HUAFENG
華 豐

HUAFENG GROUP HOLDINGS LIMITED
華 豐 集 團 控 股 有 限 公 司

Stock Code : 364

ANNUAL REPORT 2009

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, *JP*
Mr. Wong Siu Hong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Under the Stock Exchange:
Mr. Cai Yangbo
Mr. Choi Wing Toon

Under the Companies Registry:
Mr. Cai Zhenrong
Mr. Choi Wing Toon

COMPANY SECRETARY

Mr. Chai Chung Wai *FCCA, FCPA, ACA, MBA, MAcc(PRC)*

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 2105, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
18/F, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

AUDITOR

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

Bank of China Ltd
China Minsheng Banking Corp., Ltd,
CITIC Ka Wah Bank Limited
Hang Seng Bank 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 Huafeng Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the last five financial years:

RESULTS

	Year ended 30 September				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
TURNOVER	**712,217**	806,695	747,063	586,335	518,047
PROFIT FROM OPERATIONS	**152,220**	123,215	126,358	100,933	80,572
Finance costs	**(13,701)**	(21,240)	(23,516)	(13,495)	(10,773)
PROFIT BEFORE TAX	**138,519**	101,975	102,842	87,438	69,799
Income tax expense	**(5,958)**	(10,786)	(3,899)	(2,375)	(1,713)
PROFIT BEFORE MINORITY INTERESTS	**132,561**	91,189	98,943	85,063	68,086
Minority interests	**96**	(173)	6,418	2,203	914
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**132,657**	91,016	105,361	87,266	69,000

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 30 September				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS	**1,151,527**	889,463	745,710	543,470	517,235
CURRENT ASSETS	**607,599**	922,356	564,357	429,484	250,609
TOTAL ASSETS	**1,759,126**	1,811,819	1,310,067	972,954	767,844
CURRENT LIABILITIES	**369,062**	506,003	381,345	187,555	176,846
NON-CURRENT LIABILITIES	**86,598**	152,237	201,764	185,232	92,107
MINORITY INTERESTS	**–**	1,953	1,747	8,160	10,724
TOTAL LIABILITIES	**455,660**	658,240	583,109	372,787	268,953
NET ASSETS	**1,303,466**	1,153,579	726,958	600,167	498,891

Note 1: The summary of the results, assets, liabilities and minority interests of the Group for the year ended 30 September 2005 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 years ended 30 September 2008 and 2009 are extracted from the Company's annual report 2009 prepared in accordance with International Financial Reporting Standards.

Chairman's Statement

FINAL RESULTS

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the Group's audited results for the year ended 30 September 2009 (the "Year"). The Group's consolidated revenue for the Year decreased by 11.7% to HKD712.2 million (2008: HKD806.7 million). Gross profit decreased by 15.7% to HKD164.9 million (2008: HKD195.5 million). Profit after tax attributable to equity shareholders amounted to HKD132.7 million (2008: HKD91.0 million), representing an increase of 45.8% as compared to that of 2008. The increase in profit after taxation was mainly due to the gain of HKD70.6 million from the unwinding of an interest rate swap contract on 22 January 2009.

BUSINESS REVIEW

Despite the global economic downturn caused by the financial tsunami, and the subsequent remedial measures implemented by the U.S. and European governments, as well as the RMB4,000 billion stimulation package carried out by the Chinese central government in early 2009, the textile industry remained relatively unaffected as strong domestic consumption partially negated the impact brought by decreasing exports. As at 30 September 2009, leveraging on its strong reputation in the industry and flexible marketing initiatives, the Group successfully captured business opportunities arising from industry consolidation amid the economic downturn. Therefore, the total turnover of the fabric processing services, manufacturing and sales of fabrics only slightly decreased from HKD686.2 million in 2008 to HKD643.3 million in 2009.

Since the global economy and operating environment has gradually improved in the second half of 2009, the Group proactively expanded its production capacity. At the end of 2009, the new plant of the Group's subsidiary, Lingfeng Dyeing & Weaving Co., Ltd. Shishi ("Lingfeng"), was completed and begun production, so as to capture business opportunities brought by increasing demand for domestic fabric processing and dyeing textile products.

During the Year, the Group disposed of Huafeng Quality Control Limited and its subsidiary, Shenyang Huafeng Dyeing & Printing Co., Ltd., of which the Group owned an interest of 53.57%, for a total consideration of HKD2.5 million. On the other hand, Shishi Huarun Knitting & Dyeing Co., Ltd., a wholly-owned subsidiary of the Group, has entered into an agreement with an independent third party for 30-year leasing rights of a reservoir during the Year, so as to mitigate possible adverse impacts brought by drought.

PROSPECTS

Since the global economy experienced tremendous volatility in 2009, the Group has faced numerous challenges. However, leveraging on its extensive customer base and effective marketing strategies, the Group was able to maintain stable business growth. The industry has overcome these tough times and the economy has begun to gradually recover since the second half of 2009. As a result, the Group believes that the operating environment of Chinese textile exports will continue to improve, which helps to propel future expansion of the Group's fabric processing and dyeing businesses. In addition, the new plant of Lingfeng, have begun production, which further enhances the Group's capacity of fabric processing and lends impetus to the growth of its core business in the future.

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, 15 January 2010

Management Discussion and Analysis

FINANCIAL PERFORMANCE

As at 30 September 2009, the Group's consolidated revenue for the Year decreased by 11.7% to HKD712.2 million (2008: HKD806.7 million). This was mainly attributable to the decrease in average selling prices. Among which, turnover from the fabric processing services, manufacturing and sales of fabrics amounted to HKD643.3 million (2008: HKD686.2 million), representing 90.3% of total sales. Turnover attributable to the yarn spinning segment amounted to HKD68.9 million (2008: HKD120.5 million), representing 9.7% of total sales.

During the Year, gross profit of the Group decreased by 15.7% to HKD164.9 million (2008: HKD195.5 million) and gross margin slightly decreased by 1.1% from 24.2% in 2008 to 23.1% in 2009. Profit after tax attributable to equity shareholders of the Company amounted to HKD132.7 million (2008: HKD91.0 million), representing an increase of 45.8% as compared to that of 2008. The increase in profit after taxation was mainly due to the gain of HKD70.6 million from the unwinding of an interest rate swap contract on 22 January 2009.

BUSINESS DEVELOPMENT AND OUTLOOK

The global economy is gradually recovering from the gloom brought about by the financial tsunami, and the operating environment of China's textile exports has been improving since the second half of 2009. The Group strives to capture the opportunities arising from industry consolidation and steadily expand production capacity to achieve economies of scales, so as to propel business growth in the future.

Since the official establishment of ASEAN-China Free Trade Area on 1 January 2010, the tariffs for over 90% of traded goods between China and ASEAN members (including Indonesia, Malaysia, Thailand, Philippines, Singapore and Brunei) will be reduced to zero. Those zero-tariff goods cover more than 7,000 categories including yarn spinning, fabric and textile products, which is expected to benefit the Group's business in these regions.

In addition, Lingfeng, a wholly-owned subsidiary of the Group, has completed construction of its new building and fixed additional machinery and equipment. It is expected to be fully operated in 2010, and will enhance the Group's annual fabric processing capacity.

Looking ahead, the Group will continue to diversify its business for long term development, capture opportunities for possible acquisition and expansion, so as to maximize the values of the shareholders of the Company (the "Shareholder/ Shareholders").

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the Greater China region accounted for 58.8% of total sales in 2009. The Philippines market continued to be an important market for the Group, accounting for 32.3% of total sales in 2009. The remaining revenue of 8.9% was generated from customers located in Africa, Australia and North America.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2009, the Group had current assets of HKD607.6 million (2008: HKD922.4 million) and current liabilities of HKD369.1 million (2008: HKD506.0 million). The current ratio (calculated as current assets to current liabilities) decreased from 1.82 as at 30 September 2008 to 1.65 as at 30 September 2009. The gearing ratio (calculated as the total bank borrowings to total shareholders' equity) had dropped from 0.25 as at 30 September 2008 to 0.14 as at 30 September 2009. These ratios were at reasonably adequate levels as at 30 September 2009 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the Year under review, the net cash inflow from operating activities and cash used in financing activities were HKD306.8 million and HKD178.0 million respectively (2008: net cash inflow of HKD129.1 million and of HKD205.7 million respectively).

Total bank borrowings decreased by around 36.5% to HKD180.5 million (2008: HKD284.4 million) due to no additional utilization of banking facilities during the Year, of which HKD118.2 million (2008: HKD155.0 million) was repayable within one year and HKD62.3 million (2008: HKD129.4 million) was repayable more than one year. The total bank borrowings, which subject to fixed interest rates and floating interest rates, were 9.4% and 90.6% respectively. 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 2009, 28.3% of the balance was denominated in RMB and 71.7% of the balance was denominated in HKD. There were no seasonal adjustments with respect to the Group's borrowings. At 30 September 2009, 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.

Management Discussion and Analysis

CAPITAL STRUCTURE

During the Year, there were no changes in capital structure and the total number of issued share capital of the Company as at 30 September 2009 was 1,239,503,580 ordinary shares.

CAPITAL EXPENDITURE AND MATERIAL ACQUISITION

During the Year under review, the total capital expenditure and material acquisition of the Group was HKD333.1 million (2008: HKD98.7 million) which mainly invested on the development of various plants and the upgrading and acquisition of additional machinery.

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 and a relatively strong RMB at HKD1.00 equal to RMB0.88 (as at 30 September 2009), the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2009 (2008: 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 HKD34.4 million as at 30 September 2009 (2008: prepaid land lease payments and investment properties of HKD34.1 million).

EMPLOYMENT INFORMATION

At 30 September 2009, the total number of employees in Hong Kong, Macau and the PRC is 2,287 (2008: 2,370). 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, the total staff costs (including directors' emoluments) amounted to HKD80.3 million (2008: HKD59.3 million), the amount including HKD16.5 million related to the equity-settled share-based payments. 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.

CHANGE OF NAME OF THE SUBSIDIARIES

In order to reflect the business of the subsidiaries, in December 2009, the names of two subsidiaries of the Company have been changed as follow.

Before	**After**
Winplus International Limited	Huafeng Strategies Investment Limited
Huafeng MVB Company Limited	Huafeng Resources Investment Limited

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Year, the Group has disposed Huafeng Quality Control Limited and its subsidiary, Shenyang Huafeng Dyeing & Printing Co., Ltd. with a total consideration of HKD2.5 million. Save as disclosed above, the Group had no material acquisition or disposal of any subsidiaries of the Company for the Year.

ADDITIONAL INFORMATION

An extraordinary general meeting was held on Wednesday, 18 November 2009 (the "EGM") for the purpose of considering and approving the ordinary resolutions of the Company, details of which are stated as follows:

Convertible Bonds

(i) the conditional placing agreement dated 9 October 2009 (the "Placing Agreement") entered into between the Company and Tanrich Capital Limited (the "Placing Agent") pursuant to which the Placing Agent agreed to place, on a best effort basis, the three-year 1% coupon convertible bonds (the "Convertible Bonds") in an aggregate principal amount of up to HKD150,000,000 (a copy of the Placing Agreement has been tabled at the EGM and marked "A" and initialled by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder were approved, confirmed and ratified;

(ii) the creation and issue of the Convertible Bonds pursuant to the terms of the Placing Agreement were generally and unconditionally approved in all respects and further that the directors of the Company (the "Director/Directors") were hereby authorized to issue the Convertible Bonds pursuant to the terms of the Placing Agreement;

(iii) the Directors were granted a specific mandate to exercise powers of the Company to allot and issue such number of new shares (the "Conversion Shares") in the capital of the Company as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds subject to the terms of the Placing Agreement; the specific mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

(iv) any one director (or if execution under the common seal of the Company is required, any two directors or any one director and the secretary) of the Company was authorized to sign, deal, execute, perfect, deliver all such documents and to do all such things and acts as he may in his discretion consider necessary, expedient or desirable to give effect to or in connection with the Placing Agreement, issue of the Convertible Bonds, issue of the Conversion Shares and the transactions contemplated under the Placing Agreement.

Increased of Authorized Share Capital

The authorized share capital of the Company was increased from HKD20,000,000 (divided into 2,000,000,000 ordinary shares of HKD0.01 each) to HKD100,000,000 (divided into 10,000,000,000 shares of HKD0.01 each) by the creation of 8,000,000,000 new shares of HKD0.01 each of the Company, and that each such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company.

DUAL LISTING

On 28 December 2006, the Company made a pre-application to the Korea Exchange (the "KRX") for the establishment of the Korea Depository Receipts Programme (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.

CORPORATE GOVERNANCE

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 (the "Listing Rule") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 Company emphasize an effective Board, sound internal control, appropriate independence policy, and transparency and accountability to 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. The Company had complied with the CG Code throughout the Year with the following deviation:

Code Provision A.2.1

Up to the date of this 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 the Shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. 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.

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 functions of guiding the management.

The Board members during the Year 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

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk, *JP*
Mr. Wong Siu Hong

The biographical details of the Directors and the relationships among them are set out in "Directors' Biographies" on pages 29 to 30 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 Group are managed and operated. As and when necessary, the Directors can access to the advice and services of the company secretary of the Company, 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 arising out of corporate activities of the Group has been arranged by the Company.

C) Meeting Records

There were ten Board meetings held for the Year. The following was an attendance record of the Board meetings held:

Board Members	**Attendance at meetings held for the Year**
Executive Directors	
Mr. Cai Zhenrong *(Chairman)*	8/10
Mr. Cai Zhenyao	9/10
Mr. Cai Zhenying	7/10
Mr. Cai Yangbo	10/10
Mr. Choi Wing Toon	10/10
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	5/10
Ms. Choy So Yuk, *JP*	6/10
Mr. Wong Siu Hong	6/10

D) Independent Non-executive Directors

During the Year, 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.

APPOINTMENTS, 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 are appropriate numbers 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.

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 (the "Audit Committee") which consists of three independent non-executive Directors.

Composition of the Audit Committee

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

Role and Function

The Audit Committee is mainly responsible for:

i. discussing with the external auditor 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 auditor's management letter and considering the appointment of external auditor, 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 auditor 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:

Audit Committee Members	Attendance at meetings held for the Year
Mr. Lawrence Gonzaga *(Chairman)*	2/2
Ms. Choy So Yuk, *JP*	2/2
Mr. Wong Siu Hong	2/2

During the Year, the Audit Committee has discussed the auditing and financial reporting matters, the internal control and risk management systems; and the annual and interim accounts. The audited financial statements of the Group for the Year have been reviewed by the Audit Committee.

B) Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") which consists of three independent non-executive Directors.

Composition of the Remuneration Committee

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *JP*
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 approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

vi. reviewing and approving 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 approving 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 once during the Year. The following was an attendance record of the Remuneration Committee meeting for the Year:

Remuneration Committee Members	**Attendance at meetings held for the Year**
Mr. Lawrence Gonzaga *(Chairman)*	1/1
Ms. Choy So Yuk, *JP*	1/1
Mr. Wong Siu Hong	1/1

During the Year, 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 Shareholders' 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.

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 2105, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong

AUDITOR'S REMUNERATION

During the Year, the remuneration paid and payable to the auditor of the Company, RSM Nelson Wheeler, for the provision of the Group's audit services and non-audit services amounted to HKD1,830,000 and HKD705,000 respectively.

DIRECTORS' AND AUDITOR'S 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 the period. In preparing the consolidated financial statements for the Year, 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, 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 control 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 Company 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 investor relation firm in Hong Kong is Elite Investor Relations Limited while handling corporate relations in Korea is Value C&I Inc..

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the Year.

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 were no significant changes in the nature of the Group's principal activities during the Year.

SEGMENT INFORMATION

Details of the segment information of the Group for the Year are set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year and the state of affairs of the Group as at that date are set out in the financial statements on pages 33 to 92.

The Board recommended the payment of a final dividend of HK0.5 cent per ordinary share in respect of the Year to the Shareholders whose names appear on the register of members of the Company on 26 February 2010. The proposed final dividend is subject to the Shareholders' approval at the forthcoming annual general meeting of the Company and will be paid on around 18 March 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 February 2010 to Friday, 26 February 2010, 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 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 19 February 2010.

Report of the Directors

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 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 the 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 35 of this annual report.

DISTRIBUTABLE RESERVES

At 30 September 2009, the Company had distributable reserves of approximately HKD735,168,000. 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 HKD547,602,000 as at 30 September 2009, 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

For the Year, the percentage of sales attributable to the Group's five largest customers and the percentage of purchase attributable to the Group's five largest suppliers were both 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.

DIRECTORS

The Directors during the Year 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

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk, *JP*
Mr. Wong Siu Hong

In accordance with article 108 of the Company's articles of association, Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Yangbo 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 29 to 30 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.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on the Director are as follows:

Mr. Cai Yangbo, an executive Director, was appointed as the managing Director for a term of 3 years commencing from 16 January 2010 at a monthly salary changed from HK$25,300 to HK$150,000, which was determined by reference to the prevailing market rate and his time, effort and expertise devoted to the Company's affairs.

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.

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.

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, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2009, 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 pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register of interests 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 were as follows:

Long Positions

Ordinary shares of HK$0.01 each of the Company

Name of Directors	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Cai Zhenrong	Beneficial owner	Personal	453,426,000	36.58%
Mr. Cai Zhenyao	Beneficial owner	Personal	45,252,000	3.65%
Mr. Cai Yangbo	Beneficial owner	Personal	1,050,000	0.08%

Save as disclosed above, as at 30 September 2009, 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 of interests 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 debentures" 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 as below:

	Number of share options								
				Number of share options					
Name of category	Date of grant	Validity period of share options	Exercise price (HK$)	Outstanding at 1.10.2008	Granted during the year	Lapsed during the year	Exercised during the year	Cancelled during the year	Outstanding at 30.9.2009
Directors	–	–	–	–	–	–	–	–	–
Employees	23.3.2007	23.3.2007-22.3.2010	0.497	92,400,000	–	–	–	–	92,400,000
	5.12.2008	5.12.2008-4.12.2011	0.125	–	118,000,000	–	–	–	118,000,000
	11.5.2009	11.5.2009-10.5.2014	0.255	–	123,920,000	–	–	–	123,920,000
Total				92,400,000	241,920,000	–	–	–	334,320,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2009, to the best knowledge of the Directors, the following person (other than a director and chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO debentures, or which were recorded in the register required to be kept by the Company pursuant to Section 336 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	453,426,000 (Note)	36.58%

Note: These 453,426,000 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 453,426,000 shares, under the 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.

EVENT AFTER THE BALANCE SHEET DATE

In November and December 2009, some of the option holders exercised totally 82,600,000 shares options to subscribe for ordinary shares of the company in accordance with the terms and condition of the Scheme adopted by the company on 30 August 2002.

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.

AUDITOR

The financial statements have been audited by RSM Nelson Wheeler who will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditor 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, 15 January 2010

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 62, is the founder, the chairman and an executive director of the Group. He is also a director of the subsidiaries of the Company. 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 Co., Ltd. Shishi City Fujian. 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 55, is an executive director and the finance director of the Group. He is also a director of the subsidiary of the Company. 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 53, is an executive director and the marketing director of the Group. He is also a director of the subsidiary of the Company. 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 35, is an executive director and the operation director of the Group. Mr. Cai Yangbo is appointed as the Managing Director on 16 January 2010. He is also a director of the subsidiaries of the Company. 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 59, is an executive director and the marketing and promotion manager of the Group. He is also a director of the subsidiaries of the Company. 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.

Directors' Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 36, 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, *JP,* aged 59, was appointed as an independent non-executive Director in August 2002. She obtained her bachelor of science and master of philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy is also an independent non-executive director of Loudong General Nice Resources (China) Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. Ms. Choy holds a wide variety of political, social and academic positions, such as a Delegate of the National People's Congress of China, a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference, and a 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 42, 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 13 years of experience in accounting and auditing. Mr. Wong is a Certified Public Accountant of the Hong Kong and 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") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 92, which comprise the consolidated balance sheet as at 30 September 2009, 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.

Independent Auditor's Report

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 September 2009 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
15 January 2010

Consolidated Income Statement

For the year ended 30 September 2009

	Note	2009 HK$'000	2008 HK$'000
TURNOVER	6	**712,217**	806,695
Cost of services provided and cost of sales		**(547,355)**	(611,169)
Gross profit		**164,862**	195,526
Other income	7	**86,161**	16,937
Selling and distribution expenses		**(21,590)**	(23,935)
Administrative expenses		**(61,225)**	(41,727)
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		**(15,988)**	(708)
PROFIT FROM OPERATIONS		**152,220**	123,215
Finance costs	10	**(13,701)**	(21,240)
PROFIT BEFORE TAX		**138,519**	101,975
Income tax expense	11	**(5,958)**	(10,786)
PROFIT FOR THE YEAR	12	**132,561**	91,189
Attributable to:			
Equity holders of the Company		**132,657**	91,016
Minority interests		**(96)**	173
		132,561	91,189
DIVIDENDS	13	**6,611**	12,396
EARNINGS PER SHARE	14		
Basic		**HK10.70 cents**	HK7.64 cents
Diluted		**HK10.22 cents**	HK7.64 cents

Consolidated Balance Sheet

At 30 September 2009

	Note	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**925,508**	665,846
Prepaid land lease payments	16	**65,336**	62,480
Investment properties	17	**44,304**	44,304
Intangible assets	18	**39,492**	40,627
Available-for-sale financial assets	19	**4,265**	3,584
Deposits paid for acquisition of long-term assets	20	**72,622**	72,622
		1,151,527	889,463
CURRENT ASSETS			
Inventories	21	**61,617**	91,021
Trade receivables	22	**164,795**	203,644
Prepayments, deposits and other receivables		**70,302**	121,561
Prepaid land lease payments	16	**1,687**	1,473
Bank and cash balances	23	**309,198**	504,657
		607,599	922,356
CURRENT LIABILITIES			
Trade payables	24	**44,952**	55,122
Other payables and accruals		**193,926**	162,048
Financial liabilities at fair value through profit or loss	25	**–**	121,156
Due to a related company	36	**–**	3,408
Interest-bearing borrowings	26	**118,162**	154,975
Current tax liabilities		**12,022**	9,294
		369,062	506,003
NET CURRENT ASSETS		**238,537**	416,353
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,390,064**	1,305,816
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	26	**62,343**	129,385
Deferred tax liabilities	27	**24,255**	22,852
		86,598	152,237
NET ASSETS		**1,303,466**	1,153,579
CAPITAL AND RESERVES			
Share capital	28	**12,395**	12,395
Reserves		**1,291,071**	1,139,231
Equity attributable to equity holders of the Company		**1,303,466**	1,151,626
Minority interests		**–**	1,953
TOTAL EQUITY		**1,303,466**	1,153,579

Approved by the Board of Directors

Cai Yangbo
Director

Choi Wing Toon
Director

Consolidated Statement of Changes in Equity

For the year ended 30 September 2009

		Attributable to equity holders of the Company								
			Reserves							
	Note	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$'000	Minority interests HK$'000	Total HK$'000
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		
At 1 October 2008		12,395	415,055	33,764	5,403	144,788	540,221	1,151,626	1,953	1,153,579
Surplus on revaluation of buildings	15	–	–	10,317	–	–	–	10,317	–	10,317
Surplus on revaluation of buildings shared by minority shareholders		–	–	(60)	–	–	–	(60)	60	–
Effect on deferred tax	27(a)	–	–	(1,988)	–	–	–	(1,988)	–	(1,988)
Effect on deferred tax shared by minority shareholders		–	–	11	–	–	–	11	(11)	–
Transfers		–	–	(1,999)	–	–	1,999	–	–	–
Exchange differences on translation of foreign operations		–	–	–	–	70	–	70	–	70
Net income recognised directly in equity		–	–	6,281	–	70	1,999	8,350	49	8,399
Profit for the year		–	–	–	–	–	132,657	132,657	(96)	132,561
Total recognised income and expense for the year		–	–	6,281	–	70	134,656	141,007	(47)	140,960
Disposal of subsidiaries	33(a)	–	–	–	–	–	–	–	(469)	(469)
Gain on acquisition of minority interest	33(b)	–	–	–	–	–	529	529	–	529
Increase in equity holding of a subsidiary	33(b)	–	–	–	–	–	–	–	(1,437)	(1,437)
Recognition of share-based payments	29	–	–	–	16,502	–	–	16,502	–	16,502
Dividends paid		–	–	–	–	–	(6,198)	(6,198)	–	(6,198)
At 30 September 2009		12,395	415,055	40,045	21,905	144,858	669,208	1,303,466	–	1,303,466
Representing:										
At 30 September 2009 after proposed final dividend								1,296,855		
Proposed final dividend	13							6,611		
Equity attributable to equity holders of the Company								1,303,466		

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 on 30 August 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in Appendix IV "Statutory and General Information" in the Company's prospectus dated 20 August 2002.

Consolidated Cash Flow Statement

For the year ended 30 September 2009

	Note	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**138,519**	101,975
Adjustments for:			
Bank interest income		**(4,977)**	(7,927)
Finance costs		**13,701**	21,240
Depreciation		**60,505**	54,236
Gain on disposal of subsidiaries		**(4,570)**	–
Gain on termination of interest rate swap contract		**(70,554)**	–
Amortisation of prepaid land lease payments		**1,413**	1,330
Loss on disposals of prepaid land lease payments and property, plant and equipment		**12,031**	544
Reversal on revaluation of buildings		**(26)**	(274)
Deficit on revaluation of buildings		**29**	–
Amortisation of technical know-how		**1,135**	1,100
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		**3,904**	46
Written off of trade receivables		**–**	96
Equity-settled share-based payments		**16,502**	–
Operating profit before working capital changes		**167,612**	195,244
Decrease in inventories		**27,304**	15,226
Decrease/(increase) in trade receivables		**38,206**	(21,670)
Decrease/(increase) in prepayments, deposits and other receivables		**51,370**	(70,353)
(Decrease)/increase in trade payables		**(8,099)**	3,659
Increase in other payables and accruals		**34,242**	10,629
Cash generated from operations		**310,635**	132,735
Income tax paid		**(3,815)**	(3,662)
Net cash generated from operating activities		**306,820**	129,073
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(331,537)**	(98,740)
Increase in interests in available-for-sale financial assets		**(681)**	–
Proceeds from disposals of prepaid land lease payments and property, plant and equipment		**9,855**	1,430
Disposal of subsidiaries	33(a)	**2,401**	–
Increase in equity holding of a subsidiary	33(b)	**(908)**	–
Purchase of prepaid land lease payments		**(8,589)**	(6,836)
Interest received		**1,466**	2,176
Net cash used in investing activities		**(327,993)**	(101,970)

Consolidated Cash Flow Statement

For the year ended 30 September 2009

	Note	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of financial liabilities at fair value through profit or loss		**–**	77,850
Repayment of financial liabilities at fair value through profit or loss		**(50,602)**	–
Bank loans raised		**34,080**	134,978
Repayment of bank loans		**(141,560)**	(220,475)
Proceeds from issue of shares		**–**	283,200
Share issue expenses paid		**–**	(29,390)
Finance costs paid		**(13,701)**	(21,240)
Dividends paid		**(6,198)**	(19,183)
Net cash (used in)/generated from financing activities		**(177,981)**	205,740
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(199,154)**	232,843
Effect of foreign exchange rate changes		**3,695**	42,494
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**504,657**	229,320
CASH AND CASH EQUIVALENTS AT END OF YEAR		**309,198**	504,657
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**309,198**	504,657

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 2105, 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 "KDR").

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 2008. IFRSs comprise International Financial Reporting Standards; International Accounting Standards; 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 IFRSs 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.

The Group applies a policy of treating acquisitions of minority interests by the majority interests in subsidiaries as transactions between equity holders in their capacity as equity holders. No gain or loss is recognised in the consolidated income statement on such acquisitions. Assets and liabilities of the subsidiaries in which the Group increases its interests are stated at their carrying amounts. The difference between the cost of acquisition and the carrying amount of the net assets additionally acquired by the Group is recognised directly in equity.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

(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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Taxation (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of assets (continued)

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.

(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.

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 2009. 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 charges and amortisation charges 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.

(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.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty (continued)

(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.

(f) Share-based payment expenses

The fair value of the share options granted to the employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Binomial Option Pricing Model (the "Binomial Model") was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Binomial Model requires the input of subjective assumptions, including the expected dividend yield and excepted life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

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 2009, 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$1,439,000 (2008: HK$1,413,000) higher, arising mainly as a result of the net foreign exchange gain 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$1,439,000 (2008: HK$1,413,000) lower, arising mainly as a result of the net foreign exchange loss on bank and cash balances and receivables denominated in USD.

(b) Credit risk

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

5. FINANCIAL RISK MANAGEMENT (continued)

(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.

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 2009				
Interest-bearing borrowings	121,328	62,995	–	–
Trade payables	44,952	–	–	–
Other payables and accruals	193,926	–	–	–
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	–	–	–

(d) Interest rate risk

At 30 September 2009, the Group's bank and cash balances included fixed deposits denominated in USD amounting to approximately HK$135 million (2008: HK$136 million) and at fixed interest rate of 1.80% per annum (2008: 3.65% 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 2009, 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$1,017,000 (2008: HK$2,246,000) 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$1,017,000 (2008: HK$2,246,000) lower, arising mainly as a result of higher interest expense on bank borrowings.

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

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 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 lower, arising mainly as a result of change in fair value of derivative financial instruments.

At 30 September 2009, the Group has no such interest rate risk.

(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.

	2009 **HK$'000**	2008 HK$'000
Provision of fabric processing services	**615,891**	655,727
Sale of goods	**96,326**	150,968
	712,217	806,695

7. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Bank interest income	**4,977**	7,927
Gain on disposal of subsidiaries (note 33(a))	**4,570**	–
Gain on termination of interest rate swap contract	**70,554**	1,557
Subcontracting income	**2,571**	6,077
Government grants	**284**	6
Net foreign exchange gains	**110**	229
Reversal on revaluation of buildings	**26**	274
Rental income	**2,781**	673
Others	**288**	194
	86,161	16,937

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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue:								
Revenue	**230,182**	267,521	**418,745**	464,717	**63,290**	74,457	**712,217**	806,695
Segment results	**73,215**	107,719	**19,788**	23,366	**6,504**	14,186	**99,507**	145,271
Other income							**86,161**	16,937
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							**(33,448)**	(16,115)
Profit from operations							**152,220**	123,215
Finance costs							**(13,701)**	(21,240)
Profit before tax							**138,519**	101,975
Income tax expense							**(5,958)**	(10,786)
Profit for the year							**132,561**	91,189
Segment assets	**157,790**	181,406	**1,196,438**	1,015,730	**43,386**	50,489	**1,397,614**	1,247,625
Unallocated assets							**361,512**	564,194
Total assets							**1,759,126**	1,811,819
Segment liabilities	**28,665**	36,994	**203,860**	164,486	**7,882**	10,296	**240,407**	211,776
Unallocated liabilities							**215,253**	446,464
Total liabilities							**455,660**	658,240
Other segment information:								
Capital expenditure	**23,199**	3,716	**303,524**	93,990	**6,379**	1,034	**333,102**	98,740
Depreciation and amortisation	**7,788**	8,126	**51,710**	44,948	**2,142**	2,262	**61,640**	55,336
Written off of trade receivables	**–**	–	**–**	96	**–**	–	**–**	96
Written off of property, plant and equipment	**–**	–	**3,904**	46	**–**	–	**3,904**	46
Loss on disposals of prepaid land lease payments and property, plant and equipment	**–**	–	**12,031**	544	**–**	–	**12,031**	544

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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue	**643,272**	686,190	**68,945**	120,505	**712,217**	806,695
Segment assets	**995,544**	813,087	**399,394**	434,538	**1,394,938**	1,247,625
Unallocated assets					**364,188**	564,194
					1,759,126	1,811,819
Capital expenditure	**307,736**	79,192	**25,366**	19,548	**333,102**	98,740

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 2009

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	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, *JP*	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 2008

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	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, *JP*	120	–	–	–	120
Mr. Lawrence Gonzaga	120	–	–	–	120
Mr. Wong Siu Hong	120	–	–	–	120
Total	360	1,663	44	12	2,079

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: 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 2009 included one (2008: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2008: three) individuals which fell within the "HK$Nil to HK$1,000,000" band, are set out below:

	2009 HK$'000	2008 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,280	1,753
Retirement benefits scheme contributions	24	12
	2,304	1,765

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 (2008: HK$Nil).

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank loans and overdrafts	12,701	20,240
Bank charges	1,000	1,000
	13,701	21,240

11. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Current tax – the PRC enterprise income tax		
Provision for the year	**6,543**	6,571
Under-provision in prior years	**–**	78
	6,543	6,649
Deferred tax (note 27)	**(585)**	4,137
	5,958	10,786

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2008: 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 (the "PRC") enterprise income tax rate is as follows:

	2009 HK$'000	2008 HK$'000
Profit before tax	**138,519**	101,975
Tax at the PRC enterprise income tax rate of 25% (2008: 25%)	**34,630**	25,494
Tax effect of income that is not taxable	**(54,118)**	(48,773)
Tax effect of expenses that are not deductible	**42,827**	46,448
Over-provision for current year	**–**	666
Effect of different tax rates of subsidiaries	**(17,381)**	(13,049)
Income tax expense	**5,958**	10,786

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 was 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):

	2009 HK$'000	2008 HK$'000
Amortisation of technical know-how (included in cost of services provided and costs of sales)	**1,135**	1,100
Auditor's remuneration	**1,830**	1,850
Cost of inventories sold	**105,910**	161,285
Depreciation	**60,505**	54,236
Fair value change on investment properties	**–**	(20,428)
Loss on disposals of prepaid land lease payments and property, plant and equipment	**12,031**	544
Operating lease charges on leasehold land and buildings	**3,108**	2,248
Reversal on revaluation of buildings	**(26)**	(274)
Deficit on revaluation of buildings	**29**	–
Staff costs (excluding directors' remuneration (note 9)):		
Wages and salaries	**59,943**	55,432
Retirement benefits scheme contributions	**1,793**	1,763
Equity-settled share-based payments	**16,502**	–
	78,238	57,195
Written off of property, plant and equipment	**3,904**	46
Written off of trade receivables	**–**	96

Cost of inventories sold includes staff costs, depreciation and operating leases charges of totalling approximately HK$20,195,000 (2008: HK$21,933,000) which are included in the amounts disclosed separately above.

13. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim of HK$Nil (2008: HK0.5 cent) per ordinary share paid	**–**	6,198
Proposed final of HK0.5 cent (2008: HK0.5 cent) per ordinary share	**6,611**	6,198
	6,611	12,396

14. EARNINGS PER SHARE

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

	2009 HK$'000	2008 HK$'000
Earnings		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	**132,657**	91,016
Number of shares		
Weighted average number of ordinary shares except for bonus issue	**1,239,503,580**	1,134,577,961
Effect of bonus issue	**–**	56,728,898
Weighted average number of ordinary shares used in basic earnings per share calculation	**1,239,503,580**	1,191,306,859
Effect of dilutive potential ordinary shares arising from share options	**58,397,983**	–
Weighted average number of ordinary shares used in diluted earnings per share calculation	**1,297,901,563**	1,191,306,859

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 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)	–
Transfers 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 and 1 October 2008	252,807	462,495	10,366	117,492	843,160
Additions	82,400	215,215	2,197	33,290	333,102
Transfers	89,905	2,379	–	(92,284)	–
Disposals	(390)	(29,397)	–	–	(29,787)
Disposal of subsidiaries	–	(12,191)	–	(873)	(13,064)
Written off	(3,631)	(952)	(397)	–	(4,980)
Deficit on revaluation	(5,431)	–	–	–	(5,431)
At 30 September 2009	415,660	637,549	12,166	57,625	1,123,000

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 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 and 1 October 2008	–	158,807	6,540	–	165,347
Charge for the year	15,756	43,667	1,082	–	60,505
Disposals	(11)	(10,431)	–	–	(10,442)
Disposal of subsidiaries	–	(1,097)	–	–	(1,097)
Written off	–	(779)	(297)	–	(1,076)
Write-back on revaluation	(15,745)	–	–	–	(15,745)
At 30 September 2009	–	190,167	7,325	–	197,492
Impairment					
At 1 October 2007	–	10,081	–	873	10,954
Exchange differences	–	1,013	–	–	1,013
At 30 September 2008 and 1 October 2008	–	11,094	–	873	11,967
Disposal of subsidiaries	–	(11,094)	–	(873)	(11,967)
At 30 September 2009	–	–	–	–	–
Carrying amount					
At 30 September 2009	415,660	447,382	4,841	57,625	925,508
At 30 September 2008	252,807	292,594	3,826	116,619	665,846

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	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
At cost	–	637,549	12,166	57,625	707,340
At valuation	415,660	–	–	–	415,660
At 30 September 2009	415,660	637,549	12,166	57,625	1,123,000
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 30 September 2009, the Group's buildings, including certain buildings of approximately HK$355,279,000 (2008: HK$209,879,000) 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$415,660,000 (2008: HK$252,807,000). The resulting revaluation surplus of approximately HK$10,317,000 (2008: HK$9,338,000) and HK$26,000 (2008: HK$274,000) has been credited to the properties revaluation reserve and income statement respectively and revaluation deficit of approximately HK$29,000 (2008: HK$Nil) has been charged to income statement.

Had the Group's buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2009 would have been approximately HK$368,486,000 (2008: HK$210,189,000).

16. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
At 1 October 2007	60,219
Additions	6,836
Transfers to investment properties	(5,813)
Exchange differences	5,595
At 30 September 2008 and 1 October 2008	66,837
Additions	8,589
Disposals	(4,142)
At 30 September 2009	71,284
Accumulated amortisation	
At 1 October 2007	1,981
Charge for the year	1,330
Transfers to investment properties	(669)
Exchange differences	242
At 30 September 2008 and 1 October 2008	2,884
Charge for the year	1,413
Disposals	(36)
At 30 September 2009	4,261
Carrying amount	
At 30 September 2009	67,023
At 30 September 2008	63,953

16. PREPAID LAND LEASE PAYMENTS (continued)

	2009 **HK$'000**	2008 HK$'000
Analysed for reporting purposes as:		
Non-current assets	**65,336**	62,480
Current assets	**1,687**	1,473
	67,023	63,953

The Group's prepaid land lease payments of approximately HK$58,434,000 (2008: HK$63,953,000) represent payments for land use rights in the PRC and Hong Kong.

During the year, the Group prepaid land lease payments of approximately HK$8,589,000 (2008: HK$Nil) which represent leasing a reservoir situated in the PRC from 石獅市鴻山鎮東園村村民委員會 for 30 years.

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

	2009 **HK$'000**	2008 HK$'000
In Hong Kong – Long leases	**–**	4,105
Outside Hong Kong – Medium-term leases	**67,023**	59,848
	67,023	63,953

At 30 September 2009, the Group's prepaid land lease payments, included certain leasehold lands of approximately HK$9,252,000 (2008: HK$9,545,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

At 30 September 2009, the Group's prepaid land lease payments with carrying amounts of approximately HK$1,839,000 (2008: HK$1,889,000) were pledged to secure certain banking facilities granted to the Group (note 26).

17. INVESTMENT PROPERTIES

	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, 1 October 2008 and 30 September 2009	44,304

At 30 September 2009, investment properties included certain buildings of approximately HK$11,694,000 (2008: 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 2009 and 2008 on the open market value by BMI Appraisals Limited, an independent firm of professional valuers.

The Group's investment properties are located outside Hong Kong with medium-term leases. At 30 September 2009, the carrying amount of investment properties pledged as security for the Group's bank loans amounted to HK$32,610,000 (2008: HK$32,308,000).

Property leasing revenue includes gross rental income from investment properties of approximately HK$2,781,000 (2008: HK$673,000).

18. INTANGIBLE ASSETS

	Technical know-how HK$'000	Goodwill HK$'000 (Note)	Total HK$'000
Cost			
At 1 October 2007	10,323	33,015	43,338
Exchange differences	1,037	–	1,037
At 30 September 2008, 1 October 2008 and 30 September 2009	11,360	33,015	44,375
Accumulated amortisation			
At 1 October 2007	2,374	–	2,374
Charge for the year	1,100	–	1,100
Exchange differences	274	–	274
At 30 September 2008 and 1 October 2008	3,748	–	3,748
Charge for the year	1,135	–	1,135
At 30 September 2009	4,883	–	4,883
Carrying amount			
At 30 September 2009	6,477	33,015	39,492
At 30 September 2008	7,612	33,015	40,627

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:

	2009 HK$'000	2008 HK$'000
Provision of fabric processing services:		
Lingfeng Dyeing & Weaving Co., Ltd. Shishi ("Lingfeng")	**30,133**	30,133
United Glory Development Limited	**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. (2008: for the next five years with the residual period using the growth rate of 14.6% to 3.5% decreasing by 30%).

The rate used to discount the forecast cash flows from the Group's provision of fabric processing services is 11.43% (2008: 13.02%).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 HK$'000	2008 HK$'000
Unlisted equity securities, at cost	**4,265**	3,584

Unlisted equity securities with carrying amount of HK$4,265,000 (2008: HK$3,584,000) 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

	2009 HK$'000	2008 HK$'000
Deposits paid for the prepaid land lease payments	**72,622**	72,622

21. INVENTORIES

	2009 HK$'000	2008 HK$'000
Consumables	**35,602**	41,437
Raw materials	**15,894**	15,647
Work in progress	**889**	1,254
Finished goods	**9,232**	32,683
	61,617	91,021

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:

	2009 HK$'000	2008 HK$'000
0 – 30 days	**58,157**	69,816
31 – 60 days	**53,102**	65,446
61 – 90 days	**40,586**	54,228
Over 90 days	**12,950**	14,154
	164,795	203,644

22. TRADE RECEIVABLES (continued)

As of 30 September 2009, trade receivables of approximately HK$3,227,000 (2008: HK$2,901,000) 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. An aging analysis of these past due trade receivables is as follows:

	2009 HK$'000	2008 HK$'000
0 – 30 days	**1,858**	1,735
31 – 60 days	**885**	464
61 – 90 days	**104**	40
Over 90 days	**380**	662
	3,227	2,901

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

	2009 HK$'000	2008 HK$'000
USD	**73,423**	108,126
RMB	**91,372**	95,518
	164,795	203,644

23. BANK AND CASH BALANCES

At 30 September 2009, the bank and cash balances of the Group denominated in RMB amounting to approximately HK$174 million (2008: HK$368 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:

	2009 **HK$'000**	2008 HK$'000
0 – 30 days	**22,497**	24,588
31 – 60 days	**13,835**	16,964
61 – 90 days	**5,785**	8,612
Over 90 days	**2,835**	4,958
	44,952	55,122

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

	2009 **HK$'000**	2008 HK$'000
USD	**16,425**	25,903
RMB	**28,527**	29,219
	44,952	55,122

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 **HK$'000**	2008 HK$'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.

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

	2009 HK$'000	2008 HK$'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.

The fair value as at 30 September 2008 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

	2009 HK$'000	2008 HK$'000
Bank loans	**180,505**	284,360
Bank loans are repayable as follows:		
On demand or within one year	**118,162**	154,975
In the second year	**62,343**	67,041
In the third to fifth years, inclusive	**–**	62,344
	180,505	284,360
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(118,162)**	(154,975)
Amount due for settlement after 12 months	**62,343**	129,385

26. INTEREST-BEARING BORROWINGS (continued)

(a) At 30 September 2009, 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$34,449,000 (2008: HK$34,197,000) (notes 16 and 17); and

(ii) corporate guarantees given by three (2008: three) subsidiaries of the Company for the year ended 30 September 2009.

(b) Included in the bank loans was a syndicated loan facility as at 30 September 2009 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;

(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:

	2009	2008
Syndicated loans	**2.075%**	3.804%
Other bank loans	**6.310%**	5.844%

26. INTEREST-BEARING BORROWINGS (continued)

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

	2009 **HK$'000**	2008 HK$'000
HKD	**129,385**	199,160
RMB	**51,120**	85,200
	180,505	284,360

(e) Included in the other bank loans of HK$Nil (2008: HK$2,733,000) 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 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 and 1 October 2008	(3,436)	21,014	5,274	22,852
Charge to equity for the year	–	1,988	–	1,988
(Credit)/charge to income statement for the year (note 11)	(850)	–	265	(585)
At 30 September 2009	(4,286)	23,002	5,539	24,255

(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 HK$3,279,000 (2008: HK$2,283,000). 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

	2009 HK$'000	2008 HK$'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 ordinary shares of HK$0.01 each	**12,395**	12,395

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

	Note	**Number of shares issued** '000	**Nominal value of shares issued** HK$'000
At 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 October 2008 and 30 September 2009		1,239,504	12,395

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 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 (the "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.

28. SHARE CAPITAL (continued)

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 Company 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.

29. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

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.

Details of the specific category of options are as follows:

Category of options	Date of grant	Vesting date	Exercise period	Exercise price HK$
Option 2007	23 March 2007	23 March 2007	23 March 2007 to 22 March 2010	0.522
Option 2008	5 December 2008	5 December 2008	5 December 2008 to 4 December 2011	0.125
Option 2009	11 May 2009	11 May 2009	11 May 2009 to 10 May 2014	0.255

If the options remain unexercised after a exercise period 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.

29. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

In accordance with the terms of the 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 of Option 2007 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	0.497	92,400,000

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

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

	2009		2008	
	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**	**0.497**	92,400,000	0.497
Granted during the year	**241,920,000**	**0.192**	–	
Outstanding at the end of the year	**334,320,000**	**0.276**	92,400,000	0.497
Exercisable at the end of the year	**334,320,000**	**0.276**	92,400,000	0.497

During the year, no share options were exercised. The options outstanding at the end of the year have a weighted average remaining contractual life 2.61 years (2008: 1.47 years) and the weighted average exercise price of HK$0.276 (2008: HK$0.497). During the year, options were granted on 5 December 2008 and 11 May 2009 respectively. The estimated fair values of the options granted on these dates are approximately HK$5,394,000 and HK$11,108,000 respectively.

29. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	Option 2009	Option 2008
Weighted average share price	**HK$0.255**	**HK$0.121**
Weighted average exercise price	**HK$0.255**	**HK$0.125**
Expected volatility	**71.22%**	**66.88%**
Expected life	**3 years**	**3 years**
Risk free rate	**1.02%**	**1.128%**
Expected dividend yield	**4.13%**	**3.57%**

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years for both of the share options issued in 2008 and 2009 respectively. 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

	2009 HK$'000	2008 HK$'000
Investments in subsidiaries	**133,900**	133,900
Due from subsidiaries (note)	**1,209,854**	1,212,253
Other current assets	**618**	982
Due to subsidiaries (note)	**(465,177)**	(322,073)
Interest-bearing borrowings	**(129,386)**	(199,160)
Other current liabilities	**(2,246)**	(123,537)
NET ASSETS	**747,563**	702,365
Capital and reserves		
Share capital	**12,395**	12,395
Reserves	**735,168**	689,970
	747,563	702,365

Note:

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

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 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
At 1 October 2008	547,602	5,403	136,965	689,970
Recognition of share-based payments	–	16,502	–	16,502
Profit for the year	–	–	34,894	34,894
Dividends paid	–	–	(6,198)	(6,198)
At 30 September 2009	547,602	21,905	165,661	735,168
Representing:				
At 30 September 2009 after proposed final dividend				728,557
Proposed final dividend (note 13)				6,611
				735,168

31. RESERVES (continued)

Company (continued)

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 2009 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	600 ordinary shares of US$1 each	100%	Investment holding
Indirectly held				
Huafeng Knitting Co., Ltd. Shishi City, Fujian# ("Huafeng Knitting")	PRC	Registered capital and paid-up capital of RMB105,000,000	100%	Provision of fabric processing services, manufacture and sale of fabrics

32. PRINCIPAL SUBSIDIARIES (continued)

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
Indirectly held (continued)				
Powerful China Development Limited	Hong Kong	100 ordinary shares of HK$1 each	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	Registered capital of US$25,000,000 Paid-up capital of US$21,526,050	100%	Manufacture and sale of yarns
Lingfeng#	PRC	Registered capital of HK$90,000,000 Paid-up capital of HK$66,000,000	100%	Provision of fabric processing services
Huafeng Textile (Lianyungang) Co., Ltd.#	PRC	Registered capital and paid-up capital of US$2,550,000	100%	Manufacture and sale of yarns
Shishi Huarun Knitting & Dyeing Co., Ltd#	PRC	Registered capital of HK$55,000,000 Paid-up capital of HK$50,585,782	100%	Provision of fabric processing services
Jiangxi Fenghua Textile Co., Ltd.#	PRC	Registered capital of US$10,000,000 Paid-up capital of US$7,918,623	100%	Operations not yet commenced

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.

Wholly foreign owned enterprises established in the PRC.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

On 30 December 2008, the Group disposed of its subsidiaries, Huafeng Quality Control Limited and Shenyang Huafeng Dyeing & Printing Co., Ltd.

Net liabilities at the date of disposal were as follows:

	HK$'000
Inventories	2,100
Trade receivables	643
Prepayments, deposits and other receivables	3,400
Bank and cash balances	99
Trade payables	(2,071)
Other payables and accruals	(5,772)
Net liabilities disposed of	(1,601)
Minority interest	(469)
Gain on disposal of subsidiaries	4,570
Total consideration – satisfied by cash	2,500
Net cash inflow arising on disposal:	
Cash consideration received	2,500
Cash and cash equivalents disposed of	(99)
	2,401

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

(b) Acquisition of additional equity interest in subsidiary from minority interest

On 30 June 2009, the Group acquired 0.76% of the issued capital of Huafeng Knitting for cash consideration of approximately HK$908,000.

The minority interest acquired is as follows:

	HK$'000
Minority interest	1,437
Gain on acquisition of minority interest	(529)
Satisfied by:	
Cash	908

(c) Major non-cash transaction

Included in the addition of property, plant and equipment was an amount of approximately HK$1,565,000 (2008: HK$Nil) which was acquired through disposal of another property, plant and equipment as part of the consideration.

34. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2009 (2008: 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:

	2009 **HK$'000**	2008 HK$'000
Within one year	**1,218**	296
In the second to fifth years, inclusive	**1,726**	170
After five years	**3,578**	–
	6,522	466

Operating lease payments represent rentals payable by the Group for certain of its offices, factory and warehouse. Leases are negotiated for terms ranging from 1 to 21 years and rentals are fixed over the lease terms and do not include contingent rentals.

(ii) As lessor

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**695**	695
In the second to fifth years, inclusive	**4,703**	7,484
	5,398	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.

35. COMMITMENTS (continued)

(b) Capital commitments

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

	2009 HK$'000	2008 HK$'000
Contracted but not provided for:		
Construction of buildings	**5,899**	17,638
Purchase of plant and machinery	**29,237**	43,004
Purchase of a parcel of land	**13,714**	13,714
	48,850	74,356

36. RELATED PARTY TRANSACTIONS

1. During the year, the Group acquired 0.76% of the issued capital of Huafeng Knitting for cash consideration of approximately HK$908,000 from a minority shareholder of Huafeng Knitting. A close family member of Mr. Cai Zhenrong is the legal representative of the minority shareholder of Huafeng Knitting.

2. During the year, the key management personnel compensation paid by the Group were disclosed in note 9 to the financial statements.

3. 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

1. On 9 October 2009, the Company and the placing agent, Tanrich Capital Limited entered into the placing agreement in relation to placing of convertible bonds ("Placing Agreement"). Pursuant to the Placing Agreement, the Company will issue the three-year 1% coupon convertible bonds ("Convertible Bonds") up to an aggregate principal amount of HK$150 million. Based upon the initial conversion price of HK$0.28 per conversion share, a total of 535,714,285 share (with an aggregate nominal value of HK$5,357,142.85) would fall to be allotted and issued upon the exercise of all the conversion rights attached to the Convertible Bonds. Further details of Convertible Bonds are set out in the Circular dated 29 October 2009.

   The issuance of Convertible Bonds has been approved by the shareholders at the Company's extraordinary general meeting ("EGM") held on 18 November 2009.

2. On 18 November 2009, the shareholders approved at the Company's EGM to increase in authorised share capital from HK$20,000,000 (divided into 2,000,000,000 ordinary shares of HK$0.01 each) to HK$100,000,000 (divided into 10,000,000,000 ordinary shares of HK$0.01 each).

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15 January 2010.