



HUAFENG
華 豐

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

Stock Code: 364

ANNUAL REPORT 2010



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhenrong (*Chairman*)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo (*Managing Director*)
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

Patrick Mak & Tse

PRINCIPAL BANKERS

Agricultural Bank of China
China Minsheng Banking Corp., Ltd.
Hang Seng Bank Limited

WEBSITE

www.huafeng.com.hk

STOCK CODE

364

Five-Year Financial Summary

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				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
TURNOVER	773,383	712,217	806,695	747,063	586,335
PROFIT FROM OPERATIONS	88,416	152,220	123,215	126,358	100,933
Finance costs	(12,734)	(13,701)	(21,240)	(23,516)	(13,495)
PROFIT BEFORE TAX	75,682	138,519	101,975	102,842	87,438
Income tax expense	(7,213)	(5,958)	(10,786)	(3,899)	(2,375)
PROFIT BEFORE NON-CONTROLLING INTERESTS	68,469	132,561	91,189	98,943	85,063
Non-controlling interests	-	96	(173)	6,418	2,203
NET PROFIT ATTRIBUTABLE TO OWNERS	68,469	132,657	91,016	105,361	87,266

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 30 September				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS	1,231,393	1,151,527	889,463	745,710	543,470
CURRENT ASSETS	844,632	607,599	922,356	564,357	429,484
TOTAL ASSETS	2,076,025	1,759,126	1,811,819	1,310,067	972,954
CURRENT LIABILITIES	434,720	369,062	506,003	381,345	187,555
NON-CURRENT LIABILITIES	154,237	86,598	152,237	201,764	185,232
NON-CONTROLLING INTERESTS	-	-	1,953	1,747	8,160
TOTAL LIABILITIES	588,957	455,660	658,240	583,109	372,787
NET ASSETS	1,487,068	1,303,466	1,153,579	726,958	600,167

Note 1: The summary of the results, assets, liabilities and non-controlling interests of the Group for the year ended 30 September 2006 are extracted from the Company's annual report 2006 prepared in accordance with Hong Kong Financial Reporting Standards.

Note 2: The summary of the results, assets, liabilities and non-controlling interests of the Group for the years ended 30 September 2007 and 2008 are extracted from the Company's annual report 2008 prepared in accordance with International Financial Reporting Standards.

Note 3: The summary of the results, assets, liabilities and non-controlling interests of the Group for the year ended 30 September 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 2010 (the "Year"). The Group's consolidated revenue for the Year increased by 8.6% to HK\$773.4 million (2009: HK\$712.2 million). Gross profit increased by 10.8% to HK\$182.6 million (2009: HK\$164.9 million). Profit after tax attributable to owners of the Company amounted to HK\$68.5 million (2009: HK\$132.7 million), representing a decrease of 48.4% as compared to that of 2009. The profit after tax decreased as the unwinding of an interest rate swap contract on 22 January 2009 contributed to a gain of HK\$70.6 million in 2009, but no such gain was made during the Year.

BUSINESS REVIEW

During the Year, the global economy steadily recovered, while the business environment of China's textile industry continuously improved, which enhanced revenue arising from the Group's fabric processing services, manufacture and sale of fabrics by 5.5% to approximately HK\$678.5 million. Revenue from manufacture and sale of yarns and blankets increased by 37.6% to approximately HK\$94.9 million.

During the Year, benefiting from vibrant economic development and the stimulus policy for expanding domestic demand introduced by the PRC Government, the Chinese market maintained strong growth momentum. Leveraging upon the Group's strong customer base in China and flexible marketing strategies, the Group not only improved its domestic market share, but also maintained stable average selling prices of its products in the highly competitive textile market, so as to enhance the steady development of its overall business.

PROSPECTS

Although the global economy steadily recovered, the macro-business environment still has various factors of uncertainty, among which the rising raw materials cost for textile products and the international intensified trade protectionism will bring about significant challenges to the future development of China's textile industry.

In the future, the Group will dedicate efforts to the PRC market in order to steadily develop its current business, as well as proactively implement a long-term business diversification strategy, so as to enhance its revenue sources and profitability.

The newly established premises in Jiangxi cover approximately 530,000 square meters. The first phase has an available building area of 53,000 square meters, while the preliminary construction and equipment installation have been completed, and sewage treatment facilities have been installed. Trial production started in June 2010 with a capacity of 10,950 tons per annum for blanket production and an expected mass production is scheduled to start in the second half of 2011.

On 21 April 2010, the Group signed a memorandum of understanding (the "MOU") with vendor (the "Vendor") in relation to the proposed acquisition of 67.5% equity interest in a gold mine in Liaoning Province, China.

Chairman's Statement

Subsequently, on 6 May 2010, the Group signed a second memorandum of understanding (the "Second MOU") with another vendor (the "New Vendor") in relation to the proposed acquisition of 60% equity interest in another gold mine located in China. However, due to the significant change in the global securities market, the Board is of the view that it is not the appropriate time to continue the negotiation of the formal agreement for the second proposed acquisition. On 10 June 2010, the Company and the New Vendor entered into a termination agreement and mutually agreed to terminate the Second MOU, which shall become null and void and without any further effect.

The Board believes that the Group's diversification strategy should be carried out in a prudent manner. As such, termination of the Second MOU not only alleviates excessive burden on the Group's financial resources, but will still allow it to continue pursuing diversification opportunities in order to bring maximized returns to the shareholders of the Company.

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, 21 January 2011

Management Discussion and Analysis

FINANCIAL PERFORMANCE

As at 30 September 2010, the Group's consolidated revenue for the Year increased by 8.6% to approximately HK\$773.4 million (2009: approximately HK\$712.2 million). Among which, turnover from the fabric processing services, manufacture and sale of fabrics amounted to approximately HK\$678.5 million (2009: approximately HK\$643.3 million), representing 87.7% of total sales. Turnover attributable to the manufacture and sale of yarns and blankets segment amounted to approximately HK\$94.9 million (2009: approximately HK\$68.9 million), representing 12.3% of total sales.

During the Year, gross profit of the Group increased by 10.8% to approximately HK\$182.6 million (2009: approximately HK\$164.9 million) and gross margin slightly increased by 0.5% from 23.1% in 2009 to 23.6% in 2010. Profit after tax attributable to owners of the Company amounted to approximately HK\$68.5 million (2009: approximately HK\$132.7 million), representing a decrease of 48.4% as compared to that of 2009. The profit after tax decreased as the unwinding of an interest rate swap contract on 22 January 2009 contributed to a gain of approximately HK\$70.6 million in 2009, but no such gain was made during the Year.

BUSINESS DEVELOPMENT AND OUTLOOK

The gradual recovery of the global economy led to the rebound in textile and clothing exports, coupled with the PRC Government's policy of expanding domestic demand, allowed the steady improvement in the operating environment of China's textile industry during 2010. Despite the fluctuation of cotton prices during the Year, the influence to the Group was limited as it concentrated on fabric processing services and was able to pass on the rising costs to its down-stream customers in terms of its fabric production services. Moreover, the PRC Government proactively adjusts the cotton price recently and therefore stabilizes the industry.

During the Year, with the rising demand for textile products, the Group's turnover continued to achieve steady growth, increasing by 8.6% to approximately HK\$773.4 million as compared to last year. With regard to exports, since the official establishment of the ASEAN-China Free Trade Area on 1 January 2010, the tariffs for more than 7,000 goods between China and ASEAN members including yarn spinning, fabrics and textile products were reduced to zero, directly driving the satisfactory growth of the Chinese textile products export industry. We foresee that we would benefit from such policy in the coming future.

In addition, during the Year, Lingfeng Dyeing & Weaving Co., Ltd., a wholly-owned subsidiary of the Group, has completed installation of production machinery and equipment in the newly established building, and conducted trial production. It has been fully operational since the second half of 2010, and will enhance the Group's annual fabric processing capacity. Furthermore, the Group's new plant in Jiangxi started trial production in June 2010 and will focus on blanket production with a target production capacity of 10,950 tons per annum.

Looking ahead, the overall operating environment contains many uncertainties, including the rising prices of raw materials for textile products and labor costs, as well as growing international trade protectionism. To meet the challenges arising from the overall operating environment, the Group will delicate efforts to develop its core business in the domestic market, as well as proactively implement a long-term business diversification strategy, capturing opportunities for possible acquisition and expansion, so as to enhance its revenue sources and profitability. In April 2010, the Group signed a MOU in relation to the acquisition of 67.5% equity interest in a gold mine in Liaoning Province, China. The Group is well positioned to propel the strategy of diversified business development and maximize the returns for the shareholders of the Company.

Management Discussion and Analysis

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the Greater China region accounted for 62.3% of total sales in 2010. The Philippines market continued to be an important market for the Group, accounting for 28.9% of total sales in 2010. The remaining revenue of 8.8% was generated from customers located in Africa, Australia and North America.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2010, the Group had current assets of approximately HK\$844.6 million (2009: approximately HK\$607.6 million) and current liabilities of approximately HK\$434.7 million (2009: approximately HK\$369.1 million). The current ratio (calculated as current assets to current liabilities) increased from 1.65 as at 30 September 2009 to 1.94 as at 30 September 2010. The gearing ratio (calculated as the total bank borrowings and the convertible bonds to total shareholders' equity) had increased from 0.14 as at 30 September 2009 to 0.18 as at 30 September 2010. These ratios were at reasonably adequate levels as at 30 September 2010 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the Year, the net cash inflow from operating activities and net cash generated from financing activities were approximately HK\$66.8 million and approximately HK\$168.5 million respectively (2009: net cash inflow of approximately HK\$306.8 million and net cash used in approximately HK\$178.0 million respectively).

Total bank borrowings decreased by 20.9% to approximately HK\$142.8 million (2009: approximately HK\$180.5 million) during the Year, of which approximately HK\$142.8 million (2009: approximately HK\$118.2 million) was repayable within one year and HK\$Nil (2009: approximately HK\$62.3 million) was repayable more than one year. The total bank borrowings, which subject to fixed interest rates and floating interest rates, were 0% and 100% respectively. The Group's bank borrowings were primarily denominated in Renminbi ("RMB") and Hong Kong dollars ("HK\$"). For the Group's total bank borrowings as at 30 September 2010, 35.8% of the balance was denominated in RMB and 64.2% of the balance was denominated in HK\$. There were no seasonal adjustments with respect to the Group's borrowings. At 30 September 2010, the Group's bank borrowings were secured by (i) certain buildings of the Group; and (ii) corporate guarantees given by the Company and its subsidiaries.

Management Discussion and Analysis

CAPITAL STRUCTURE

The authorized share capital of the Company was increased 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 shares of HK\$0.01 each) by the creation of 8,000,000,000 new shares of HK\$0.01 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.

The total number of issued share capital of the Company as at 30 September 2010 was 1,446,838,580 ordinary shares.

CAPITAL EXPENDITURE AND MATERIAL ACQUISITION

During the Year, the total capital expenditure and material acquisition of the Group for the expansion of various plants and erection of new buildings was approximately HK\$148.6 million (2009: approximately HK\$333.1 million).

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB and HK\$, except overseas sales which are denominated in United States dollars ("USD"). In view of the currency peg between HK\$ and USD and a relatively strong RMB at HK\$1.00 equal to RMB0.88 (as at 30 September 2010), 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 2010 (2009: Nil).

CHARGES OF ASSETS

The Group's bank borrowings are secured by certain buildings of the Group with a total carrying value of approximately HK\$42.0 million at 30 September 2010 (2009: approximately HK\$34.4 million which were secured by prepaid land lease payments and investment properties of the Group), corporate guarantees given by the Company and its subsidiaries.

EMPLOYMENT INFORMATION

At 30 September 2010, the total number of employees of the Group in Hong Kong, Macau and the PRC is 2,324 (2009: 2,287). 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 approximately HK\$96.2 million (2009: approximately HK\$80.3 million), the amount including approximately HK\$20.6 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition or disposal of any subsidiaries of the Company for the Year.

ADDITIONAL INFORMATION

Convertible Bonds

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

- (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 HK\$150 million (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 “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 granting this specific mandate; 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/she may in his/her 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.

On 11 February 2010 and 20 April 2010, the Convertible Bonds have been subscribed for cash and issued to the subscribers with the amount of HK\$60 million and HK\$90 million respectively.

Management Discussion and Analysis

Warrants

In the event the subscription rights attaching to the warrants are exercised, the placing of the warrants represents a good opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company.

Upon the exercise of the subscription rights attaching to the warrants in full, a maximum of 247,900,000 new shares (with an aggregate nominal value of HK\$2,479,000 of the new shares) will be issued and allotted.

The subscription price per new share is HK\$0.385. The subscription price and the issue price per warrant (in aggregate) are HK\$0.395. The subscription price is subject to adjustment for subdivision or consolidation of shares. The Company will publish an announcement upon any adjustment to the subscription price. The subscription price was determined after arm's length negotiations between the Company and the Placing Agent, after considering the Group's existing financial position, liquidity of the shares in the market and number of new shares.

On 17 March 2010, the condition for the placing of the warrants under the placing agreement was fulfilled and the placing of the warrants has been completed. The warrant holders have the right to exercise the warrants within 2 years from the date of the issue of warrants.

Memorandum of Understanding

On 21 April 2010, the Company entered into the MOU with a Vendor, an independent third party, in relation to a proposed acquisition of an entire registered capital in a company (the "Target Company"). The Target Company is incorporated in the British Virgin Islands and is principally engaged in investment holding and is expected to hold 67.5% effective interest in a gold mine in Liaoning Province of the People's Republic of China. The consideration of the acquisition was RMB400 million. Further details are set out in the Company's announcement dated 21 April 2010.

On 20 January 2011, the Company and Vendor entered into a third supplemental MOU, pursuant to which the Company extended the exclusive period from nine calendar months to twelve calendar months from the date of MOU for conducting due diligence exercise on the Target 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 8 March 2010, the disclosure agent in Korea was changed from Hanul Disclosure Services Co., Ltd to Value C&I Consulting Co., Ltd.

Report of the Corporate Governance

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 Rules”) 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 of the Company. 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 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 of the Company 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 report were:

Executive Directors

Mr. Cai Zhenrong (*Chairman*)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo (*Managing Director*)
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 32 to 33 of this 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.

Report of the Corporate Governance

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 14 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
<i>Executive Directors</i>	
Mr. Cai Zhenrong (<i>Chairman</i>)	12/14
Mr. Cai Zhenyao	14/14
Mr. Cai Zhenying	12/14
Mr. Cai Yangbo (<i>Managing Director</i>)	14/14
Mr. Choi Wing Toon	14/14
<i>Independent Non-executive Directors</i>	
Mr. Lawrence Gonzaga	14/14
Ms. Choy So Yuk, <i>JP</i>	14/14
Mr. Wong Siu Hong	14/14

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.

Report of the Corporate Governance

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:

- discussing with the external auditor before the audit commences and the nature and scope of audit;
- reviewing the draft Company’s annual and interim accounts before submission to, and providing advice and comments to the Board;
- reviewing the external auditor’s management letter and considering the appointment of external auditor, their audit fees and questions of resignation or dismissal;
- 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
- assessing the risk environment and reviewing internal control procedure of the Group.

Report of the Corporate Governance

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 (<i>Chairman</i>)	2/2
Ms. Choy So Yuk, <i>JP</i>	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

Report of the Corporate Governance

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 the Director which shall be subject to the approval of Shareholders (in accordance with the provisions of rule 13.68 of the Listing Rules).

Report of the Corporate Governance

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 (<i>Chairman</i>)	1/1
Ms. Choy So Yuk, <i>JP</i>	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 of the Company 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

Report of the Corporate Governance

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 HK\$1,830,000 and HK\$706,000 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 cast 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.

Report of the Corporate Governance

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 Consulting Co., Ltd.

Report of the Directors

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 33 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 36 to 98.

The Board does not recommend the payment of a final dividend for the Year (2009: HK0.5 cent).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 8 March 2011 to Friday, 11 March 2011, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for 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 Monday, 7 March 2011.

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 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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 32 to the financial statements and the consolidated statement of changes in equity on page 39 of this report.

DISTRIBUTABLE RESERVES

At 30 September 2010, the Company had distributable reserves of approximately HK\$800,514,000. Under the Companies Law, (2010 Revision) of the Cayman Islands, the share premium account of the Company of approximately HK\$633,071,000 as at 30 September 2010, 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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

The percentage of purchase attributable to the Group's five largest supplier was 37.5%.

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 report were as follows:

Executive Directors

Mr. Cai Zhenrong (*Chairman*)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo (*Managing Director*)
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 Zhenying, Ms. Choy So Yuk, *JP* and Mr. Wong Siu Hong 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 32 to 33 of this 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 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 2011 to 15 January 2013, 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:

Pursuant to last disclosure in the 2009 annual report of the Company, Mr. Cai Yangbo was appointed as the managing Director on 16 January 2010 and also removed his office as the operation director of the Group. Mr. Cai Yangbo is now the managing and executive Director.

Each independent non-executive Director, namely Mr. Lawrence Gonzaga, Ms. Choy So Yuk, *JP* and Mr. Wong Siu Hong, has re-entered into an appointment letter with the Company for a term of two years commencing from 16 January 2011.

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 report as connected transaction in accordance with the requirements of the Listing Rules.

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 37 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of the Directors and chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (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 (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Long Positions

Ordinary shares of HK\$0.01 each of the Company

<u>Name of Director</u>	<u>Capacity</u>	<u>Type of interest</u>	<u>Number of shares held</u>	<u>Approximate percentage of shareholding in the Company</u>
Mr. Cai Zhenrong	Beneficial owner	Personal	463,041,000	32.00%
Mr. Cai Zhenyao	Beneficial owner	Personal	58,472,000 (Note 1)	4.04%
Mr. Cai Zhenying	Beneficial owner	Personal	13,220,000 (Note 2)	0.91%
Mr. Cai Yangbo	Beneficial owner	Personal	14,270,000	0.99%
Mr. Choi Wing Toon	Beneficial owner	Personal	2,000,000	0.14%
Ms. Choy So Yuk, <i>JP</i>	Beneficial owner	Personal	1,200,000 (Note 2)	0.08%
Mr. Wong Siu Hong	Beneficial owner	Personal	1,200,000	0.08%

Notes:

1. These shares include 13,220,000 shares which are the share options granted to Mr. Cai Zhenyao under the share option scheme adopted by the Company on 30 August 2002 (the "Share Option Scheme").
2. These shares are the share options granted to the Directors by the Company under the Share Option Scheme.

Save as disclosed above, as at 30 September 2010, 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 (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained pursuant to Section 352 of the SFO, or as otherwise to be 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 heading "Directors' and chief executives' interests in and short positions in shares, 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.

Report of the Directors

SHARE OPTION SCHEME

The following table discloses details of the Company's share options held by the Directors and employees of the Group pursuant to the Share Option Scheme and movements in such holdings during the Year:

Name or category of participant	Date of grant	Exercise Period	Exercise Price (HK\$)	Number of share options				
				Outstanding as at 1.10.2009	Granted during the Year	Lapsed during the Year	Exercised during the Year	Outstanding as at 30.9.2010
Directors								
Mr. Cai Zhenrong	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	9,615,000	-	(9,615,000)	-
Mr. Cai Zhenyao	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	13,220,000	-	-	13,220,000
Mr. Cai Zhenying	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	13,220,000	-	-	13,220,000
Mr. Cai Yangbo	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	13,220,000	-	(13,220,000)	-
Mr. Choi Wing Toon	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	2,000,000	-	(2,000,000)	-
Mr. Lawrence Gonzaga	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	1,200,000	-	(1,200,000)	-
Ms. Choy So Yuk, JP	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	1,200,000	-	-	1,200,000
Mr. Wong Siu Hong	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	1,200,000	-	(1,200,000)	-
Subtotal				-	54,875,000	-	(27,235,000)	27,640,000
Employees								
	23.3.2007	23.3.2007 – 22.3.2010	0.49714	92,400,000	-	-	(92,400,000)	-
	5.12.2008	5.12.2008 – 4.12.2011	0.125	118,000,000	-	-	(82,600,000)	35,400,000
	11.5.2009	11.5.2009 – 10.5.2014	0.255	123,920,000	-	-	-	123,920,000
	1.3.2010	1.3.2010 – 28.2.2015	0.52	-	71,200,000	-	(5,100,000)	66,100,000
Total				334,320,000	126,075,000	-	(207,335,000)	253,060,000

Report of the Directors

During the Year, 207,335,000 options were exercised under the Share Option Scheme.

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$0.55.

Details of the specific categories of options are as follows:

Year	Date of grant	Exercise period	Exercise price HK\$
2007	23.3.2007	23.3.2007 – 22.3.2010	0.49714
2008	5.12.2008	5.12.2008 – 4.12.2011	0.125
2009	11.5.2009	11.5.2009 – 10.5.2014	0.255
2010	1.3.2010	1.3.2010 – 28.2.2015	0.52

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

The closing price of the Company's share immediately before 1 March 2010, the date of grant of the 2010 options, was HK\$0.55. The fair value of the options granted during the Year, measured at the date of grant on 1 March 2010, was approximately HK\$20,620,000. The following significant assumptions were used to derive the fair value, using the Binomial Option Pricing Model. The inputs into the model were as follows:

Weighted average share price	HK\$0.52
Weighted average exercise price	HK\$0.52
Expected volatility	55% and 77%
Expected life	0.083 year and 2.5 years
Risk free rate	0.06% and 0.755%
Expected dividend yield	2.8%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 0.083 year and 2.5 years of the share option issued in current year. 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.

The variables and assumptions used in estimating the fair value of the share options are based on the Director's best estimate. Changes in subjective input assumptions can materially affect the fair value estimate.

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 be adjusted for the effect of non market-based vesting conditions. Details of the accounting policy for equity-settled share-based payment transactions are set out in the Group's financial statements for the year ended 30 September 2010.

Report of the Directors

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

As at 30 September 2010, 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, or which were recorded in the register of interests 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

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of shares held</u>	<u>Approximate percentage of shareholding in the Company</u>
Ms. Su Liyuan	Interest of spouse	463,041,000 (Note)	32.00%

Note: These 463,041,000 shares are held and beneficially owned by Mr. Cai Zhenrong, an executive Director. Ms. Su Liyuan is the wife of Mr. Cai Zhenrong and is deemed to be interested in these 463,041,000 shares, under the SFO.

Save as disclosed above, as at 30 September 2010, no person, other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had any interest or short positions in the shares, underlying shares or debentures of the Company which are required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of 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.

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 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, 21 January 2011

Directors' Biographies

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 63, 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 Zhenrong is responsible for the overall strategic planning, business development and strategic investments of the Group. Mr. Cai Zhenrong 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 ("Huafeng Knitting"). Since the establishment of Huafeng Knitting, Mr. Cai Zhenrong 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 56, is an executive Director and the finance director of the Group. He is also a director of the subsidiary of the Company. Mr. Cai Zhenyao 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 Zhenyao 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 54, is an executive Director and the marketing director of the Group. He is also a director of one of the subsidiaries of the Company. Mr. Cai Zhenying was the sales manager of Fujian Province Shishi City Huangguanba Textile Company Limited during the period from 1988 to 1992. Mr. Cai Zhenying has been responsible for the Group's sales, marketing and promotion functions since joining the Group in 1993. Mr. Cai Zhenying 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 36, is a managing and executive Director. Mr. Cai Yangbo was appointed as the managing Director on 16 January 2010. He is also a director of the subsidiaries of the Company. Mr. Cai Yangbo 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 Yangbo 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 60, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 37, was appointed as independent non-executive Director in August 2002. Mr. Lawrence 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. Lawrence Gonzaga has worked in a securities company in the Philippines for over 14 years. Mr. Lawrence Gonzaga is a member of the Market Technicians Association and holds the Chartered Market Technician ("CMT") designation.

Ms. Choy So Yuk, JP ("Ms. Choy"), aged 60, 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 Deputy 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 Siu Hong obtained a bachelor of business degree, majoring in accounting and commercial law in Australia. Mr. Wong Siu Hong 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 Siu Hong had worked in a multinational accounting firm and has over 14 years of experience in accounting and auditing. Mr. Wong Siu Hong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia.

Independent Auditor's Report

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 36 to 98, which comprise the consolidated statement of financial position as at 30 September 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2010 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
21 January 2011

Consolidated Income Statement

For the year ended 30 September 2010

	Note	2010 HK\$'000	2009 HK\$'000
TURNOVER	6	773,383	712,217
Cost of services provided and cost of sales		(590,737)	(547,355)
Gross profit		182,646	164,862
Other income	7	10,489	86,161
Selling and distribution expenses		(21,642)	(21,590)
Administrative expenses		(71,026)	(61,225)
Fair value change on investment properties	17	568	–
Other operating expenses		(12,619)	(15,988)
PROFIT FROM OPERATIONS		88,416	152,220
Finance costs	10	(12,734)	(13,701)
PROFIT BEFORE TAX		75,682	138,519
Income tax expense	11	(7,213)	(5,958)
PROFIT FOR THE YEAR	12	68,469	132,561
Attributable to:			
Owners of the Company		68,469	132,657
Non-controlling interests		–	(96)
		68,469	132,561
EARNINGS PER SHARE	14		
Basic		HK4.97 cents	HK10.70 cents
Diluted		HK4.10 cents	HK10.22 cents

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2010

	2010 HK\$'000	2009 HK\$'000
PROFIT FOR THE YEAR	68,469	132,561
Other comprehensive income:		
Exchange differences on translating foreign operations	(560)	70
Gains on property revaluation	6,733	10,317
Deferred tax relating to gains on property revaluation	(1,655)	(1,988)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	4,518	8,399
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	72,987	140,960
Attributable to:		
Owners of the Company	72,987	141,007
Non-controlling interests	-	(47)
	72,987	140,960

Consolidated Statement of Financial Position

At 30 September 2010

	Note	2010 HK\$'000	2009 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	995,685	925,508
Prepaid land lease payments	16	84,681	65,336
Investment properties	17	44,872	44,304
Intangible assets	18	38,356	39,492
Available-for-sale financial assets	19	4,265	4,265
Deposits paid for acquisition of prepaid land lease payments	20	63,534	72,622
		1,231,393	1,151,527
CURRENT ASSETS			
Inventories	21	65,578	61,617
Trade receivables	22	184,851	164,795
Prepayments, deposits and other receivables		193,373	70,302
Prepaid land lease payments	16	2,119	1,687
Fixed bank deposits	23	154,901	–
Bank and cash balances	23	243,810	309,198
		844,632	607,599
CURRENT LIABILITIES			
Trade payables	24	48,394	44,952
Other payables and accruals		228,567	193,926
Interest-bearing borrowings	25	142,787	118,162
Current tax liabilities		14,972	12,022
		434,720	369,062
NET CURRENT ASSETS			
		409,912	238,537
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,641,305	1,390,064
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	25	–	62,343
Convertible bonds	26	128,970	–
Deferred tax liabilities	27	25,267	24,255
		154,237	86,598
NET ASSETS			
		1,487,068	1,303,466
CAPITAL AND RESERVES			
Share capital	28	14,468	12,395
Reserves		1,472,600	1,291,071
TOTAL EQUITY			
		1,487,068	1,303,466

Approved by the Board of Directors on 21 January 2011

Cai Yangbo
Director

Choi Wing Toon
Director

Consolidated Statement of Changes in Equity

For the year ended 30 September 2010

Note	Attributable to owners of the Company										Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Properties revaluation reserve HK\$'000	Warrants reserve HK\$'000	Share-based payment reserve HK\$'000 (note 32(b))	Convertible bonds reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
At 1 October 2008	12,395	415,055	33,764	-	5,403	-	144,788	540,221	1,151,626	1,953	1,153,579
Total comprehensive income for the year	-	-	8,280	-	-	-	70	132,657	141,007	(47)	140,960
Transfers	-	-	(1,999)	-	-	-	-	1,999	-	-	-
Disposal of subsidiaries	34(a)	-	-	-	-	-	-	-	-	(469)	(469)
Gain on acquisition of non-controlling interests	34(b)	-	-	-	-	-	-	529	529	-	529
Increase in equity holding of a subsidiary	34(b)	-	-	-	-	-	-	-	-	(1,437)	(1,437)
Recognition of share-based payments	-	-	-	-	16,502	-	-	-	16,502	-	16,502
Dividends paid	-	-	-	-	-	-	-	(6,198)	(6,198)	-	(6,198)
Changes in equity for the year	-	-	6,281	-	16,502	-	70	128,987	151,840	(1,953)	149,887
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 owners of the Company									1,303,466		
At 1 October 2009	12,395	415,055	40,045	-	21,905	-	144,858	669,208	1,303,466	-	1,303,466
Total comprehensive income for the year	-	-	5,078	-	-	-	(560)	68,469	72,987	-	72,987
Recognition of share-based payments	30	-	-	-	20,620	-	-	-	20,620	-	20,620
Recognition of equity component of convertible bonds	26	-	-	-	-	21,383	-	-	21,383	-	21,383
Shares issued on exercise of share options	28(b)	2,073	85,469	-	(14,468)	-	-	-	73,074	-	73,074
Issue of warrants	29	-	-	2,149	-	-	-	-	2,149	-	2,149
Dividends paid	-	-	-	-	-	-	-	(6,611)	(6,611)	-	(6,611)
Changes in equity for the year	2,073	85,469	5,078	2,149	6,152	21,383	(560)	61,858	183,602	-	183,602
At 30 September 2010	14,468	500,524	45,123	2,149	28,057	21,383	144,298	731,066	1,487,068	-	1,487,068
Representing:											
At 30 September 2010 after proposed final dividend									1,487,068		
Proposed final dividend	13								-		
Equity attributable to owners of the Company									1,487,068		

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 Statement of Cash Flows

For the year ended 30 September 2010

Note	2010 HK\$'000	2009 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	75,682	138,519
Adjustments for:		
Bank interest income	(3,287)	(4,977)
Finance costs	12,734	13,701
Depreciation	69,160	60,505
Gain on disposal of subsidiaries	–	(4,570)
Gain on termination of interest rate swap contracts	–	(70,554)
Amortisation of prepaid land lease payments	1,807	1,413
Loss on disposals of prepaid land lease payments and property, plant and equipment	11,050	12,031
Reversal on revaluation of buildings	–	(26)
Deficit on revaluation of buildings	112	29
Amortisation of technical know-how	1,136	1,135
Fair value change on investment properties	(568)	–
Property, plant and equipment written off	1,457	3,904
Equity-settled share-based payments	20,620	16,502
Operating profit before working capital changes	189,903	167,612
(Increase)/decrease in inventories	(3,961)	27,304
(Increase)/decrease in trade receivables	(20,056)	38,206
(Increase)/decrease in prepayments, deposits and other receivables	(132,292)	51,370
Increase/(decrease) in trade payables	3,442	(8,099)
Increase in other payables and accruals	34,641	34,242
Cash generated from operations	71,677	310,635
Income tax paid	(4,906)	(3,815)
Net cash generated from operating activities	66,771	306,820
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(148,574)	(331,537)
Increase in interests in available-for-sale financial assets	–	(681)
Proceeds from disposals of prepaid land lease payments and property, plant and equipment	3,351	9,855
Disposal of subsidiaries	–	2,401
Increase in equity holding of a subsidiary	–	(908)
Purchase of prepaid land lease payments	–	(8,589)
Increase in fixed bank deposits	(154,901)	–
Deposits paid for acquisition of prepaid land lease payments	(12,496)	–
Interest received	12,508	1,466
Net cash used in investing activities	(300,112)	(327,993)

Consolidated Statement of Cash Flows

For the year ended 30 September 2010

	2010 HK\$'000	2009 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible bonds	145,500	–
Proceeds from issue of warrants	2,149	–
Proceeds from shares issued on exercise of share options	73,074	–
Repayment of financial liabilities at fair value through profit or loss	–	(50,602)
Bank loans raised	147,120	34,080
Repayment of bank loans	(184,838)	(141,560)
Finance costs paid	(7,881)	(13,701)
Dividends paid	(6,611)	(6,198)
Net cash generated from/(used in) financing activities	168,513	(177,981)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(64,828)	(199,154)
Effect of foreign exchange rate changes	(560)	3,695
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	309,198	504,657
CASH AND CASH EQUIVALENTS AT END OF YEAR	243,810	309,198
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	243,810	309,198

Notes to the Financial Statements

For the year ended 30 September 2010

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 Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 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 2009. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

IAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. IAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. IAS 1 (Revised) has been applied retrospectively.

Notes to the Financial Statements

For the year ended 30 September 2010

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) Operating Segments

IFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, IAS 14 “Segment Reporting” required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s ‘system of internal financial reporting to key management personnel’ serving as the starting point for the identification of such segments. IFRS 8 results in a redesignation of the Group’s reportable segments, but has had no impact on the reported results or financial position of the Group. IFRS 8 has been applied retrospectively.

The segment accounting policies under IFRS 8 are stated in note 8 to the financial statements.

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 and investment properties 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.

Notes to the Financial Statements

For the year ended 30 September 2010

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 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 that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits 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.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (u) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

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 consolidated profit or loss as part of the gain or loss on disposal.

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

(d) Property, plant and equipment

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

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

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

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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 profit or loss.

(e) 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 recognised in profit or loss 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 between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Operating leases

(i) *The Group as lessee*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) *The Group as lessor*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(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 profit or loss 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.

(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.

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

(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 classified as 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 profit or loss.

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, 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 in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss 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.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments, they are measured at cost less any identified impairment losses at the end of each reporting period.

(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 profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss 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.

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, 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 reporting period.

Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity components is charged directly to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial liabilities and equity instruments (continued)

Trade and other payables

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

Equity instruments

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

(n) Revenue recognition

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

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

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

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

Subcontracting fee income is recognised when the services are rendered.

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Pension obligations

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

(iii) Termination benefits

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

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors and 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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 profit or loss over the period to match them with the costs they are intended to compensate.

(s) Taxation

Income tax 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 recognised in profit or loss 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Notes to the Financial Statements

For the year ended 30 September 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly 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) Impairment of assets

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

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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 profit or loss, 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.

(v) 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.

(w) Events after the reporting period

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

Notes to the Financial Statements

For the year ended 30 September 2010

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 2010. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings and land use rights as property, plant and equipment, prepaid land lease payments and investment properties on the ground 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 end of the reporting period, 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 based on the historical experience of the actual useful lives and residual values 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 and residual values 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 end of the reporting period was HK\$33,015,000 after an impairment loss of HK\$Nil.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

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 ageing 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 buildings and investment properties*

The Group appointed an independent professional valuer to assess the fair values of the buildings and 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 directors and 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 expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

Notes to the Financial Statements

For the year ended 30 September 2010

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 2010, 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\$1,553,000 (2009: HK\$1,439,000) 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\$1,553,000 (2009: HK\$1,439,000) 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 statement of financial position 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.

Notes to the Financial Statements

For the year ended 30 September 2010

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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 September 2010				
Interest-bearing borrowings	104,980	42,815	–	–
Trade payables	48,394	–	–	–
Other payables and accruals	228,567	–	–	–
Convertible bonds	1,453	1,500	151,466	–
At 30 September 2009				
Interest-bearing borrowings	121,328	62,995	–	–
Trade payables	44,952	–	–	–
Other payables and accruals	193,926	–	–	–

(d) Interest rate risk

At 30 September 2010, the Group's bank and cash balances included fixed deposits denominated in USD amounting to approximately HK\$155 million (2009: HK\$135 million) and at fixed interest rate of 1.2% per annum (2009: 1.8% 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 2010, 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\$470,000 (2009: HK\$1,017,000) 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\$470,000 (2009: HK\$1,017,000) lower, arising mainly as a result of higher interest expense on bank borrowings.

Notes to the Financial Statements

For the year ended 30 September 2010

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Categories of financial instruments at 30 September:

	2010 HK\$'000	2009 HK\$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	623,925	501,749
Available-for-sale financial assets	4,265	4,265
Financial liabilities:		
Financial liabilities at amortised cost	546,396	417,217

(f) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position 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.

	2010 HK\$'000	2009 HK\$'000
Provision of fabric processing services	659,163	615,891
Sale of goods	114,220	96,326
	773,383	712,217

Notes to the Financial Statements

For the year ended 30 September 2010

7. OTHER INCOME

	2010 HK\$'000	2009 HK\$'000
Bank interest income	3,287	4,977
Gain on disposal of subsidiaries (note 34(a))	-	4,570
Gain on termination of interest rate swap contracts	-	70,554
Subcontracting income	1,908	2,571
Government grants	2,193	284
Net foreign exchange gains	160	110
Reversal on revaluation of buildings	-	26
Rental income	2,781	2,781
Others	160	288
	10,489	86,161

8. SEGMENT INFORMATION

The Group has two reportable segments as follows:

- Provision of fabric processing services and manufacture and sale of fabrics
- Manufacture and sale of yarns and blankets

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include unallocated other income and unallocated corporate expenses and finance costs. Segment assets do not include investment properties, bank and cash balances and unallocated corporate assets. Segment liabilities do not include interest-bearing borrowings, current tax liabilities, deferred tax liabilities, convertible bonds and unallocated corporate liabilities.

Notes to the Financial Statements

For the year ended 30 September 2010

8. SEGMENT INFORMATION (continued)

	Provision of fabric processing services, manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
REVENUE						
Revenue from external customers	678,505	643,272	94,878	68,945	773,383	712,217
Segment profit/(loss)	138,829	134,428	(9,335)	(18,354)	129,494	116,074
Unallocated other income					10,489	86,161
Unallocated corporate expenses					(51,567)	(50,015)
Profit from operations					88,416	152,220
Finance costs					(12,734)	(13,701)
Profit before tax					75,682	138,519
Income tax expense					(7,213)	(5,958)
Profit for the year					68,469	132,561

	Provision of fabric processing services, manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
ASSETS						
Segment assets	1,127,422	995,544	503,647	399,394	1,631,069	1,394,938
Unallocated assets					444,956	364,188
Consolidated total assets					2,076,025	1,759,126
LIABILITIES						
Segment liabilities	227,717	191,737	47,096	44,234	274,813	235,971
Unallocated liabilities					314,144	219,689
Consolidated total liabilities					588,957	455,660

Notes to the Financial Statements

For the year ended 30 September 2010

8. SEGMENT INFORMATION (continued)

	Provision of fabric processing services, manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Unallocated		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other segment information:								
Addition to segment non-current assets	54,516	307,724	106,411	25,366	143	12	161,070	333,102
Depreciation and amortisation	55,061	48,032	15,163	13,534	72	74	70,296	61,640
Property, plant and equipment written off	1,457	3,818	-	-	-	86	1,457	3,904
Loss on disposals of prepaid land lease payments and property, plant and equipment	11,050	11,975	-	-	-	56	11,050	12,031

Geographical information:

	2010 HK\$'000	2009 HK\$'000
The Philippines	223,341	230,182
Greater China	481,780	418,745
Africa, Australia and North America	68,262	63,290
Consolidated total	773,383	712,217

In presenting the geographical information, revenue is based on the locations of the customers. All of the Group's non-current assets are located in the Greater China.

Revenue from major customers:

There are no major customers contributing over 10% of the Group's revenue for the years ended 30 September 2009 and 2010.

Notes to the Financial Statements

For the year ended 30 September 2010

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 2010

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonus HK\$'000	Equity-settled share-based payments HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
Executive directors						
Mr. Cai Zhenrong	-	450	20	1,573	-	2,043
Mr. Cai Zhenyao	-	304	-	2,162	-	2,466
Mr. Cai Zhenying	-	304	-	2,162	-	2,466
Mr. Cai Yangbo	-	1,369	-	2,162	-	3,531
Mr. Choi Wing Toon	-	300	25	327	12	664
Independent non-executive directors						
Ms. Choy So Yuk, JP	120	-	-	196	-	316
Mr. Lawrence Gonzaga	120	-	-	196	-	316
Mr. Wong Siu Hong	120	-	-	196	-	316
Total	360	2,727	45	8,974	12	12,118

Notes to the Financial Statements

For the year ended 30 September 2010

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

For the year ended 30 September 2009

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonus HK\$'000	Equity-settled share-based payments 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 (2009: HK\$Nil).

Notes to the Financial Statements

For the year ended 30 September 2010

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

The five highest paid individuals in the Group during the year included four (2009: one) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2009: four) individual are set out below:

	2010 HK\$'000	2009 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	666	2,280
Equity-settled share-based payments	327	–
Retirement benefits scheme contributions	12	24
	1,005	2,304

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Nil to HK\$1,000,000	–	4
HK\$1,000,001 to HK\$1,500,000	1	–

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 (2009: HK\$Nil).

10. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
Interest on bank loans and overdrafts	5,721	12,701
Interest on convertible bonds	4,934	–
Bank charges	2,079	1,000
	12,734	13,701

Notes to the Financial Statements

For the year ended 30 September 2010

11. INCOME TAX EXPENSE

	2010 HK\$'000	2009 HK\$'000
Current tax – the PRC enterprise income tax		
Provision for the year	7,217	6,543
Under-provision in prior year	639	–
	7,856	6,543
Deferred tax (note 27)	(643)	(585)
	7,213	5,958

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2009: 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.

A 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:

	2010 HK\$'000	2009 HK\$'000
Profit before tax	75,682	138,519
Tax at the PRC enterprise income tax rate of 25%	18,921	34,630
Tax effect of income that is not taxable	(41,725)	(54,118)
Tax effect of expenses that are not deductible	40,282	42,827
Under-provision in prior year	639	–
Effect of different tax rates of subsidiaries	(10,904)	(17,381)
Income tax expense	7,213	5,958

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Notes to the Financial Statements

For the year ended 30 September 2010

12. PROFIT FOR THE YEAR

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

	2010 HK\$'000	2009 HK\$'000
Amortisation of technical know-how (included in cost of services provided and costs of sales)	1,136	1,135
Auditor's remuneration	1,830	1,830
Cost of inventories sold	112,490	105,910
Depreciation	69,160	60,505
Fair value change on investment properties	(568)	–
Loss on disposals of prepaid land lease payments and property, plant and equipment	11,050	12,031
Operating lease charges on leasehold land and buildings	2,677	3,108
Reversal on revaluation of buildings	–	(26)
Deficit on revaluation of buildings	112	29
Staff costs (excluding directors' remuneration (note 9)):		
Wages and salaries	70,504	59,943
Retirement benefits scheme contributions	1,921	1,793
Equity-settled share-based payments	20,620	16,502
	93,045	78,238
Property, plant and equipment written off	1,457	3,904

The cost of inventories sold includes staff costs, depreciation and operating leases charges totalling approximately HK\$22,985,000 (2009: HK\$20,195,000) which are also included in the amounts disclosed separately above.

Note:

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK\$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

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For the year ended 30 September 2010

13. DIVIDENDS

	2010 HK\$'000	2009 HK\$'000
Interim of HK\$Nil (2009: HK\$Nil) per ordinary share paid	-	-
Proposed final of HK\$Nil (2009: HK0.5 cent) per ordinary share	-	6,611
	-	6,611

14. EARNINGS PER SHARE

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

	2010 HK\$'000	2009 HK\$'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	68,469	132,657
Finance costs saving on conversion of convertible bonds outstanding	4,934	-
Earnings for the purpose of calculating diluted earnings per share	73,403	132,657
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,376,276,936	1,239,503,580
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	280,626,219	-
Effect of dilutive potential ordinary shares arising from warrants	36,606,287	-
Effect of dilutive potential ordinary shares arising from share options	96,544,880	58,397,983
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,790,054,322	1,297,901,563

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For the year ended 30 September 2010

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 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)
Write off	(3,631)	(952)	(397)	-	(4,980)
Deficit on revaluation	(5,431)	-	-	-	(5,431)
At 30 September 2009 and					
1 October 2009	415,660	637,549	12,166	57,625	1,123,000
Additions	20,014	72,859	1,667	54,034	148,574
Transfers	41,691	4,736	-	(46,427)	-
Disposals	-	(19,014)	-	-	(19,014)
Write off	-	(6,441)	-	-	(6,441)
Deficit on revaluation	(14,672)	-	-	-	(14,672)
At 30 September 2010	462,693	689,689	13,833	65,232	1,231,447

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For the year ended 30 September 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Plant and machinery	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation					
At 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)
Write off	–	(779)	(297)	–	(1,076)
Write-back on revaluation	(15,745)	–	–	–	(15,745)
At 30 September 2009 and 1 October 2009	–	190,167	7,325	–	197,492
Charge for the year	21,293	46,845	1,022	–	69,160
Disposals	–	(4,613)	–	–	(4,613)
Write off	–	(4,984)	–	–	(4,984)
Write-back on revaluation	(21,293)	–	–	–	(21,293)
At 30 September 2010	–	227,415	8,347	–	235,762
Impairment					
At 1 October 2008	–	11,094	–	873	11,967
Disposal of subsidiaries	–	(11,094)	–	(873)	(11,967)
At 30 September 2009, 1 October 2009 and 30 September 2010	–	–	–	–	–
Carrying amount					
At 30 September 2010	462,693	462,274	5,486	65,232	995,685
At 30 September 2009	415,660	447,382	4,841	57,625	925,508

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For the year ended 30 September 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

An 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	–	689,689	13,833	65,232	768,754
At valuation	462,693	–	–	–	462,693
At 30 September 2010	462,693	689,689	13,833	65,232	1,231,447
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 30 September 2010, the Group's buildings, including certain buildings of approximately HK\$355,507,000 (2009: HK\$355,279,000) 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\$462,693,000 (2009: HK\$415,660,000). The resulting revaluation surplus of approximately HK\$6,733,000 (2009: HK\$10,317,000) and HK\$Nil (2009: HK\$26,000) has been credited to the properties revaluation reserve and profit or loss respectively and revaluation deficit of approximately HK\$112,000 (2009: HK\$29,000) has been charged to profit or loss.

Had the Group's buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2010 would have been approximately HK\$413,097,000 (2009: HK\$368,486,000).

At 30 September 2010, the carrying amount of buildings pledged as security for the Group's bank loans amounted to approximately HK\$41,959,000 (2009: HK\$Nil) (note 25).

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For the year ended 30 September 2010

16. PREPAID LAND LEASE PAYMENTS

	HK\$'000	
Cost		
At 1 October 2008		66,837
Additions		8,589
Disposals		(4,142)
At 30 September 2009 and 1 October 2009		71,284
Transfer from deposits paid for acquisition of prepaid land lease payments (note 20)		21,584
At 30 September 2010		92,868
Accumulated amortisation		
At 1 October 2008		2,884
Charge for the year		1,413
Disposals		(36)
At 30 September 2009 and 1 October 2009		4,261
Charge for the year		1,807
At 30 September 2010		6,068
Carrying amount		
At 30 September 2010		86,800
At 30 September 2009		67,023
	2010	2009
	HK\$'000	HK\$'000
Analysed for reporting purposes as:		
Non-current assets	84,681	65,336
Current assets	2,119	1,687
	86,800	67,023

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For the year ended 30 September 2010

16. PREPAID LAND LEASE PAYMENTS (continued)

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium-term leases.

The Group's prepaid land lease payments of approximately HK\$78,498,000 (2009: HK\$58,434,000) represent payments for land use rights in the PRC.

The Group's prepaid land lease payments of approximately HK\$8,302,000 (2009: HK\$8,589,000) 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.

At 30 September 2010, the Group's prepaid land lease payments, included certain leasehold lands of approximately HK\$30,434,000 (2009: HK\$9,252,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

At 30 September 2010, none of prepaid land lease payments were pledged to secure banking facilities granted to the Group (2009: HK\$1,839,000) (note 25).

17. INVESTMENT PROPERTIES

	HK\$'000
At 1 October 2008, 30 September 2009 and 1 October 2009	44,304
Fair value change on investment properties	568
At 30 September 2010	44,872

At 30 September 2010, the Group's investment properties included certain buildings of approximately HK\$11,468,000 (2009: HK\$11,694,000) for which the Group were in the process of obtaining the relevant building ownership certificates.

The Group's investment properties were revalued at 30 September 2010 and 2009 on the open market value basis 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 2010, none of investment properties were pledged as security for the Group's bank loans (2009: HK\$32,610,000) (note 25).

Property leasing revenue includes gross rental income from investment properties of approximately HK\$2,781,000 (2009: HK\$2,781,000).

Notes to the Financial Statements

For the year ended 30 September 2010

18. INTANGIBLE ASSETS

	Technical know-how HK\$'000	Goodwill HK\$'000 (Note)	Total HK\$'000
Cost			
At 1 October 2008, 30 September 2009, 1 October 2009 and 30 September 2010	11,360	33,015	44,375
Accumulated amortisation			
At 1 October 2008	3,748	–	3,748
Charge for the year	1,135	–	1,135
At 30 September 2009 and 1 October 2009	4,883	–	4,883
Charge for the year	1,136	–	1,136
At 30 September 2010	6,019	–	6,019
Carrying amount			
At 30 September 2010	5,341	33,015	38,356
At 30 September 2009	6,477	33,015	39,492

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For the year ended 30 September 2010

18. INTANGIBLE ASSETS (continued)

Note:

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (the “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:

	2010 HK\$'000	2009 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.

The rate used to discount the forecast cash flows from the Group’s provision of fabric processing services is 12.42% (2009: 11.43%).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010 HK\$'000	2009 HK\$'000
Unlisted equity securities, at cost	4,265	4,265

Unlisted equity securities with carrying amount of HK\$4,265,000 (2009: HK\$4,265,000) were carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Notes to the Financial Statements

For the year ended 30 September 2010

20. DEPOSITS PAID FOR ACQUISITION OF PREPAID LAND LEASE PAYMENTS

	HK\$'000
At 1 October 2008, 30 September 2009 and 1 October 2009	72,622
Additions	12,496
Transfer to prepaid land lease payments (note 16)	(21,584)
At 30 September 2010	63,534

21. INVENTORIES

	2010 HK\$'000	2009 HK\$'000
Consumables	37,403	35,602
Raw materials	20,177	15,894
Work in progress	2,986	889
Finished goods	5,012	9,232
	65,578	61,617

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 end of reporting period, based on the date of recognition of the service income or goods sold, is as follows:

	2010 HK\$'000	2009 HK\$'000
0 – 30 days	62,452	58,157
31 – 60 days	59,834	53,102
61 – 90 days	49,386	40,586
Over 90 days	13,179	12,950
	184,851	164,795

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For the year ended 30 September 2010

22. TRADE RECEIVABLES (continued)

As of 30 September 2010, trade receivables of approximately HK\$4,605,000 (2009: HK\$3,227,000) 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 balances are considered fully recoverable. An aging analysis of these past due trade receivables is as follows:

	2010 HK\$'000	2009 HK\$'000
0 – 30 days	2,267	1,858
31 – 60 days	1,422	885
61 – 90 days	162	104
Over 90 days	754	380
	4,605	3,227

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

	2010 HK\$'000	2009 HK\$'000
USD	76,441	73,423
RMB	108,410	91,372
	184,851	164,795

23. BANK AND CASH BALANCES/FIXED BANK DEPOSITS

At 30 September 2010, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$243 million (2009: HK\$174 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.

Fixed bank deposits were with a maturity of over 3 months denominated in USD and carried an interest rate of 1.2% per annum.

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For the year ended 30 September 2010

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 end of reporting period, based on the date of receipt of consumables or goods purchased, is as follows:

	2010 HK\$'000	2009 HK\$'000
0 – 30 days	25,202	22,497
31 – 60 days	14,288	13,835
61 – 90 days	7,566	5,785
Over 90 days	1,338	2,835
	48,394	44,952

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

	2010 HK\$'000	2009 HK\$'000
USD	22,305	16,425
RMB	26,089	28,527
	48,394	44,952

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For the year ended 30 September 2010

25. INTEREST-BEARING BORROWINGS

	2010 HK\$'000	2009 HK\$'000
Bank loans	142,787	180,505
Bank loans are repayable as follows:		
On demand or within one year	142,787	118,162
In the second year	–	62,343
	142,787	180,505
Less: Amount due for settlement within 12 months (shown under current liabilities)	(142,787)	(118,162)
Amount due for settlement after 12 months	–	62,343
Secured	51,120	172,172
Unsecured	91,667	8,333
	142,787	180,505

- (a) At 30 September 2010, the Group's banking facilities 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\$Nil (2009: HK\$34,449,000) (notes 16 and 17);
 - (ii) Fixed charges on the Group's buildings with carrying amounts of approximately HK\$41,959,000 (2009: HK\$Nil) (note 15); and
 - (iii) Corporate guarantees given by the Company and two (2009: three) subsidiaries of the Company.

In addition, Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Yangbo should own in aggregate, either directly or indirectly, at least 20% of the total issued share capital of the Company, and remain as the majority shareholders of the Company during the term of the facility.

According to the term of loan agreements, the Group is required to comply with certain financial covenants throughout the term life of the facilities.

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For the year ended 30 September 2010

25. INTEREST-BEARING BORROWINGS (continued)

- (b) During the year, the Company obtained the consent from the lenders of syndicated loan to repay the entire amount of syndicated loan outstanding in the sum of HK\$80 million by two payments of HK\$32 million and HK\$48 million each on 30 June 2010 and 30 July 2010 respectively.

The application of release of the pledge over the paid-up shareholdings in the PRC subsidiaries of the Company for the fully repaid syndicated loan facility is in-progress as at 30 September 2010.

- (c) The average interest rates at the end of reporting period were as follows:

	2010	2009
Syndicated loans	–	2.075% p.a.
Other bank loans	4.138% p.a.	6.310% p.a.

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

	2010 HK\$'000	2009 HK\$'000
HKD	91,667	129,385
RMB	51,120	51,120
	142,787	180,505

26. CONVERTIBLE BONDS

On 9 October 2009, the Company and Tanrich Capital Limited (the "Placing Agent") entered into a placing agreement in relation to the placing of convertible bonds (the "Placing Agreement"). Pursuant to the Placing Agreement, the Company issued the three-year 1% coupon convertible bonds (the "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 535,714,277 shares (with an aggregate nominal value of approximately HK\$5,357,000) would be allotted and issued upon the exercise of all the conversion rights attached to the Convertible Bonds.

Any outstanding amount of the Convertible Bonds can be converted at any time after the date of issue of the Convertible Bonds at a conversion price of HK\$0.28.

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26. CONVERTIBLE BONDS (continued)

The placing of the Convertible Bonds (the “First Tranche Bonds”) in the principal amount of HK\$60,000,000 under the Placing Agreement was completed on 11 February 2010. Based on the conversion price of HK\$0.28, a maximum number of 214,285,710 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the First Tranche Bonds in full.

The placing of the Convertible Bonds (the “Last Tranche Bonds”) in the principal amount of HK\$90,000,000 under the Placing Agreement was completed on 20 April 2010. Based on the conversion price of HK\$0.28, a maximum number of 321,428,567 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the Last Tranche Bonds in full.

The proceeds received from the issue of the Convertible Bonds have been split into the liability component and equity component as follows:

	First Tranche Bonds	Last Tranche Bonds	Total
	HK\$'000	HK\$'000	HK\$'000
Nominal value of the Convertible Bonds	60,000	90,000	150,000
Transaction cost related to liability component	(1,521)	(2,317)	(3,838)
Equity component	(9,286)	(12,759)	(22,045)
Liability component at the date of issue	49,193	74,924	124,117
Interest charged	2,471	2,463	4,934
Interest paid	(81)	–	(81)
Liability component at 30 September 2010	51,583	77,387	128,970

	First Tranche Bonds	Last Tranche Bonds	Total
	HK\$'000	HK\$'000	HK\$'000
Equity component at the date of issue	9,286	12,759	22,045
Transaction cost related to equity component	(279)	(383)	(662)
Equity component at 30 September 2010	9,007	12,376	21,383

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26. CONVERTIBLE BONDS (continued)

The interest charged of First Tranche Bonds for the year is calculated by applying an effective interest rate of 7.847% to the liability component for approximately 7 months period since the Convertible Bonds were issued.

The interest charged of Last Tranche Bonds for the year is calculated by applying an effective interest rate of 7.317% to the liability component for approximately 5 months period since the Convertible Bonds were issued.

The directors estimate the fair value of the liability component of the Convertible Bonds at 30 September 2010 to be approximately HK\$134,167,000. This fair value has been calculated by discounting the future cash flows at the market rate.

27. DEFERRED TAX LIABILITIES

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

	Decelerated tax depreciation	Revaluation of buildings	Investment properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2008	(3,436)	21,014	5,274	22,852
Charge to equity for the year (Credit)/charge to profit or loss for the year (note 11)	– (850)	1,988 –	– 265	1,988 (585)
At 30 September 2009 and 1 October 2009	(4,286)	23,002	5,539	24,255
Charge to equity for the year (Credit)/charge to profit or loss for the year (note 11)	– (1,050)	1,655 –	– 407	1,655 (643)
At 30 September 2010	(5,336)	24,657	5,946	25,267

(b) At the end of reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK\$4,441,000 (2009: HK\$3,279,000). 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.

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28. SHARE CAPITAL

	Note	2010 HK\$'000	2009 HK\$'000
Authorised:			
10,000,000,000 (2009: 2,000,000,000) ordinary shares of HK\$0.01 each	(a)	100,000	20,000
Issued and fully paid:			
1,446,838,580 (2009: 1,239,503,580) ordinary shares of HK\$0.01 each		14,468	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 2008, 30 September 2009 and 1 October 2009		1,239,504	12,395
Issued of shares in exercise of share options	(b)	207,335	2,073
At 30 September 2010		1,446,839	14,468

Note:

- (a) On 18 November 2009, the shareholders approved at the Company's extraordinary general meeting to increase the 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).
- (b) During the year, 207,335,000 ordinary shares of HK\$0.01 each were issued in relation to share options exercised under the 2002 share option scheme of the Company at the exercise price of HK\$0.497, HK\$0.125 and HK\$0.520 respectively for a total cash consideration of HK\$73,074,000. The excess of the subscription consideration received over the nominal values issued, which amounted to HK\$71,001,000, was credited to the share premium account.

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For the year ended 30 September 2010

28. SHARE CAPITAL (continued)

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

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interest, 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 capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

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. WARRANTS

On 21 January 2010, the Company and the Placing Agent entered into a placing agreement pursuant to which the Placing Agent agreed to place, on a best effort basis, up to 247,900,000 warrants (the "Warrants"). The issue price per warrant is HK\$0.01 and the subscription price is HK\$0.385. Upon the exercise of the subscription rights attaching to the Warrants in full, a maximum of 247,900,000 new shares will be issued and allotted.

The Warrants were placed on 17 March 2010 and the subscription period is from the date of issue of the Warrants to the expiry of the second anniversary of the issue of the Warrants. The proceeds from the placing of the Warrants were HK\$2,149,000, net of issuance expenses. During the year, no warrant was exercised.

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30. 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 non-controlling shareholders in the Company’s subsidiaries. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

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30. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

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	0.497
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
Option 2010	1 March 2010	1 March 2010	1 March 2010 to 28 February 2015	0.520

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

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

	2010		2009	
	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	334,320,000	0.276	92,400,000	0.497
Granted during the year	126,075,000	0.520	241,920,000	0.192
Exercised during the year	<u>(207,335,000)</u>	0.352	—	—
Outstanding at the end of the year	<u>253,060,000</u>	0.335	<u>334,320,000</u>	0.276
Exercisable at the end of the year	<u>253,060,000</u>	0.335	<u>334,320,000</u>	0.276

Notes to the Financial Statements

For the year ended 30 September 2010

30. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

The weighted average share price of the date of exercise for share options exercised during the year was HK\$0.562. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.57 years (2009: 2.61 years) and the exercise prices range from HK\$0.125 to HK\$0.520 (2009: HK\$0.125 to HK\$0.497). During the year, options were granted on 1 March 2010. The estimated fair value of the option granted on this date is approximately HK\$20,620,000.

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

	Option 2010
Weighted average share price	HK\$0.52
Weighted average exercise price	HK\$0.52
Expected volatility	55% and 77%
Expected life	0.083 year and 2.5 years
Risk free rate	0.06% and 0.755%
Expected dividend yield	2.8%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 0.083 year and 2.5 years for the share options issued in current year. 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.

Notes to the Financial Statements

For the year ended 30 September 2010

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 HK\$'000	2009 HK\$'000
Investments in subsidiaries	133,900	133,900
Due from subsidiaries (note)	1,417,619	1,209,854
Other current assets	755	618
Due to subsidiaries (note)	(604,511)	(465,177)
Interest-bearing borrowings	(1,667)	(129,386)
Convertible bonds	(128,970)	–
Other current liabilities	(2,144)	(2,246)
NET ASSETS	814,982	747,563
Capital and reserves		
Share capital	14,468	12,395
Reserves	800,514	735,168
TOTAL EQUITY	814,982	747,563

Note:

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

Notes to the Financial Statements

For the year ended 30 September 2010

32. RESERVES

Company

	Share premium HK\$'000 (note (a))	Warrants reserve HK\$'000 (note 29)	Share-based payment reserve HK\$'000 (note (b))	Convertible bonds reserve HK\$'000 (note 26)	Retained profits HK\$'000	Total HK\$'000
At 1 October 2008	547,602	–	5,403	–	136,965	689,970
Total comprehensive income for the year	–	–	–	–	34,894	34,894
Recognition of share-based payments	–	–	16,502	–	–	16,502
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
						<u>735,168</u>
At 1 October 2009	547,602	–	21,905	–	165,661	735,168
Total comprehensive income for the year	–	–	–	–	(43,196)	(43,196)
Recognition of share-based payments	–	–	20,620	–	–	20,620
Recognition of equity component of convertible bonds	–	–	–	21,383	–	21,383
Shares issued on exercise of share options	85,469	–	(14,468)	–	–	71,001
Issued of warrants	–	2,149	–	–	–	2,149
Dividends paid	–	–	–	–	(6,611)	(6,611)
At 30 September 2010	633,071	2,149	28,057	21,383	115,854	800,514
Representing:						
At 30 September 2010 after proposed final dividend						800,514
Proposed final dividend (note 13)						–
						<u>800,514</u>

Notes to the Financial Statements

For the year ended 30 September 2010

32. RESERVES (continued)

Company (continued)

Note:

(a) Share premium

The share premium account of the Company 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 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) Share-based payment reserve

The share-based payment reserve of the Company and the Group arise on the grant of share options to the directors and employees under the Scheme. Further information about share-based payments to the directors and employees was set out in note 30 to the financial statements. The fair value of the actual or estimated number of unexercised share options granted to the directors and employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(p) to the financial statements.

33. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2010 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

Notes to the Financial Statements

For the year ended 30 September 2010

33. 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	Macao	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\$83,681,610	100%	Provision of fabric processing services
Huafeng Textile (Lianyungang) Co., Limited#	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 and paid-up capital of HK\$55,000,000	100%	Provision of fabric processing services
Jiangxi Fenghua Textile Co., Limited#	PRC	Registered capital and paid-up capital of US\$10,000,000	100%	Manufacture and sale of blankets

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-owned foreign enterprises established in the PRC.

Notes to the Financial Statements

For the year ended 30 September 2010

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(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)
Non-controlling 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

Notes to the Financial Statements

For the year ended 30 September 2010

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Acquisition of additional equity interest in subsidiary from non-controlling interests

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 non-controlling interests acquired is as follows:

	HK\$'000
Non-controlling interests	1,437
Gain on acquisition of non-controlling interests	(529)
<hr/>	
Satisfied by:	
Cash	908

(c) Major non-cash transaction

Included in the addition of property, plant and equipment was an amount of approximately HK\$Nil (2009: HK\$1,565,000) which was acquired through disposal of another property, plant and equipment as part of the consideration.

35. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2010 (2009: Nil).

Notes to the Financial Statements

For the year ended 30 September 2010

36. COMMITMENTS

(a) Operating lease commitments

(i) As lessee

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	2010	2009
	HK\$'000	HK\$'000
Within one year	1,089	1,218
In the second to fifth years, inclusive	909	1,726
After five years	3,351	3,578
	5,349	6,522

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 end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases receivable as follows:

	2010	2009
	HK\$'000	HK\$'000
Within one year	327	695
In the second to fifth years, inclusive	2,290	4,703
	2,617	5,398

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.

Notes to the Financial Statements

For the year ended 30 September 2010

36. COMMITMENTS (continued)

(b) Capital commitments

At the end of reporting period, the Group had the following commitments:

	2010 HK\$'000	2009 HK\$'000
Contracted but not provided for:		
Construction of buildings	7,576	5,899
Purchase of plant and machinery	31,080	29,237
Purchase of a parcel of land	1,218	13,714
	39,874	48,850

(c) Other commitments

At the end of reporting period, the Group had the following commitments:

	2010 HK\$'000	2009 HK\$'000
Contracted but not provided for:		
Purchase of raw materials	27,355	–

37. RELATED PARTY TRANSACTIONS

1. In 2009, the Group acquired 0.76% of the issued capital of Huafeng Knitting for cash consideration of approximately HK\$908,000 from a non-controlling shareholder of Huafeng Knitting. A close family member of Mr. Cai Zhenrong is the legal representative of the non-controlling shareholder of Huafeng Knitting.
2. During the year, the key management personnel compensation paid by the Group was disclosed in note 9 to the financial statements.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 January 2011.