a)) | Share-based payment reserve HK$'000 (note (b)) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 October 2007 | 297,382 | 5,403 | 125,860 | 428,645 |
| Shares issued in the form of KDR (note 28(a)) | 280,200 | — | — | 280,200 |
| Issue of bonus shares (note 28(b)) | (590) | — | — | (590) |
| Share issue expenses paid | (29,390) | — | — | (29,390) |
| Profit for the year | — | — | 30,288 | 30,288 |
| Dividends paid | — | — | (19,183) | (19,183) |
| At 30 September 2008 | 547,602 | 5,403 | 136,965 | 689,970 |
| Representing: | | | | |
| At 30 September 2008 after proposed final dividend | | | | 683,772 |
| Proposed final dividend (note 13) | | | | 6,198 |
| | | | | 689,970 |

Note:

(a) The share premium account of the Company and the Group includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(b) The share-based payment reserve of the Company and the Group arise on the grant of share options to employees under the Scheme. Further information about share-based payments to employees was set out in note 29 to the financial statements. The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(p) to the financial statements.

## 32. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2008 are as follows:

| Name | Place of incorporation/ establishment/ operation | Nominal value of issued and paid-up ordinary shares/ registered capital | Percentage of equity interests attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Treasure Wealth Assets Limited | British Virgin Islands | US$600 | 100% | Investment holding |
| **Indirectly held** | | | | |
| Huafeng Knitting Co., Ltd. Shishi City, Fujian * | PRC | RMB105,000,000 | 99.24% | Provision of fabric processing services, manufacture and sale of fabrics |
| Powerful China Development Limited | Hong Kong | HK$100 | 100% | Provision of administrative services to group companies |
| Huafeng Trading Macao Commercial Offshore Limited | Macau | MOP100,000 | 100% | Provision of fabric processing services |
| Fujian Fenghua Textile Co., Ltd. # | PRC | US$17,000,000 | 100% | Manufacture and sale of yarns |
| Lingfeng # | PRC | HK$48,000,000 | 100% | Provision of fabric processing services |
| Huafeng Textile (Lianyungang) Co., Ltd. # | PRC | US$2,550,000 | 100% | Manufacture and sale of yarns |
| Shishi Huarun Knitting & Dyeing Co., Ltd # | PRC | HK$47,585,782 | 100% | Provision of fabric processing services |
| Jiangxi Fenghua Textile Co., Ltd. # | PRC | US$7,918,623 | 100% | Operation not yet commenced |

## 32. PRINCIPAL SUBSIDIARIES (continued)

The above list contains the particulars of subsidiaries, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* Sino-foreign equity joint ventures established in the PRC.
# Wholly foreign owned enterprises established in the PRC.

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Acquisition of a subsidiary

On 30 November 2006, the Group acquired 100% of the issued share capital of United Glory for a cash consideration of HK$85 million. United Glory was engaged in investment holding during the year.

The fair value of the identifiable assets and liabilities of United Glory acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

| | 2007<br>HK$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 65,854 |
| Prepaid land lease payments | 5,893 |
| Available-for-sale financial assets | 437 |
| Inventories | 5,730 |
| Trade receivables | 20,419 |
| Prepayments, deposits and other receivables | 8,731 |
| Bank and cash balances | 193 |
| Trade payables | (7,674) |
| Other payables and accruals | (5,604) |
| Interest-bearing borrowings | (10,202) |
| Current tax liabilities | (1,659) |
| | 82,118 |
| Goodwill (note 18) | 2,882 |
| Satisfied by: | |
| Cash | 85,000 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | 85,000 |
| Deposit paid for acquisition of a subsidiary | (28,000) |
| Cash and cash equivalents acquired | (193) |
| | 56,807 |

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### Acquisition of a subsidiary (continued)

The goodwill arising on the acquisition of United Glory is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

United Glory contributed approximately HK$60,283,000 to the Group's turnover and approximately HK$4,674,000 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

The proforma information related to the Group's turnover and profit for the period if the acquisition has been completed on 1 October 2006 is not disclosed as the Group is unable to obtain the relevant information from the former management of United Glory.

## 34. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2008 (2007: Nil).

## 35. COMMITMENTS

### (a) Operating lease commitments

*(i)* *As lessee*

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **296** | 129 |
| In the second to fifth years, inclusive | **170** | 402 |
| | **466** | 531 |

Operating lease payments represent rentals payable by the Group for certain of its offices and warehouse. Leases are negotiated for an average term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

## 35. COMMITMENTS (continued)

### (a) Operating lease commitments (continued)

*(ii) As lessor*

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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Within one year | **695** | — |
| In the second to fifth years, inclusive | **7,484** | — |
| | **8,179** | — |

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 3 to 5 years. None of the leases include contingent rentals.

### (b) Capital commitments

At the balance sheet date, the Group had the following commitments:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Contracted but not provided for | | |
| Construction of buildings | **17,638** | 31,521 |
| Purchase of plant and machinery | **43,004** | 22,752 |
| Purchase of a parcel of land | **13,714** | 12,462 |
| | **74,356** | 66,735 |

## 36. RELATED PARTY TRANSACTIONS

During the year ended 30 September 2008, the Group paid rentals of approximately HK$Nil (2007: HK$59,000) to the minority shareholder of a subsidiary, Shenyang Huafeng, in respect of Shenyang Huafeng's factory premises.

The directors of the Company are of the opinion that the above transactions with this related party was conducted on normal commercial terms in the ordinary course of the Group's business.

The amount due to a related company is unsecured, interest free and has no fixed term of repayment.

## 37. EVENT AFTER THE BALANCE SHEET DATE

On 5 December 2008, the Company has granted totaling 118,000,000 share options to 10 employees of the Company or its subsidiaries or its invested entity, each of them was granted options to subscribe for 11,800,000 shares of the Company at the exercise price of HK$0.125 and the exercise period is from 5 December 2008 to 4 December 2011. All of them has accepted the grant of share options.

## 38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 January 2009.