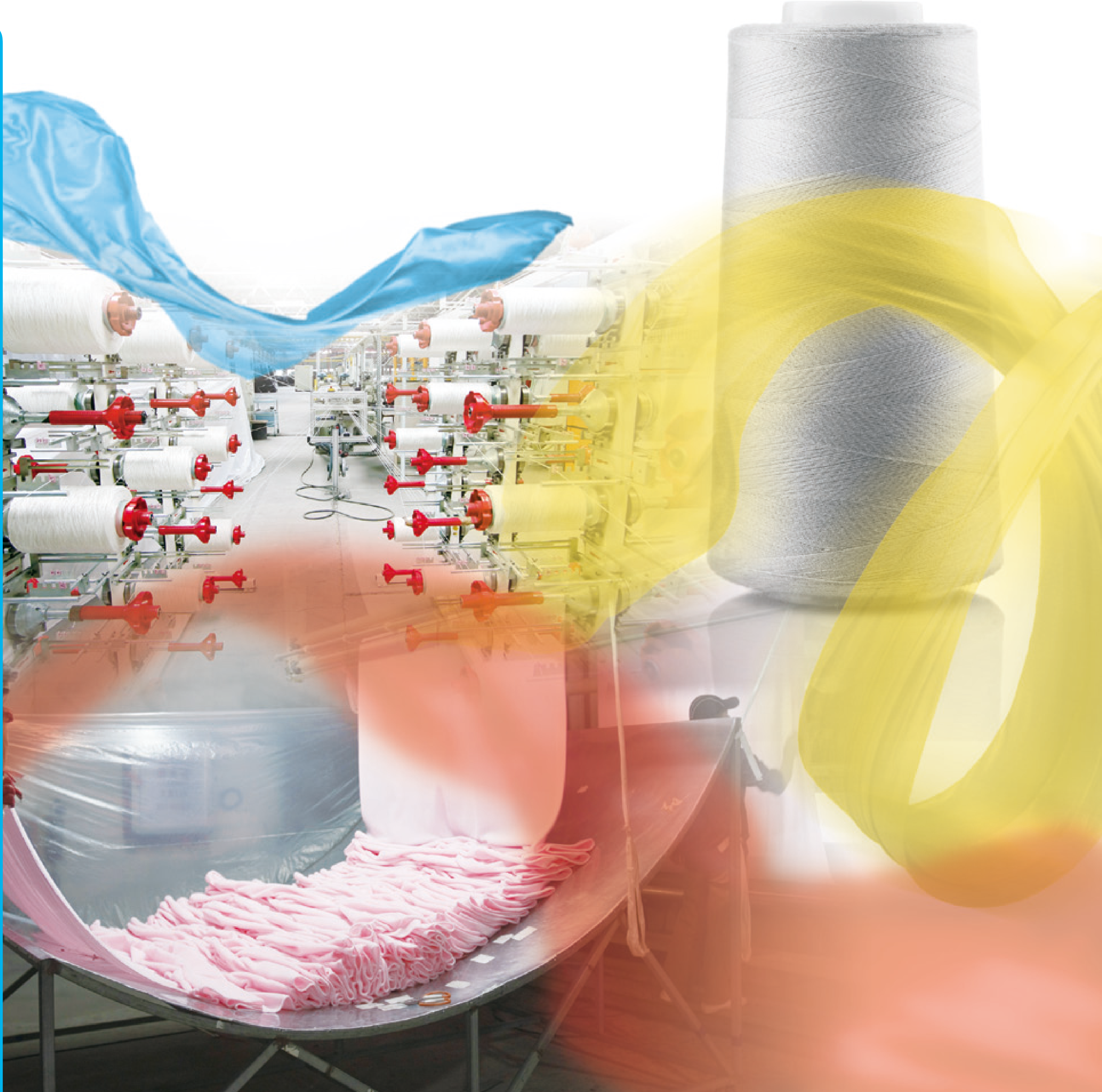
HUAFENG
華 豐

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

Stock Code: 364

Annual Report 2011



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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

Bank of Communications Co. 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				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
TURNOVER	**727,266**	773,383	712,217	806,695	747,063
PROFIT FROM OPERATIONS	**23,859**	88,416	152,220	123,215	126,358
Finance costs	**(17,607)**	(12,734)	(13,701)	(21,240)	(23,516)
Loss on disposal of subsidiaries	**(140,155)**	–	–	–	–
(LOSS)/PROFIT BEFORE TAX	**(133,903)**	75,682	138,519	101,975	102,842
Income tax expense	**(4,553)**	(7,213)	(5,958)	(10,786)	(3,899)
(LOSS)/PROFIT BEFORE NON-CONTROLLING INTERESTS	**(138,456)**	68,469	132,561	91,189	98,943
Non-controlling interests	**–**	–	96	(173)	6,418
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(138,456)**	68,469	132,657	91,016	105,361

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 30 September				
	2011 HK$'000	2010 HK$'000 (restated)	2009 HK$'000 (restated)	2008 HK$'000 (restated)	2007 HK$'000 (restated)
NON-CURRENT ASSETS	**1,091,308**	1,233,512	1,153,214	890,936	746,973
CURRENT ASSETS	**830,635**	842,513	605,912	920,883	563,094
TOTAL ASSETS	**1,921,943**	2,076,025	1,759,126	1,811,819	1,310,067
CURRENT LIABILITIES	**287,285**	434,720	369,062	506,003	381,345
NON-CURRENT LIABILITIES	**162,833**	154,237	86,598	152,237	201,764
NON-CONTROLLING INTERESTS	**–**	–	–	1,953	1,747
TOTAL LIABILITIES	**450,118**	588,957	455,660	658,240	583,109
NET ASSETS	**1,471,825**	1,487,068	1,303,466	1,153,579	726,958

Note 1: 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, with restatement as mentioned in note 3 below.

Note 2: The summary of the results, assets, liabilities and non-controlling interests of the Group for the year ended 30 September 2009 and 2010 are extracted from the Company's annual report 2010 prepared in accordance with International Financial Reporting Standards, with restatement as mentioned in note 3 below.

Note 3: The comparatives of assets, liabilities and non-controlling interests have been restated to reflect the effect of adoption of new and revised accounting policies in 2011 (see note 2 to the financial statements).

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 2011 (the "Year"). The Group's consolidated revenue for the Year decreased by 6.0% to approximately HK$727.3 million (2010: approximately HK$773.4 million). Gross profit decreased by 39.2% to approximately HK$111.1 million (2010: approximately HK$182.6 million). Loss attributable to owners of the Company amounted to approximately HK$138.5 million (2010: profit after tax attributable to owners of the Company approximately HK$68.5 million). The loss after tax was mainly attributable to a significant loss of approximately HK$140.2 million resulting from the disposal of entire equity interests of Elite League Investments Limited ("Elite") and its subsidiary, Lingfeng Dyeing & Weaving Co., Ltd. ("Lingfeng"). Excluding this one-off loss, profit attributable to owners of the Company for the Year amounted to approximately HK$1.7 million, representing a decrease of 97.5% as compared to that of 2010.

BUSINESS REVIEW

During the Year, many uncertainties in the macro business environment posed great challenges to the business environment of China's textile industry. In addition, a lot of textile enterprises in the industry were facing tremendous operating pressures due to the appreciation of the Renminbi ("RMB") and volatility of raw material prices. However, leveraging on its good reputation, leading position in the industry and strong customer base, the Group overcame these challenges and maintained relatively stable development through commitment to customer relationship management and strict cost control measures.

During the Year, turnover from the Group's fabric processing services, which consists of the manufacture and sale of fabrics, decreased by 11.6% to approximately HK$600.1 million. Turnover from the manufacture and sale of yarns and blankets amounted to approximately HK$127.2 million during the Year.

Benefiting from continuously rapid development of the Chinese economy as well as its strong domestic consumption market, domestic sales of the Group continued to maintain steady progress. Average selling price of products was generally stable as well. This effectively mitigated the effects in the volatility of raw material procurement costs as well as rising wage levels. In addition, the Group steadily implemented its long-term strategy of diversified business development.

For coastal urban areas such as Fujian Province where Lingfeng was located, production costs increased significantly as compared with inland regions, which lead to a substantial contraction in profitability of the fabric processing and textile export industry. In order to preserve overall competitiveness and solid financial performance, the Group sold the entire equity interests of Elite and its subsidiary, Lingfeng on 1 September 2011, which relieved the financial burden caused by additional capital expenditure required to improve product quality of Lingfeng and laid a solid foundation for the realization of the Group's long-term strategy of diversified business development.

PROSPECTS

Many uncertainties in the overall operating environment, together with rising prices of raw materials as well as growing international trade protectionism, will bring great challenges to future development of the Chinese textile industry in terms of exports. In view of this, the Group will dedicate efforts to maintaining steady development of its current business in the domestic market, capturing opportunities arising from continuous growth of the Chinese consumption market, so as to promote the long-term stable development of the Group's overall business. In addition, the Group will actively implement its long-term strategy of diversified business development, so as to enhance its revenue sources and profitability, and ultimately create greater returns for the shareholders of the Company.

Chairman's Statement

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, 30 December 2011

Management Discussion and Analysis

FINANCIAL PERFORMANCE

During the Year, the Group's consolidated revenue decreased by 6.0% to approximately HK$727.3 million (2010: approximately HK$773.4 million). Among which, turnover from the fabric processing services, manufacture and sale of fabrics amounted to approximately HK$600.1 million (2010: approximately HK$678.5 million), representing 82.5% of total sales. Turnover attributable to the manufacture and sale of yarns and blankets segment amounted to approximately HK$127.2 million (2010: approximately HK$94.9 million), representing 17.5% of total sales.

During the Year, gross profit of the Group decreased by 39.2% to approximately HK$111.1 million (2010: approximately HK$182.6 million) and gross margin decreased by 8.3% from 23.6% in 2010 to 15.3% in 2011. The loss after tax was mainly attributable to a significant loss of approximately HK$140.2 million resulting from the disposal of Elite and Lingfeng. Excluding this one-off loss, profit attributable to owners of the Company for the Year amounted to HK$1.7 million, representing a decrease of 97.5% as compared to that of 2010.

BUSINESS DEVELOPMENT AND OUTLOOK

During the Year, rising inflation rate in China led to a significant increase of raw material and production costs. Volatility of cotton prices since last year also led to difficulties in cost control for textile enterprises. Meanwhile, the consistent appreciation of the RMB against the United States dollar ("USD"), the impact of the debt crisis in Europe and the US together with increasing market competition led to the decreased demand from overseas markets. In spite of the unfavorable operating challenges during the Year, leveraging on its good reputation and strong customer base, the Group maintained its overall business competitiveness through strict cost control measures and flexible marketing strategies.

The first phase of the Group's newly established plants in Jiangxi has begun trial production of blankets and contributed to a revenue of approximately HK$32.7 million during the Year (2010: HK$1.1 million). As the demand for blankets in the domestic market is increasing, we foresee that the revenue contributed by the Jiangxi plant will continuously increase in the coming future. The Group is convinced that the growing China economy and rising household income in China will provide enormous impetus for future development of the Group's blanket production and sales.

In April 2010, the Group signed a memorandum of understanding ("MOU") in relation to the proposed acquisition of 67.5% equity interest in a gold mine in Liaoning Province of the PRC. Subsequently, the Company and the vendor entered into the First, Second, Third, Fourth and Fifth Supplemental MOU on 20 July 2010, 20 October 2010, 20 January 2011, 20 April 2011 and 20 July 2011 respectively. The due diligence exercise on the gold mine is still under way and requires more time to complete.

On 2 August 2011, the Group entered into a sale and purchase agreement with Golden Treasure Star Investments Limited to dispose 100% of the issued share capital of wholly owned subsidiaries of the Company. The disposal was completed on 1 September 2011 and constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Rules Governing the Listing of Securities (the "Listing Rule") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Board considers that the disposal was beneficial to the Group because of uncertainties regarding the financial turnaround of Lingfeng and possible financial burden caused by additional capital expenditure required to improve product quality in light of the continuous economic downturn and increasingly intense competition in the provision of the fabric processing services.

Management Discussion and Analysis

Looking ahead, the global economy will continue to be volatile due to the debt crisis in Europe and the US, and Chinese textile exports will be further slowed. In addition, price volatility of raw materials used for textile production, continuous appreciation of the RMB, increasing inflation rate which leads to rising wage levels and other production costs, will all result in a more demanding operating environment for the Chinese textile industry.

To meet future challenges, the Group will continue to implement its strict cost control measures and dedicate efforts to penetrating the domestic market in order to steadily develop its current business. Meanwhile, the Group will proactively search for potential favourable expansion, merger and acquisition opportunities, realize its long-term business diversification strategy, and use proceeds from disposal of subsidiaries as working capital to develop other businesses with potential, so as to further enhance its revenue sources and profitability and bring maximum returns to shareholders.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the China region accounted for 64.6% of total sales in 2011. The Philippines market continued to be an important market for the Group, accounting for 27.2% of total sales in 2011. The remaining revenue of 8.2% was generated from customers located in Africa, Australia, North America and Taiwan, etc.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2011, the Group had current assets of approximately HK$830.6 million (2010: approximately HK$842.5 million, as restated) and current liabilities of approximately HK$287.3 million (2010: approximately HK$434.7 million). The current ratio (calculated as current assets to current liabilities) increased from 1.94 as at 30 September 2010 to 2.89 as at 30 September 2011. The gearing ratio (calculated as the total bank borrowings and the convertible bonds to total shareholders' equity) had decreased from 0.18 as at 30 September 2010 to 0.13 as at 30 September 2011. These ratios were at reasonably adequate levels as at 30 September 2011 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 used in financing activities were approximately HK$227.0 million and approximately HK$52.9 million respectively (2010: net cash inflow of approximately HK$66.8 million and net cash generated from approximately HK$168.5 million respectively).

Total bank borrowings decreased by 66.4% to approximately HK$48 million (2010: approximately HK$142.8 million) during the Year, of which approximately HK$48 million (2010: approximately HK$142.8 million) was repayable within one year and HK$Nil (2010: approximately HK$Nil) was repayable more than one year. The total bank borrowings, which subject to fixed interest rates and floating interest rates, were 0% and 100% respectively. The Group's bank borrowing as at 30 September 2011, 100% of the balance was denominated in Hong Kong dollars ("HK$"). There were no seasonal adjustments with respect to the Group's borrowings. At 30 September 2011, the Group's bank borrowing was secured by corporate guarantees given by the Company.

Management Discussion and Analysis

CAPITAL STRUCTURE

During the Year, there were no changes in Capital Structure and the total number of issued share capital of the Company as at 30 September 2011 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$131.8 million (2010: approximately HK$148.6 million).

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB and HK$, except overseas sales which are denominated in USD. In view of the currency peg between HK$ and USD and a relatively strong RMB at HK$1.00 equal to RMB0.82 (as at 30 September 2011), the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group has issued a guarantee of approximately HK$12,200,000 (2010: HK$Nil) jointly with an executive director of the Company and two independent third parties to a bank in respect of a banking facility granted to a former subsidiary. The maximum liability of the Group at the end of the reporting period under the guarantee is the outstanding amount of the bank loan to the former subsidiary at that date of approximately HK$12,200,000 (2010: HK$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$Nil at 30 September 2011 (2010: approximately HK$42.0 million), and corporate guarantees given by the Company and Nil (2010: two) subsidiaries of the Company.

EMPLOYMENT INFORMATION

At 30 September 2011, the total number of employees of the Group in Hong Kong, Macau and the PRC is 1,470 (2010: 2,324). 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$85.0 million (2010: approximately HK$96.2 million), the amount including approximately HK$0.52 million related to the equity-settled share-based payments (2010: approximately HK$20.6 million). The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 2 August 2011, Treasure Wealth Assets Limited ("Treasure Wealth"), a wholly-owned subsidiary of the Company, and Golden Treasure Star Investments Limited (the "Purchaser") entered into an agreement, pursuant to which Treasure Wealth agreed to sell and the Purchaser agreed to acquire the entire issued share capital of Elite and Lingfeng for a total consideration of HK$103.2 million, of which (i) HK$50 million will be settled by cash upon completion; and (ii) HK$53.2 million will be settled by cash three years from the date of completion. All conditions precedent under the agreement have been fulfilled and the completion took place on 1 September 2011. The disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

Saved as the information stated above, the Group had no material acquisition or disposal of any subsidiaries of the Company for the Year.

ADDITIONAL INFORMATION

Memorandum of Understanding

On 21 April 2010, the Company entered into the memorandum of understanding with a vendor (the "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 PRC. The consideration of the acquisition was RMB400 million. Further details are set out in the Company's announcement dated 21 April 2010.

On 20 July 2011, the Company and the Vendor entered into a fifth supplemental memorandum of understanding, pursuant to which the Company extended the exclusive period from fifteen calender months to twenty one calendar months from the date of the memorandum of understanding 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. The disclosure agent in Korea is Value C&I Consulting Co., Ltd.

CORPORATE GOVERNANCE

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

The corporate governance principles of the 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 announcement, 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.

Report of the Corporate Governance

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 30 to 31 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.

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 5 Board meetings held for the Year. The following was an attendance record of the Board meetings held:

Board Members	**Attendance at meetings held for the Year**
Executive Directors	
Mr. Cai Zhenrong *(Chairman)*	4/5
Mr. Cai Zhenyao	3/5
Mr. Cai Zhenying	3/5
Mr. Cai Yangbo *(Managing Director)*	5/5
Mr. Choi Wing Toon	5/5
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	5/5
Ms. Choy So Yuk, *JP*	5/5
Mr. Wong Siu Hong	5/5

D) Independent Non-executive Directors

During the Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that all three independent non-executive Directors are independent. The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is Mr. Cai Zhenrong while the Company does not at present have any individual with the title of "chief executive officer". The Chairman's responsibility is to manage the Board and the role of the chief executive officer has been performed collectively by all the executive Directors, including the Chairman.

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

BOARD COMMITTEES

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

- Audit Committee
- Remuneration Committee

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

A) Audit Committee

The Company has established an audit committee (the "Audit Committee") which consists of three independent non-executive Directors.

Composition of the Audit Committee

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

Role and Function

The Audit Committee is mainly responsible for:

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

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

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

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

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

Meeting Record

The Audit Committee met twice during the Year, particular in reviewing the interim and annual results, and the internal control of the Group. The following was an attendance record of the Audit Committee meetings for the Year:

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

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

B) Remuneration Committee

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

Composition of the Remuneration Committee

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

Role and Function

The Remuneration Committee is mainly responsible for:

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

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

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

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

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

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

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

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

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

Meeting Record

The Remuneration Committee met twice during the Year. The following was an attendance record of the Remuneration Committee meeting for the Year:

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

During the Year, the 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

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$1,900,000 and HK$936,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for the period. In preparing the consolidated financial statements for the Year, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and on a going concern basis. The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware any material uncertainties relating to events or conditions which may cost significant doubt over the Group's ability to continue as a going concern. It is the auditor's responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion solely to the Shareholders, as a body, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditor's report.

INTERNAL CONTROL

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

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

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 34 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 34 to 96.

The Board does not recommend the payment of a final dividend for the Year (2010: HK$Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 February 2012 to Friday, 24 February 2012, 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, 20 February 2012.

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 29 to the financial statements.

CONVERTIBLE BONDS AND WARRANTS

Details of the convertible bonds and warrants issued by the Company are set out in note 27 and 30 to the financial statements respectively.

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 33 to the financial statements and the consolidated statement of changes in equity on page 37 of this report.

DISTRIBUTABLE RESERVES

At 30 September 2011, the Company had distributable reserves of approximately HK$781,639,000 Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK$633,071,000 as at 30 September 2011, is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

The percentage of purchase attributable to the Group's five largest supplier was 30.6%.

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 Zhenyao, Mr. Choi Wing Toon and Mr. Lawrence Gonzaga will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out on pages 30 to 31 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.

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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 38 to the financial statements.

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

As at 30 September 2011, 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

Name of Director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
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, *JP*	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 2011, 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 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.

SHARE OPTION SCHEME

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

				Number of share option				
Name or category of participant	**Date of grant**	**Exercise period**	**Exercise price** (HK$)	**Outstanding as at 1.10.2010**	**Granted during the Year**	**Lapsed during the Year**	**Exercised during the Year**	**Outstanding as at 30.9.2011**
Directors								
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
Ms. Choy So Yuk, *JP*	1.3.2010	1.3.2010 – 28.2.2015	0.52	1,200,000	–	–	–	1,200,000
Subtotal				27,640,000	–	–	–	27,640,000
Employees	5.12.2008	5.12.2008 – 4.12.2011	0.125	35,400,000	–	–	–	35,400,000
Employees	11.5.2009	11.5.2009 – 10.5.2014	0.255	123,920,000	–	–	–	123,920,000
Employees	1.3.2010	1.3.2010 – 28.2.2015	0.52	66,100,000	–	–	–	66,100,000
Employees	4.4.2011	4.4.2011 – 3.4.2016	0.40	–	3,400,000	–	–	3,400,000
Other participants	4.4.2011	4.4.2011 – 3.4.2016	0.40	–	141,200,000	–	–	141,200,000
Total				253,060,000	144,600,000	–	–	397,660,000

During the Year, no options was exercised under the Share Option Scheme.

Details of the specific categories of options are as follows:

Year	Date of grant	Exercise period	Exercise price HK$
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
2011	4.4.2011	4.4.2011 – 3.4.2016	0.40

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 4 April 2011, the date of grant of the 2011 options, was HK$0.395. The fair value of the options granted during the Year, measured at the date of grant on 4 April 2011, was approximately HK$22,116,000. 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$0.4
Weighted average exercise price	HK$0.4
Expected volatility	75%
Expected life	5 year
Risk free rate	1.88%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 year 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 shared-based payment transactions are set out in the Group's financial statements for the year ended 30 September 2011.

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

As at 30 September 2011, 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

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
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 2011, 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, 30 December 2011

Directors' Biographies

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 64, 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 57, is an executive Director and the finance director of the Group. He is also a director of one of the subsidiaries 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 55, 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 37, 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 61, 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 Wing Toon was a proprietor engaged in fabrics trading and processing agency services prior to joining the Group. Mr. Choi Wing Toon has been responsible for the overseas sales and marketing activities of the Group since joining the Group in 1997. Mr. Choi Wing Toon is the cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying.

Directors’ Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 37, was appointed as independent non-executive Director in August 2002. He is also the chairman of the audit committee and the remuneration committee of the Company. 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 61, was appointed as an independent non-executive Director in August 2002. She is also a member of the audit committee and the remuneration committee of the Company. 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 (Stock Code: 988). 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 43, was appointed as independent non-executive Director in September 2004. He is also a member of the audit committee and the remuneration committee of the Company. 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. Mr. Wong Siu Hong 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. Mr. Wong Siu Hong is also an independent non-executive director of Costin New Materials Group Limited, a company listed on the main board of the Stock Exchange (Stock Code: 2228).

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

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

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 34 to 96, which comprise the consolidated statement of financial position as at 30 September 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor’s Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 September 2011 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

30 December 2011

Consolidated Income Statement

For the year ended 30 September 2011

	Note	2011 HK$'000	2010 HK$'000
TURNOVER	6	**727,266**	773,383
Cost of services rendered and cost of sales		**(616,170)**	(590,737)
GROSS PROFIT		**111,096**	182,646
Other income	7	**12,421**	10,489
Selling and distribution expenses		**(22,390)**	(21,642)
Administrative expenses		**(66,782)**	(71,026)
Fair value change on investment properties	17	**3,290**	568
Other operating expenses		**(13,776)**	(12,619)
PROFIT FROM OPERATIONS		**23,859**	88,416
Finance costs	10	**(17,607)**	(12,734)
Loss on disposal of subsidiaries	35(a)	**(140,155)**	–
(LOSS)/PROFIT BEFORE TAX		**(133,903)**	75,682
Income tax expense	11	**(4,553)**	(7,213)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	12	**(138,456)**	68,469
(LOSS)/EARNINGS PER SHARE	14		
Basic		**(HK9.57 cents)**	HK4.97 cents
Diluted		**N/A**	HK4.10 cents

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2011

	Note	2011 HK$'000	2010 HK$'000
(LOSS)/PROFIT FOR THE YEAR		**(138,456)**	68,469
Other comprehensive income:			
Exchange differences on translating foreign operations		**102,444**	(560)
Exchange differences reclassified to profit or loss on disposal of subsidiaries	35(a)	**(20,215)**	–
Gains on property revaluation		**24,788**	6,733
Deferred tax relating to gains on property revaluation		**(5,920)**	(1,655)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**101,097**	4,518
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(37,359)**	72,987

Consolidated Statement of Financial Position

At 30 September 2011

	Note	At 30 September 2011 HK$'000	2010 HK$'000 (restated)	At 1 October 2009 HK$'000 (restated)
NON-CURRENT ASSETS				
Property, plant and equipment	15	**909,591**	1,082,485	992,531
Investment properties	17	**51,606**	44,872	44,304
Intangible assets	18	**7,398**	38,356	39,492
Available-for-sale financial assets	19	**1,281**	4,265	4,265
Deposits paid for acquisition of long-term assets	20	**68,232**	63,534	72,622
Other long-term receivable	21	**53,200**	–	–
		1,091,308	1,233,512	1,153,214
CURRENT ASSETS				
Inventories	22	**56,208**	65,578	61,617
Trade receivables	23	**152,147**	184,851	164,795
Prepayments, deposits and other receivables		**109,947**	193,373	70,302
Fixed bank deposits	24	**154,901**	154,901	–
Bank and cash balances	24	**357,432**	243,810	309,198
		830,635	842,513	605,912
CURRENT LIABILITIES				
Trade payables	25	**30,243**	48,394	44,952
Other payables and accruals		**194,626**	228,567	193,926
Interest-bearing borrowings	26	**48,000**	142,787	118,162
Current tax liabilities		**14,416**	14,972	12,022
		287,285	434,720	369,062
NET CURRENT ASSETS		**543,350**	407,793	236,850
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,634,658**	1,641,305	1,390,064
NON-CURRENT LIABILITIES				
Interest-bearing borrowings		**–**	–	62,343
Convertible bonds	27	**137,328**	128,970	–
Deferred tax liabilities	28	**25,505**	25,267	24,255
		162,833	154,237	86,598
NET ASSETS		**1,471,825**	1,487,068	1,303,466
CAPITAL AND RESERVES				
Share capital	29	**14,468**	14,468	12,395
Reserves	33	**1,457,357**	1,472,600	1,291,071
TOTAL EQUITY		**1,471,825**	1,487,068	1,303,466

Approved by the Board of Directors on 30 December 2011

Cai Yangbo
Director

Choi Wing Toon
Director

Consolidated Statement of Changes in Equity

For the year ended 30 September 2011

	Note	Share capital HK$'000	Share premium HK$'000 (note 33(c)(i))	Properties revaluation reserve HK$'000 (note 33(c)(ii))	Warrants reserve HK$'000 (note 30)	Share-based payment reserve HK$'000 (note 33(c)(iii))	Convertible bonds reserve HK$'000 (note 27)	Translation reserve HK$'000 (note 33(c)(iv))	Retained profits HK$'000	Total equity HK$'000
At 1 October 2009		12,395	415,055	40,045	–	21,905	–	144,858	669,208	1,303,466
Total comprehensive income for the year		–	–	5,078	–	–	–	(560)	68,469	72,987
Recognition of share-based payments	31	–	–	–	–	20,620	–	–	–	20,620
Recognition of equity component of convertible bonds	27	–	–	–	–	–	21,383	–	–	21,383
Shares issued on exercise of share options	29(a)	2,073	85,469	–	–	(14,468)	–	–	–	73,074
Issue of warrants	30	–	–	–	2,149	–	–	–	–	2,149
Dividends paid		–	–	–	–	–	–	–	(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
At 30 September 2010		14,468	500,524	45,123	2,149	28,057	21,383	144,298	731,066	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
At 1 October 2010		14,468	500,524	45,123	2,149	28,057	21,383	144,298	731,066	1,487,068
Total comprehensive income for the year		–	–	18,868	–	–	–	82,229	(138,456)	(37,359)
Recognition of share-based payments	31	–	–	–	–	22,116	–	–	–	22,116
Disposal of subsidiaries		–	–	(97)	–	–	–	–	97	–
Disposal of properties		–	–	(997)	–	–	–	–	997	–
Changes in equity for the year		–	–	17,774	–	22,116	–	82,229	(137,362)	(15,243)
At 30 September 2011		14,468	500,524	62,897	2,149	50,173	21,383	226,527	593,704	1,471,825
Representing:										
At 30 September 2011 after proposed final dividend										1,471,825
Proposed final dividend	13									–
Equity attributable to owners of the Company										1,471,825

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 2011

	Note	2011 HK$'000	2010 HK$'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(133,903)**	75,682
Adjustments for:			
Bank interest income		**(3,195)**	(3,287)
Finance costs		**17,607**	12,734
Depreciation		**82,497**	70,967
Loss on disposal of subsidiaries		**140,155**	–
Loss on disposals of property, plant and equipment		**4,867**	11,050
Deficit on revaluation of buildings		**–**	112
Amortisation of technical know-how		**1,175**	1,136
Fair value change on investment properties		**(3,290)**	(568)
Property, plant and equipment written off		**8,711**	1,457
Equity-settled share-based payments		**22,116**	20,620
Operating profit before working capital changes		**136,740**	189,903
Decrease/(increase) in inventories		**6,372**	(3,961)
Increase in trade receivables		**(25,300)**	(20,056)
Decrease/(increase) in prepayments, deposits and other receivables		**76,433**	(132,292)
(Decrease)/increase in trade payables		**(10,983)**	3,442
Increase in other payables and accruals		**48,929**	34,641
Cash generated from operations		**232,191**	71,677
Income tax paid		**(5,159)**	(4,906)
Net cash generated from operating activities		**227,032**	66,771
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	35(b)	**(131,355)**	(148,574)
Proceeds from disposals of property, plant and equipment	35(b)	**2,150**	3,351
Disposal of subsidiaries	35(a)	**46,767**	–
Increase in fixed bank deposits		**–**	(154,901)
Deposits paid for acquisition of long-term assets		**–**	(12,496)
Interest received		**1,259**	12,508
Net cash used in investing activities		**(81,179)**	(300,112)

Consolidated Statement of Cash Flows

For the year ended 30 September 2011

	2011 HK$'000	2010 HK$'000 (restated)
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
Bank loans raised	**54,900**	147,120
Repayment of bank loans	**(98,567)**	(184,838)
Finance costs paid	**(9,249)**	(7,881)
Dividends paid	**–**	(6,611)
Net cash (used in)/generated from financing activities	**(52,916)**	168,513
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**92,937**	(64,828)
Effect of foreign exchange rate changes	**20,685**	(560)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**243,810**	309,198
CASH AND CASH EQUIVALENTS AT END OF YEAR	**357,432**	243,810
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**357,432**	243,810

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 principal 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 34 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 2010. 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.

Classification of Land Leases

Amendments to IAS 17 "Leases" deleted the guidance in IAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group, e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

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

Classification of Land Leases (continued)

Amendments to IAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	At 30 September		At 1 October
	2011	2010	2009
	HK$'000	HK$'000	HK$'000
Increase in Property, plant and equipment	**96,016**	86,800	67,023
Decrease in Prepaid land lease payments	**(96,016)**	(86,800)	(67,023)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill (continued)

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.

(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 ("HKD"), 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation

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

– Assets and liabilities for each 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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 the 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.

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:

Leasehold land	Over the lease terms
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment properties (continued)

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.

(f) Leases

(i) The Group as lessee

Operating leases

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.

Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases (continued)

(ii) The Group as lessor

Operating leases

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

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Trade and other receivables

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial liabilities and equity instruments (continued)

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

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.

Trade and other payables

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition

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

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

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

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

Subcontracting fee income is recognised when the subcontracting 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 the reporting period.

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

(ii) Pension obligations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(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 the 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.

Equity-settled share-based payments to those persons that provide the nature of business development to the Group are measured at the fair value of the services received or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and recognised as expenses.

(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.

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.

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.

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 land and buildings

As stated in notes 15 and 17 to the financial statements, the titles of certain buildings and land were not transferred to the Group as at 30 September 2011. 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 and investment properties on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those buildings and land.

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 approximately HK$2,882,000 after an impairment loss of HK$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.

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 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 transactions, 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 2011, 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$1,551,000 (2010: HK$1,553,000) 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$1,551,000 (2010: HK$1,553,000) 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.

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

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

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

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 2 and 5 years** HK$'000	**Over 5 years** HK$'000
At 30 September 2011				
Interest-bearing borrowings	48,672	–	–	–
Trade payables	30,243	–	–	–
Other payables and accruals	194,626	–	–	–
Convertible bonds	1,500	151,466	–	–
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	–

(d) Interest rate risk

At 30 September 2011, the Group's fixed bank deposits denominated in USD amounting to approximately HK$155 million (2010: HK$155 million) and at fixed interest rate of 1.2% per annum (2010: 1.2% 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 deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 30 September 2011, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,167,000 (2010: HK$470,000) lower, arising mainly as a result of the net effect of lower interest income on bank deposits and lower interest expense on bank borrowings. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,167,000 (2010: HK$470,000) higher, arising mainly as a result of the net effect of higher interest income on bank deposits and higher interest expense on bank borrowings.

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Categories of financial instruments at 30 September:

	2011 HK$'000	2010 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**758,198**	623,925
Available-for-sale financial assets	**1,281**	4,265
Financial liabilities:		
Financial liabilities at amortised cost	**407,819**	546,396

(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 represents the net invoiced value of services rendered and goods sold to customers, after allowances for trade discounts and returns.

	2011 HK$'000	2010 HK$'000
Provision of fabric processing services	**582,840**	659,163
Sale of goods	**144,426**	114,220
	727,266	773,383

7. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Bank interest income	**3,195**	3,287
Subcontracting income	**1,974**	1,908
Government grants	**387**	2,193
Net foreign exchange gains	**–**	160
Rental income	**2,892**	2,781
Waiver of debt by other creditor	**3,587**	–
Others	**386**	160
	12,421	10,489

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.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include unallocated other income, unallocated corporate expenses, finance costs and loss on disposal of subsidiaries. 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.

8. SEGMENT INFORMATION (continued)

	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
REVENUE						
Revenue from external customers	**600,073**	678,505	**127,193**	94,878	**727,266**	773,383
Segment profit/(loss)	**83,955**	138,829	**(23,693)**	(9,335)	**60,262**	129,494
Unallocated other income					**12,421**	10,489
Unallocated corporate expenses					**(48,824)**	(51,567)
Profit from operations					**23,859**	88,416
Finance costs					**(17,607)**	(12,734)
Loss on disposal of subsidiaries					**(140,155)**	–
(Loss)/profit before tax					**(133,903)**	75,682
Income tax expense					**(4,553)**	(7,213)
(Loss)/profit for the year					**(138,456)**	68,469

	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
ASSETS						
Segment assets	**743,143**	1,127,422	**560,379**	503,647	**1,303,522**	1,631,069
Unallocated assets					**618,421**	444,956
Consolidated total assets					**1,921,943**	2,076,025
LIABILITIES						
Segment liabilities	**164,878**	227,717	**57,546**	47,096	**222,424**	274,813
Unallocated liabilities					**227,694**	314,144
Consolidated total liabilities					**450,118**	588,957

8. SEGMENT INFORMATION (continued)

	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Unallocated		Consolidated	
	2011 HK$'000	2010 HK$'000 (restated)	**2011 HK$'000**	2010 HK$'000 (restated)	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000 (restated)
Other segment information:								
Addition to segment non-current assets	**81,605**	54,516	**50,211**	106,411	**9**	143	**131,825**	161,070
Depreciation and amortisation	**58,930**	55,855	**24,670**	16,176	**72**	72	**83,672**	72,103
Property, plant and equipment written off	**8,587**	1,457	**124**	–	**–**	–	**8,711**	1,457
Loss on disposals of property, plant and equipment	**4,867**	11,050	**–**	–	**–**	–	**4,867**	11,050

Geographical information:

	2011 HK$'000	2010 HK$'000
The Philippines	**197,412**	223,341
The People's Republic of China (the "PRC")	**469,582**	449,746
Australia	**4,598**	14,273
United States of America	**19,335**	29,349
Canada	**8,315**	10,312
Republic of Mozambique	**2,965**	14,328
Taiwan	**25,059**	32,034
Consolidated total	**727,266**	773,383

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 PRC.

Revenue from major customers:

There are no major customers contributing over 10% of the Group's revenue for the years ended 30 September 2010 and 2011.

9. DIRECTORS' EMOLUMENTS 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 2011

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	–	1,800	–	–	–	1,800
Mr. Choi Wing Toon	–	318	25	–	12	355
Independent non-executive directors						
Ms. Choy So Yuk, *JP*	120	–	–	–	–	120
Mr. Lawrence Gonzaga	120	–	–	–	–	120
Mr. Wong Siu Hong	120	–	–	–	–	120
Total	360	3,176	45	–	12	3,593

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

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: HK$Nil).

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

The five highest paid individuals in the Group during the year included two (2010: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2010: one) individuals are set out below:

	2011 HK$'000	2010 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,838**	666
Equity-settled share-based payments	**367**	327
Retirement benefits scheme contributions	**24**	12
	2,229	1,005

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000	**3**	–
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 (2010: HK$Nil).

10. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on bank loans and overdrafts	**5,188**	5,721
Interest on convertible bonds	**9,811**	4,934
Bank charges	**2,608**	2,079
	17,607	12,734

11. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Current tax – the PRC enterprise income tax		
Provision for the year	**4,629**	7,217
Under-provision in prior year	**26**	639
	4,655	7,856
Deferred tax (note 28)	**(102)**	(643)
	4,553	7,213

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2010: 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.

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.

A reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2011 HK$'000	2010 HK$'000
(Loss)/profit before tax	**(133,903)**	75,682
Tax at the PRC enterprise income tax rate of 25%	**(33,476)**	18,921
Tax effect of income that is not taxable	**(32,020)**	(41,725)
Tax effect of expenses that are not deductible	**64,776**	40,282
Under-provision in prior year	**26**	639
Effect of different tax rates of subsidiaries	**5,247**	(10,904)
Income tax expense	**4,553**	7,213

12. (LOSS)/PROFIT FOR THE YEAR

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

	2011 HK$'000	2010 HK$'000 (restated)
Amortisation of technical know-how (included in cost of services provided and costs of sales)	1,175	1,136
Auditor's remuneration	1,900	1,830
Cost of inventories sold	159,231	112,490
Depreciation	82,497	70,967
Exchange loss	574	36
Loss on disposals of property, plant and equipment	4,867	11,050
Operating lease charges on land and buildings	987	870
Deficit on revaluation of buildings	–	112
Staff costs (excluding directors' remuneration (note 9)):		
Salaries, bonus and allowances	78,538	70,504
Retirement benefits scheme contributions	2,382	1,921
Equity-settled share-based payments	520	11,646
	81,440	84,071
Property, plant and equipment written off	8,711	1,457
Other equity-settled share-based payments	21,596	–

The cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$34,603,000 (2010: HK$22,985,000) which are 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.

13. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2010: HK$Nil).

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	2011 HK$'000	2010 HK$'000
(Loss)/earnings		
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	**(138,456)**	68,469
Finance costs saving on conversion of convertible bonds outstanding	**–**	4,934
(Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share	**(138,456)**	73,403
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**1,446,838,580**	1,376,276,936
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
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**1,446,838,580**	1,790,054,322

The effects of all potential ordinary shares are anti-dilutive for the year ended 30 September 2011.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation						
At 1 October 2009, as previously reported	–	415,660	637,549	12,166	57,625	1,123,000
Effect on change in accounting policies	71,284	–	–	–	–	71,284
At 1 October 2009, as restated	71,284	415,660	637,549	12,166	57,625	1,194,284
Additions	–	20,014	72,859	1,667	54,034	148,574
Transfer from deposits paid for acquisition of long-term assets (note 20)	21,584	–	–	–	–	21,584
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, as restated and 1 October 2010	92,868	462,693	689,689	13,833	65,232	1,324,315
Additions	–	36,614	85,054	1,730	8,427	131,825
Transfers	8,225	30,375	3,774	110	(42,484)	–
Disposals	–	–	(17,116)	–	–	(17,116)
Disposal of subsidiaries	(4,174)	(163,687)	(216,521)	(3,664)	–	(388,046)
Write off	–	(7,299)	(4,486)	(2,358)	–	(14,143)
Surplus on revaluation	–	4,232	–	–	–	4,232
Exchange differences	7,153	36,500	48,535	961	3,519	96,668
At 30 September 2011	104,072	399,428	588,929	10,612	34,694	1,137,735

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land	Buildings	Plant and machinery	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Accumulated depreciation						
At 1 October 2009, as previously reported	–	–	190,167	7,325	–	197,492
Effect of change in accounting policies	4,261	–	–	–	–	4,261
At 1 October 2009, as restated	4,261	–	190,167	7,325	–	201,753
Charge for the year	1,807	21,293	46,845	1,022	–	70,967
Disposals	–	–	(4,613)	–	–	(4,613)
Write off	–	–	(4,984)	–	–	(4,984)
Write-back on revaluation	–	(21,293)	–	–	–	(21,293)
At 30 September 2010, as restated and 1 October 2010	6,068	–	227,415	8,347	–	241,830
Charge for the year	2,403	25,056	53,851	1,187	–	82.497
Disposals	–	–	(9,629)	–	–	(9,629)
Disposal of subsidiaries	(956)	(5,460)	(69,904)	(1,230)	–	(77,550)
Write off	–	–	(3,284)	(2,148)	–	(5,432)
Write-back on revaluation	–	(20,556)	–	–	–	(20,556)
Exchange differences	541	960	14,932	551	–	16,984
At 30 September 2011	8,056	–	213,381	6,707	–	228,144
Carrying amount						
At 30 September 2011	96,016	399,428	375,548	3,905	34,694	909,591
At 30 September 2010, as restated	86,800	462,693	462,274	5,486	65,232	1,082,485

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Leasehold land HK$'000	Buildings HK$'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	104,072	–	588,929	10,612	34,694	738,307
At valuation	–	399,428	–	–	–	399,428
At 30 September 2011	104,072	399,428	588,929	10,612	34,694	1,137,735
At cost	92,868	–	689,689	13,833	65,232	861,622
At valuation	–	462,693	–	–	–	462,693
At 30 September 2010	92,868	462,693	689,689	13,833	65,232	1,324,315

At 30 September 2011, the Group's buildings, including certain buildings of approximately HK$368,956,000 (2010: HK$355,507,000) 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$399,428,000 (2010: HK$462,693,000). The resulting revaluation surplus of approximately HK$24,788,000 (2010: HK$6,733,000) has been credited to the properties revaluation reserve and revaluation deficit of approximately HK$Nil (2010: HK$112,000) has been charged to profit or loss.

Had the Group's buildings been stated at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2011 would have been approximately HK$327,506,000 (2010: HK$413,097,000).

At 30 September 2011, the carrying amount of buildings pledged as security for the Group's bank loans amounted to approximately HK$Nil (2010: HK$41,959,000) (note 26).

The Group's leasehold land represent land use rights outside Hong Kong under medium-term leases.

The Group's leasehold land of approximately HK$87,408,000 (2010: HK$78,498,000) represent payments for land use rights in the PRC.

The Group's leasehold land of approximately HK$8,608,000 (2010: HK$8,302,000) represent leasing a reservoir situated in the PRC from 石獅市鴻山鎮東園村村民委員會.

At 30 September 2011, the Group's leasehold land, included certain leasehold land of approximately HK$40,232,000 (2010: HK$30,434,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

16. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
At 1 October 2009, as previously reported	71,284
Effect of change in accounting policies	(71,284)
At 1 October 2009 and 30 September 2010, as restated, 1 October 2010 and 30 September 2011	–
Accumulated amortisation	
At 1 October 2009, as previously reported	4,261
Effect of change in accounting policies	(4,261)
At 1 October 2009 and 30 September 2010, as restated, 1 October 2010 and 30 September 2011	–
Carrying amount	
At 30 September 2011	–
At 30 September 2010, as restated	–

17. INVESTMENT PROPERTIES

	HK$'000
At 1 October 2009	44,304
Fair value change on investment properties	568
At 30 September 2010 and 1 October 2010	44,872
Fair value change on investment properties	3,290
Exchange differences	3,444
At 30 September 2011	51,606

At 30 September 2011, the Group's investment properties included certain buildings of approximately HK$12,721,000 (2010: HK$11,468,000) 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 2011 and 2010 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.

Property leasing revenue includes gross rental income from investment properties of approximately HK$2,892,000 (2010: HK$2,781,000).

18. INTANGIBLE ASSETS

	Technical know-how HK$'000	Goodwill HK$'000 (Note)	Total HK$'000
Cost			
At 1 October 2009, 30 September 2010 and 1 October 2010	11,360	33,015	44,375
Disposal of subsidiaries	–	(30,133)	(30,133)
Exchange differences	842	–	842
At 30 September 2011	12,202	2,882	15,084
Accumulated amortisation			
At 1 October 2009	4,883	–	4,883
Charge for the year	1,136	–	1,136
At 30 September 2010 and 1 October 2010	6,019	–	6,019
Charge for the year	1,175	–	1,175
Exchange differences	492	–	492
At 30 September 2011	7,686	–	7,686
Carrying amount			
At 30 September 2011	4,516	2,882	7,398
At 30 September 2010	5,341	33,015	38,356

18. INTANGIBLE ASSETS (continued)

Note:

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

	2011 **HK$'000**	2010 HK$'000
Provision of fabric processing services:		
Lingfeng Dyeing & Weaving Co., Ltd. Shishi ("Lingfeng")	**–**	30,133
United Glory Development Limited	**2,882**	2,882
	2,882	33,015

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 **HK$'000**	2010 HK$'000
Unlisted equity securities, at cost	**1,281**	4,265

Unlisted equity securities with carrying amount of HK$1,281,000 (2010: 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.

20. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

	HK$'000
At 1 October 2009	72,622
Additions	12,496
Transfer to property, plant and equipment (note 15)	(21,584)
At 30 September 2010 and 1 October 2010	63,534
Exchange differences	4,698
At 30 September 2011	68,232

21. OTHER LONG-TERM RECEIVABLE

The Group's other long-term receivable represented the remaining unsettled consideration for the disposal of its two subsidiaries, Elite League Investment Limited ("Elite") and its subsidiary, Lingfeng, on 1 September 2011. The other long-term receivable is secured by 50% equity interest of Elite, repayable in 3 years and charged at a fixed interest rate of 1.75% per annum.

22. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Consumables	**30,502**	37,403
Raw materials	**15,606**	20,177
Work in progress	**2,027**	2,986
Finished goods	**8,073**	5,012
	56,208	65,578

23. 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:

	2011	2010
	HK$'000	HK$'000
0 – 30 days	**51,146**	62,452
31 – 60 days	**42,507**	59,834
61 – 90 days	**35,401**	49,386
Over 90 days	**23,093**	13,179
	152,147	184,851

23. TRADE RECEIVABLES (continued)

As of 30 September 2011, trade receivables of approximately HK$6,943,000 (2010: HK$4,605,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2011 HK$'000	2010 HK$'000
0 – 30 days	**4,473**	2,267
31 – 60 days	**1,131**	1,422
61 – 90 days	**607**	162
Over 90 days	**732**	754
	6,943	4,605

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

	2011 HK$'000	2010 HK$'000
USD	**60,916**	76,441
RMB	**91,231**	108,410
	152,147	184,851

24. BANK AND CASH BALANCES/FIXED BANK DEPOSITS

At 30 September 2011, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$357 million (2010: HK$243 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 are in USD and at fixed interest rate of 1.2% per annum and therefore are subject to foreign currency risk and fair value interest rate risk.

25. 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:

	2011	2010
	HK$'000	HK$'000
0 – 30 days	**13,645**	25,202
31 – 60 days	**6,549**	14,288
61 – 90 days	**6,231**	7,566
Over 90 days	**3,818**	1,338
	30,243	48,394

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

	2011	2010
	HK$'000	HK$'000
USD	**11,779**	22,305
RMB	**18,464**	26,089
	30,243	48,394

26. INTEREST-BEARING BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans are repayable on demand or within one year	**48,000**	142,787
Secured	**–**	51,120
Unsecured	**48,000**	91,667
	48,000	142,787

(a) At 30 September 2011, the Group's banking facilities were secured by the following:

(i) Fixed charges on the Group's buildings with carrying amounts of approximately HK$Nil (2010: HK$41,959,000) (note 15); and

(ii) Corporate guarantees given by the Company and Nil (2010: two) 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.

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

	2011	2010
Bank loans	**3.325% p.a.**	4.138% p.a.

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

	2011 HK$'000	2010 HK$'000
HKD	**48,000**	91,667
RMB	**–**	51,120
	48,000	142,787

(d) Bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

27. 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.

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.

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.

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
Interest charged	4,092	5,719	9,811
Interest paid	(600)	(853)	(1,453)
Liability component at 30 September 2011	55,075	82,253	137,328

27. CONVERTIBLE BONDS (continued)

	First Tranche Bonds HK$'000	Last Tranche Bonds HK$'000	Total 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, 1 October 2010 and 30 September 2011	9,007	12,376	21,383

The interest charged of First Tranche Bonds for the year is calculated by applying an effective interest rate of 7.847% per annum to the liability component.

The interest charged of Last Tranche Bonds for the year is calculated by applying an effective interest rate of 7.317% per annum to the liability component.

The directors estimate the fair value of the liability component of the Convertible Bonds at 30 September 2011 to be approximately HK$141,957,000 (2010: HK$134,167,000). This fair value has been calculated by discounting the future cash flows at the market rate.

28. DEFERRED TAX LIABILITIES

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

	Decelerated tax depreciation HK$'000	Revaluation of buildings HK$'000	Investment properties HK$'000	Total HK$'000
At 1 October 2009	(4,286)	23,002	5,539	24,255
Charge to equity for the year	–	1,655	–	1,655
(Credit)/charge to profit or loss for the year (note 11)	(1,050)	–	407	(643)
At 30 September 2010 and 1 October 2010	(5,336)	24,657	5,946	25,267
Charge to equity for the year	–	5,920	–	5,920
(Credit)/charge to profit or loss for the year (note 11)	(1,199)	–	1,097	(102)
Disposal of subsidiaries (note 35a)	425	(7,870)	–	(7,445)
Exchange differences	(459)	1,842	482	1,865
At 30 September 2011	(6,569)	24,549	7,525	25,505

28. DEFERRED TAX LIABILITIES (continued)

(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$5,018,000 (2010: HK$4,441,000). 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.

29. SHARE CAPITAL

	2011 **HK$'000**	2010 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
1,446,838,580 (2010: 1,446,838,580) ordinary shares of HK$0.01 each	**14,468**	14,468

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 2009		1,239,504	12,395
Issue of shares in exercise of share options	(a)	207,335	2,073
At 30 September 2010, 1 October 2010 and 30 September 2011		1,446,839	14,468

Note:

(a) During 2010, 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.

29. 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, 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.

30. 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.

31. 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.

31. 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
Option 2011	4 April 2011	4 April 2011	4 April 2011 to 3 April 2016	0.400

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:

	2011		2010	
	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	**253,060,000**	**0.335**	334,320,000	0.276
Granted during the year	**144,600,000**	**0.400**	126,075,000	0.520
Exercised during the year	**–**	**N/A**	(207,335,000)	0.352
Outstanding at the end of the year	**397,660,000**	**0.359**	253,060,000	0.335
Exercisable at the end of the year	**397,660,000**	**0.359**	253,060,000	0.335

31. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.27 years (2010: 3.57 years) and the exercise prices range from HK$0.125 to HK$0.520 (2010: HK$0.125 to HK$0.520). In 2011, options were granted on 4 April 2011. The estimated fair value of the option granted on this date is approximately HK$22,116,000. In 2010, 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 2011	Option 2010
Weighted average share price	**HK$0.40**	HK$0.52
Weighted average exercise price	**HK$0.40**	HK$0.52
Expected volatility	**75%**	55% and 77%
Expected life	**5 years**	0.083 year and 2.5 years
Risk free rate	**1.88%**	0.06% and 0.755%
Expected dividend yield	**0%**	2.8%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years for Option 2011. 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.

In 2011, certain share options granted to those persons that provide the nature of business development to the Group were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Investments in subsidiaries	**133,900**	133,900
Due from subsidiaries (note)	**1,418,993**	1,417,619
Other current assets	**895**	755
Due to subsidiaries (note)	**(618,105)**	(604,511)
Interest-bearing borrowings	**–**	(1,667)
Convertible bonds	**(137,328)**	(128,970)
Other current liabilities	**(2,248)**	(2,144)
NET ASSETS	**796,107**	814,982
Capital and reserves		
Share capital	**14,468**	14,468
Reserves	**781,639**	800,514
TOTAL EQUITY	**796,107**	814,982

Note:

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

33. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000 (note 33(c)(i))	Warrants reserve HK$'000 (note 30)	Share-based payment reserve HK$'000 (note 33(c)(iii))	Convertible bonds reserve HK$'000 (note 27)	Retained profits HK$'000	Total HK$'000
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
Issue 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)						–
						800,514

33. RESERVES (continued)

(b) Company (continued)

	Share premium HK$'000 (note 33(c)(i))	Warrants reserve HK$'000 (note 30)	Share-based payment reserve HK$'000 (note 33(c)(iii))	Convertible bonds reserve HK$'000 (note 27)	Retained profits HK$'000	Total HK$'000
At 1 October 2010	633,071	2,149	28,057	21,383	115,854	800,514
Total comprehensive income for the year	–	–	–	–	(40,991)	(40,991)
Recognition of share-based payments	–	–	22,116	–	–	22,116
At 30 September 2011	633,071	2,149	50,173	21,383	74,863	781,639

Representing:	
At 30 September 2011 after proposed final dividend	781,639
Proposed final dividend (note 13)	–
	781,639

(c) Nature and purpose of reserves

(i) 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.

33. RESERVES (continued)

(c) Nature and purpose of reserves (continued)

(ii) Properties revaluation reserve

The properties revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3(d) to the financial statements.

(iii) 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 31 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.

(iv) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

34. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2011 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	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#	PRC	Registered capital and paid-up capital of RMB105,000,000	100%	Provision of fabric processing services, manufacture and sale of fabrics

34. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Indirectly held (continued)				
Powerful China Development Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	Provision of administrative services to group companies
Huafeng Trading Macao Commercial Offshore Limited	Macau	MOP100,000	100%	Provision of fabric processing services
Fujian Fenghua Textile Co., Ltd.#	PRC	Registered capital and paid-up capital of US$25,000,000	100%	Manufacture and sale of yarns
Huafeng Textile (Lianyungang) Co., Ltd.#	PRC	Registered capital and paid-up capital of US$2,550,000	100%	Manufacture and sale of yarns
Shishi Huarun Knitting & Dyeing Co., Ltd.#	PRC	Registered capital and paid-up capital of HK$55,000,000	100%	Provision of fabric processing services
Jiangxi Fenghua Textile Co., Ltd.#	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.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

On 1 September 2011, the Group disposed of its two subsidiaries, Elite and its subsidiary, Lingfeng.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	310,496
Available-for-sale financial assets	3,300
Inventories	2,998
Trade receivables	58,004
Prepayments, deposits and other receivables	8,929
Bank and cash balances	2,860
Trade payables	(7,168)
Other payables and accruals	(82,870)
Amount due to the Group	(158,330)
Short term bank loans	(54,900)
Current tax liabilities	(1,140)
Deferred tax liabilities	(7,445)
Net assets disposed of	74,734
Release of foreign currency translation reserve	(20,215)
Direct cost to the disposal	373
Goodwill retained	30,133
Waiver of receivables from Elite and Lingfeng	158,330
Loss on disposal of subsidiaries	(140,155)
Total consideration – satisfied by cash	103,200
Net cash inflow arising on disposal:	
Cash consideration received	50,000
Cash paid for direct cost	(373)
Cash and cash equivalents disposed of	(2,860)
	46,767

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

(b) Major non-cash transaction

Included in the addition of property, plant and equipment was an amount of approximately HK$470,000 (2010: HK$Nil) which was acquired through disposal of another property, plant and equipment as part of the consideration.

36. CONTINGENT LIABILITIES

Financial guarantees issued

At the end of the reporting period, the Group has issued a guarantee of approximately HK$12,200,000 (2010: HK$Nil) jointly with an executive director of the Company and two independent third parties to a bank in respect of a banking facility granted to a former subsidiary.

At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group under the above guarantee. The maximum liability of the Group at the end of the reporting period under the guarantee is the outstanding amount of the bank loan to the former subsidiary at that date of approximately HK$12,200,000 (2010: HK$Nil).

The fair value of the guarantee at date of inception is not material and is not recognised in the financial statements.

37. 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 are payable as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**1,444**	1,089
In the second to fifth years, inclusive	**1,406**	909
After five years	**–**	3,351
	2,850	5,349

Operating lease payments represent rentals payable by the Group for certain of its offices, factory and warehouse. Leases are negotiated for terms ranging from 2 to 3 years (2010: 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:

	2011 **HK$'000**	2010 HK$'000
Within one year	**763**	327
In the second to fifth years, inclusive	**2,289**	2,290
	3,052	2,617

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 2 to 5 years (2010: 3 to 5 years). None of the leases include contingent rentals.

37. COMMITMENTS (continued)

(b) Capital commitments

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

	2011 HK$'000	2010 HK$'000
Contracted but not provided for:		
Construction of buildings	**4,781**	7,576
Purchase of plant and machinery	**7,601**	31,080
Purchase of a parcel of land	**1,308**	1,218
	13,690	39,874

(c) Other commitments

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

	2011 HK$'000	2010 HK$'000
Contracted but not provided for:		
Purchase of raw materials	**18,910**	27,355

38. RELATED PARTY TRANSACTIONS

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

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 December 2011.