2012 Annual Report

HUAFENG GROUP HOLDINGS LIMITED
華豐集團控股有限公司
Stock Code: 364

HUAFENG
華 豐

Contents

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 Chi Hung, Stanley

AUDIT COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *JP*
Mr. Wong Chi Hung, Stanley

REMUNERATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *JP*
Mr. Wong Chi Hung, Stanley

NOMINATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *JP*
Mr. Wong Chi Hung, Stanley

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

PKF Hong Kong
26/F., Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

LEGAL ADVISERS

As to Cayman Islands laws

Conyers Dill & Pearman

As to Hong Kong laws

Patrick Mak & Tse

PRINCIPAL BANKERS

China Minsheng Banking Corp., Ltd
Hang Seng Bank Limited

WEBSITE

www.huafeng.com.hk

STOCK CODE

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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				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
TURNOVER	**539,118**	727,266	773,383	712,217	806,695
(LOSS)/PROFIT FROM OPERATIONS	**(174,973)**	23,859	88,416	152,220	123,215
Finance costs	**(11,224)**	(17,607)	(12,734)	(13,701)	(21,240)
Loss on modifications of convertible bonds	**(1,943)**	–	–	–	–
Loss on disposal of subsidiaries	**(2,386)**	(140,155)	–	–	–
(LOSS)/PROFIT BEFORE TAX	**(190,526)**	(133,903)	75,682	138,519	101,975
Income tax expense	**(249)**	(4,553)	(7,213)	(5,958)	(10,786)
(LOSS)/PROFIT BEFORE NON-CONTROLLING INTERESTS	**(190,775)**	(138,456)	68,469	132,561	91,189
Non-controlling interests	**–**	–	–	96	(173)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(190,775)**	(138,456)	68,469	132,657	91,016

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 30 September				
	2012 HK$'000	2011 HK$'000	2010 HK$'000 (restated)	2009 HK$'000 (restated)	2008 HK$'000 (restated)
NON-CURRENT ASSETS	**1,033,382**	1,091,308	1,233,512	1,153,214	890,936
CURRENT ASSETS	**694,271**	830,635	842,513	605,912	920,883
TOTAL ASSETS	**1,727,653**	1,921,943	2,076,025	1,759,126	1,811,819
CURRENT LIABILITIES	**268,318**	287,285	434,720	369,062	506,003
NON-CURRENT LIABILITIES	**147,168**	162,833	154,237	86,598	152,237
NON-CONTROLLING INTERESTS	**–**	–	–	–	1,953
TOTAL LIABILITIES	**415,486**	450,118	588,957	455,660	658,240
NET ASSETS	**1,312,167**	1,471,825	1,487,068	1,303,466	1,153,579

Note 1: The summary of the results, assets, liabilities and non-controlling interests of the Group for the years ended 30 September 2008 and 2009 are extracted from the Company's annual report 2009 prepared in accordance with International Financial Reporting Standards, with restatement as mentioned in note 3 to the consolidated financial statements in the Company's annual report 2011.

Note 2: The summary of the results, assets, liabilities and non-controlling interests of the Group for the year ended 30 September 2010 and 2011 are extracted from the Company's annual report 2011 prepared in accordance with International Financial Reporting Standards, with restatement as mentioned in note 3 to the consolidated financial statements in the Company's annual report 2011.

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 2012 (the "Year"). The Group's consolidated revenue for the Year decreased by 25.9% to approximately HK$539.1 million (2011: approximately HK$727.3 million). Gross profit decreased by 45.5% to approximately HK$60.6 million (2011: approximately HK$111.1 million). Loss attributable to owners of the Company amounted to approximately HK$190.8 million (2011: approximately HK$138.5 million). The loss after tax was mainly attributable to a significant loss of approximately HK$48.2 million resulting from the disposal of the investment property in the subsidiary and approximately HK$114.4 million resulting from the impairment of the plant and machinery in the subsidiaries.

BUSINESS REVIEW

During the Year, China's textile industry faced severe challenges due to the global economic slowdown, the European sovereign debt crisis and the consistent appreciation of the Renminbi ("RMB"). Decreasing demand for textile products, significant fluctuation in cotton prices as well as rising labor costs have brought enormous operating pressures to China's textile enterprises. However, leveraging on its good reputation and strong customer base, the Group overcame certain challenges and maintained a relatively stable development through commitment to customer relationship management, stringent cost control measures and flexible marketing strategies.

During the Year, the Group's production of blankets contributed a revenue of approximately HK$34.6 million during the Year, representing an increase of 5.8% as compared to last year (2011: approximately HK$32.7 million).

Although the domestic consumption market is sluggish, the Group is benefited from its extensive client base and proactive development in domestic market in recent years. Domestic sales of the Group continued to progress steadily. Average selling price of products was generally stable as well. This effectively mitigated the effects of volatile raw material procurement costs as well as rising wage levels. In addition, the Group consistently implemented its long-term strategy of diversified business development.

On 21 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 People's Republic of China ("PRC"). Subsequently, the Company terminated the proposed acquisition and the MOU lapsed on 20 January 2012.

Chairman's Statement

PROSPECTS

Many uncertainties in the overall operating environment, especially the consistent appreciation of RMB will bring an adverse impact on China's textile export. Together with the rising prices of raw materials as well as growing domestic labor costs, it will bring great challenges to the future development of the Chinese textile industry. In view of this, the Group will dedicate efforts to maintain a steady development of its existing business in the domestic market through thorough implementation of flexible market strategies, 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.

Regarding its foreign operations, the Group has established a solid customer base in the Philippine market, which greatly mitigates the challenges brought by the shrinking export market of the textile industry. In addition, the Group will adopt its strategy of diversified market development, and will further develop its business in emerging markets. The Group believes that leveraging on its leading position in the textile industry, it will be able to effectively cope with the challenges faced by the industry, to grasp the business opportunities brought by industrial consolidation and to promote continuous business development. The Group will also 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 (the "Shareholders").

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, 17 December 2012

Management Discussion and Analysis

FINANCIAL PERFORMANCE

During the Year, the Group's consolidated revenue decreased by 25.9% to approximately HK$539.1 million (2011: approximately HK$727.3 million). Among which, turnover from the fabric processing services, manufacture and sale of fabrics amounted to approximately HK$444.2 million (2011: approximately HK$600.1 million), representing 82.4% (2011: 82.5%) of total sales. Turnover attributable to the manufacture and sale of yarns and blankets segment amounted to approximately HK$94.9 million (2011: approximately HK$127.2 million), representing 17.6% (2011: 17.5%) of total sales.

During the Year, gross profit of the Group decreased by 45.5% to approximately HK$60.6 million (2011: approximately HK$111.1 million) and gross margin decreased by 4.1 percentage points from 15.3% in 2011 to 11.2% in 2012. The loss after tax was mainly attributable to a significant loss of approximately HK$48.2 million resulting from the disposal of investment properties of a subsidiary and of approximately HK$114.4 million resulting from the impairment on the plant and machinery of subsidiaries.

BUSINESS DEVELOPMENT AND OUTLOOK

During the Year, China's economic slowdown and the weakened domestic consumption have brought tremendous challenges to China's textile industry. Constant growth in raw material costs and labor wages also undermined market demand and aggravated competition among China's textile enterprises, adding difficulties for textile enterprises to pass on the rising costs to its customers. In addition, the consistent appreciation of the RMB against the United States dollar ("USD") and global economic downturn led to the decreased demand from overseas markets, bringing greater challenges to China's textile industry. Despite the challenges from the market and operating environment, the Group maintained its overall business competitiveness through strict cost control measures, flexible marketing strategies, as well as consolidation of long-term cooperation with customers.

Looking ahead, the volatility of the global economy, the fluctuations in raw material prices, the consistent appreciation of RMB, the increasing labor wages and other production costs caused by inflation will generate tremendous operating pressures to China's textile industry. In addition, competition in the textile exports market becomes increasingly intensive as other countries (such as India and Vietnam) enjoy stronger export competitiveness due to lower raw material costs and labor wages.

Management Discussion and Analysis

To meet future challenges, the Group will adhere to its stringent cost control measures, deploy flexible market strategies, diversify the business component and steadily expand its client base, in order to maintain the Group's overall business competitiveness and capture the enormous business opportunities arising from market recovery. The Group will continue to develop the blanket production business with high growth potential to capture business opportunities arising from surging market demand. In the meantime, the Group will proactively search for potential favorable expansion, merger and acquisition opportunities, so as to realize the long-term business diversification strategy, and to further enhance its revenue sources and profitability, bringing maximized returns to the Shareholders.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the China region accounted for 56.0% (2011: 64.6%) of total sales in 2012. The Philippines market continued to be an important market for the Group, accounting for 35.6% (2011: 27.1%) of total sales in 2012. The remaining revenue of 8.4% (2011: 8.3%) was generated from customers located in Africa, Australia, North America and Taiwan, etc.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2012, the Group had current assets of approximately HK$694.3 million (2011: approximately HK$830.6 million) and current liabilities of approximately HK$268.3 million (2011: approximately HK$287.3 million). The current ratio (calculated as current assets to current liabilities) decreased from 2.89 as at 30 September 2011 to 2.59 as at 30 September 2012. The gearing ratio (calculated as the total bank borrowings and the convertible bonds to total Shareholders' equity) had decreased from 0.13 as at 30 September 2011 to 0.09 as at 30 September 2012. These ratios were at reasonably adequate levels as at 30 September 2012 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the Year, the net cash generated from operating activities and net cash used in financing activities were approximately HK$113.6 million (2011: approximately HK$227.0 million) and approximately HK$51.0 million (2011: approximately HK$52.9 million) respectively.

Total bank borrowings decreased by 100% to HK$Nil (2011: approximately HK$48 million) during the Year, of which HK$Nil (2011: approximately HK$48 million) was repayable within one year.

Management Discussion and Analysis

CAPITAL STRUCTURE

During the Year, there were no changes in the capital structure and the total number of issued share capital of the Company as at 30 September 2012 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$172.4 million (2011: approximately HK$131.4 million).

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB and Hong Kong dollars ("HKD"), except overseas sales which are denominated in USD. In view of the currency peg between HKD and USD and a relatively strong RMB at HK$1.00 equal to RMB0.814 (as at 30 September 2012), the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

CONTINGENT LIABILITIES

At the end of the Year, the Group has issued a guarantee of approximately HK$Nil (2011: HK$12,200,000). The maximum liability of the Group at the end of the Year under the guarantee is the outstanding amount of the bank loan to the former subsidiary at that date of approximately HK$Nil (2011: HK$12,200,000).

EMPLOYMENT INFORMATION

At 30 September 2012, the total number of employees of the Group in Hong Kong, Macau and the PRC was 1,390 (2011: 1,470). 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$71.3 million (2011: approximately HK$85.0 million), the amount including HK$Nil related to the equity-settled share-based payments (2011: approximately HK$0.52 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.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries during the Year.

ADDITIONAL INFORMATION

Memorandum of Understanding

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

On 19 January 2012, the Company had decided not to proceed with the proposed acquisition and the MOU had been lapsed on 20 January 2012. The lapse of the MOU did not have any significant adverse effect on the financial position and business of the Group.

Amendments to certain terms and conditions of the Convertible Bonds

At the extraordinary general meeting of the Company held on 4 May 2012, the resolution proposed in relation to the proposed amendments to certain terms and conditions of the convertible bonds due in 2013 of aggregate principal amounts of HK$150,000,000 created and issued by the Company on 11 February 2010 and 20 April 2010, was duly passed by way of poll.

For further details, please refer to the Company's announcements dated 5 March 2012, 15 March 2012, 30 March 2012, 17 April 2012 and 4 May 2012 together with the Company's circular dated 17 April 2012.

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..

Report of the Corporate Governance

CORPORATE GOVERNANCE

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

The corporate governance principles of the Company emphasize an effective Board, sound internal control, appropriate independence policy, and transparency and accountability to the Shareholders. The Board will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the Listing Rules. The Company had complied with the CG Code throughout the Year with the following deviation:

Code Provision A.2.1

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code during the Year.

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 Chi Hung, Stanley (Appointed on 31 July 2012)
Mr. Wong Siu Hong (Resigned on 31 July 2012)

The biographical details of the Directors and the relationships among them are set out in "Directors' Biographies" on pages 32 to 33 of this report. Save as disclosed in the section headed "Directors' Biographies", none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to the Shareholders, for the manner in which the affairs of the Group are managed and operated. As and when necessary, the Directors can access to the advice and services of the company secretary of the Company (the "Company Secretary"), and in the appropriate circumstances, seeking of independent professional advice at the Group's expense to ensure that the Board procedures, and all applicable rules and regulations are followed.

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

Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company arising out of corporate activities of the Group has been arranged by the Company.

C) Meeting Records

There were 10 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)*	9/10
Mr. Cai Zhenyao	10/10
Mr. Cai Zhenying	8/10
Mr. Cai Yangbo *(Managing Director)*	10/10
Mr. Choi Wing Toon	10/10
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	7/10
Ms. Choy So Yuk, *JP*	5/10
Mr. Wong Chi Hung, Stanley (Appointed on 31 July 2012)	1/1
Mr. Wong Siu Hong (Resigned on 31 July 2012)	7/10

There were 2 general meetings held on 24 February 2012 and 4 May 2012 which were the annual general meeting and extraordinary general meeting of the Company respectively.

The following was an attendance record of the general meetings held.

Board Members	Attendance at meetings held for the Year
Executive Directors	
Mr. Cai Zhenrong *(Chairman)*	0/2
Mr. Cai Zhenyao	2/2
Mr. Cai Zhenying	0/2
Mr. Cai Yangbo *(Managing Director)*	1/2
Mr. Choi Wing Toon	1/2
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	0/2
Ms. Choy So Yuk, *JP*	1/2
Mr. Wong Chi Hung, Stanley (Appointed on 31 July 2012)	0/0
Mr. Wong Siu Hong (Resigned on 31 July 2012)	1/2

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.

E) Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

During the Year and up to the date of this report, the Company had arranged to provide to all Directors with the "Guidelines for Directors" and the "Guide for Independent Non-executive Directors" issued by the Hong Kong Institute of Directors. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman is Mr. Cai Zhenrong while the Company does not at present have any individual with the title of "chief executive". The Chairman's responsibility is to manage the Board and the role of the Chief Executive 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.

BOARD COMMITTEES

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

- Audit Committee
- Remuneration Committee
- Nomination 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 Chi Hung, Stanley (Appointed on 31 July 2012)
Mr. Wong Siu Hong (Resigned on 31 July 2012)

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*	1/2
Mr. Wong Chi Hung, Stanley (Appointed on 31 July 2012)	0/0
Mr. Wong Siu Hong (Resigned on 31 July 2012)	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 Chi Hung, Stanley (Appointed on 31 July 2012)
Mr. Wong Siu Hong (Resigned on 31 July 2012)

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 Chi Hung, Stanley (Appointed on 31 July 2012)	0/0
Mr. Wong Siu Hong (Resigned on 31 July 2012)	2/2

During the Year, the Remuneration Committee has reviewed the remuneration package of the Board members and the senior management of the Company.

C) Nomination Committee

On 28 March 2012, the Company has established a nomination committee (the "Nomination Committee") which consists of three independent non-executive Directors.

Composition of the Nomination Committee

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *JP*
Mr. Wong Chi Hung, Stanley (Appointed on 31 July 2012)
Mr. Wong Siu Hong (Resigned on 31 July 2012)

Role and Function

The Nomination Committee is mainly responsible for:

i. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

ii. identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and

iii. assessing the independence of independent non-executive Directors and making recommendations to the Board on appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive.

Meeting Record

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

Nomination Committee Members	Attendance at meetings held for the Year
Mr. Lawrence Gonzaga *(Chairman)*	1/1
Ms. Choy So Yuk, *JP*	1/1
Mr. Wong Chi Hung, Stanley (Appointed on 31 July 2012)	0/0
Mr. Wong Siu Hong (Resigned on 31 July 2012)	1/1

During the Year, the Nomination Committee has reviewed the appointment of the Board members of the Company.

D) Corporate Governance Functions

The Board is responsible for performing the duties on corporate governance functions set out below:

i. developing and reviewing the Company's policies and practices on corporate governance and making recommendations;

ii. reviewing and monitoring the training and continuous professional development of Directors and senior management;

iii. reviewing and monitoring the Company's policies and practices on compliance and legal and regulatory requirements;

iv. developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

v. reviewing the Company's compliance with the "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report contain in the annual report of the Company.

AUDITOR'S REMUNERATION

During the Year, the remuneration paid and payable to the auditor of the Company, PKF Hong Kong ("PKF"), for the provision of the Group's audit services and non-audit services amounted to HK$1,250,000 and HK$1,000,000 respectively.

During the Year, the remuneration paid and payable to ex-auditor of the Company, RSM Nelson Wheeler ("RSM"), for the provision of the Group's audit services and non-audit services amounted to HK$Nil and HK$2,910,245 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.

COMPANY SECRETARY

Mr. Chai Chung Wai was appointed as Company Secretary. According to Rule 3.29 of the Listing Rules, Mr. Chai will take no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 64 of the articles of association of the Company, extraordinary general meetings of the Company (the "EGM(s)") shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a Shareholders' communication policy (the "Policy") on 28 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

Putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

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

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 Porda Havas International Finance Communications Group while handling corporate relations in Korea is Value C&I Consulting Co., Ltd.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the principal subsidiaries are set out in note 33 to the consolidated 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 consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year and the state of affairs of the Group as at that date are set out in the financial statements on pages 36 to 102.

The Board does not recommend the payment of a final dividend for the Year (2011: HK$Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 February 2013 to Friday, 22 February 2013, 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, 18 February 2013.

Report of the Directors

FIVE-YEAR FINANCIAL SUMMARY

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

SHARE CAPITAL

Details of the movements in the Company's share capital during the Year are set out in note 28 to the consolidated financial statements.

CONVERTIBLE BONDS AND WARRANTS

Details of the convertible bonds and warrants issued by the Company are set out in note 26 and 29 to the consolidated 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 32 to the consolidated financial statements and the consolidated statement of changes in equity on page 39 of this report.

DISTRIBUTABLE RESERVES

At 30 September 2012, the Company had distributable reserves of approximately HK$781,231,000 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 2012, 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 38.2%.

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 Chi Hung, Stanley (Appointed on 31 July 2012)
Mr. Wong Siu Hong (Resigned on 31 July 2012)

In accordance with article 108 of the Company's articles of association, Mr. Cai Zhenrong, Mr. Cai Zhenying and Mr. Cai Yangbo will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with the article 112 of the Company's articles of association, Mr. Wong Chi Hung, Stanley will hold office until the forthcoming annual general meeting and, being eligible, offer himself for election at the meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out on pages 32 to 33 of this report.

DIRECTORS' SERVICE AGREEMENTS

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

As at the date of this report, two independent non-executive Directors, namely Mr. Lawrence Gonzaga and Ms. Choy So Yuk, *JP* have re-entered into a letter of appointment with the Company for a terms of two years from 16 January 2013 to 15 January 2015, which can be terminated by either party giving not less than one month notice in writing to the other party.

One independent non-executive Directors, namely Mr. Wong Chi Hung, Stanley has entered into a letter of appointment with the Company for a term of two years from 31 July 2012 to 30 July 2014, 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 consolidated financial statements.

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

As at 30 September 2012, the interests and short positions of the Directors and Chief Executives 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	1,000,000	0.07%
Ms. Choy So Yuk, *JP*	Beneficial owner	Personal	1,200,000 (Note 2)	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 and terminated on 24 February 2012 (the “Terminated Scheme”).

2. These shares are the share options granted to the Directors by the Company under the Terminated Scheme.

Save as disclosed above, as at 30 September 2012, none of the Directors and Chief Executives 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

On 24 February 2012, the Company has passed the resolutions in a Shareholders' meeting for the termination of the share option scheme adopted on 30 August 2002 and the adoption of a new share option scheme (the "New Scheme"). Outstanding share options granted under the Terminated Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Terminated 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 Terminated Scheme and the New 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 1.10.2011**	**Granted during the Year**	**Lapsed during the Year**	**Exercised during the Year**	**Outstanding as at 30.9.2012**
Directors								
Mr. Cai Zhenyao	1.3.2010	1.3.2010 – 28.2.2015	0.520	13,220,000	–	–	–	13,220,000
Mr. Cai Zhenying	1.3.2010	1.3.2010 – 28.2.2015	0.520	13,220,000	–	–	–	13,220,000
Ms. Choy So Yuk, *JP*	1.3.2010	1.3.2010 – 28.2.2015	0.520	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	0.520	66,100,000	–	–	–	66,100,000
Employees	4.4.2011	4.4.2011 – 3.4.2016	0.400	3,400,000	–	–	–	3,400,000
Other participants	4.4.2011	4.4.2011 – 3.4.2016	0.400	141,200,000	–	–	–	141,200,000
Total				397,660,000	–	(35,400,000)	–	362,260,000

During the Year, no options was exercised under the Terminated Scheme or New 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	0.520
2011	4.4.2011	4.4.2011 – 3.4.2016	0.400

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.

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

As at 30 September 2012, to the best knowledge of the Directors, the following person (other than a Director and Chief Executives) 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 2012, no person, other than the Directors and Chief Executives 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 consolidated financial statements for the years ended 30 September 2011 and 2012 were audited by RSM and PKF respectively.

PKF will retire at the forthcoming annual general meeting of the Company and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of PKF 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, 17 December 2012

Directors' Biographies

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 65, 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 58, 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 56, 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 38, 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 62, 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 38, was appointed as independent non-executive Director in August 2002. He is also the chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. 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 designation.

Ms. Choy So Yuk, *JP* ("Ms. Choy"), aged 62, was appointed as an independent non-executive Director in August 2002. She is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. 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 Chi Hung, Stanley ("Mr. Wong"), aged 49, was appointed as independent non executive Director in 31 July 2012. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor's degree in Accounting from the University of Kent at Canterbury, the United Kingdom and an EMBA from the Peking University. He is an independent non-executive director of Great Wall Motor Company Limited (Stock Code: 2333) since 2010. Mr. Wong has more than 26 years of experience in auditing, accounting and financial advisory services. In November 2009, Mr. Wong joined Hongri International Holdings Company Limited（紅日國際控股有限公司）as chief financial officer.

大信梁學濂(香港)會計師事務所

PKF
Accountants &
business advisers

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
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 36 to 102, which comprise the consolidated statement of financial position as at 30 September 2012, 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 2012 and of the Group's loss 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.

PKF
Certified Public Accountants
Hong Kong

17 December 2012

Consolidated Income Statement

For the year ended 30 September 2012

	Note	2012 HK$'000	2011 HK$'000
TURNOVER	6	**539,118**	727,266
Cost of services rendered and cost of sales		**(478,493)**	(616,170)
GROSS PROFIT		**60,625**	111,096
Other income	7	**9,145**	12,421
Selling and distribution expenses		**(20,468)**	(22,390)
Administrative expenses		**(55,311)**	(66,782)
Fair value change on investment properties	16	**–**	3,290
Impairment loss on property, plant and equipment	15	**(114,383)**	–
Loss on disposal of investment properties		**(48,189)**	–
Other operating expenses		**(6,392)**	(13,776)
(LOSS)/PROFIT FROM OPERATIONS		**(174,973)**	23,859
Finance costs	10	**(11,224)**	(17,607)
Loss on modifications of convertible bonds	26	**(1,943)**	–
Loss on disposal of subsidiaries	34	**(2,386)**	(140,155)
LOSS BEFORE TAX		**(190,526)**	(133,903)
Income tax expense	11	**(249)**	(4,553)
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	12	**(190,775)**	(138,456)
LOSS PER SHARE	14		
Basic		**(HK13.19 cents)**	(HK9.57 cents)
Diluted		**N/A**	N/A

The notes on pages 42 to 102 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2012

	Note	2012 HK$'000	2011 HK$'000
LOSS FOR THE YEAR		**(190,775)**	(138,456)
Other comprehensive income:			
Exchange differences on translating foreign operations		**8,893**	102,444
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	34	**(5,631)**	(20,215)
Gains on property revaluation		**6,040**	24,788
Deferred tax relating to gains on property revaluation	27(a)	**(1,511)**	(5,920)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**7,791**	101,097
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(182,984)**	(37,359)

The notes on pages 42 to 102 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 September 2012

	Note	At 30 September 2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**957,971**	909,591
Investment properties	16	**–**	51,606
Intangible assets	17	**6,201**	7,398
Available-for-sale financial assets	18	**1,290**	1,281
Deposits paid for acquisition of long-term assets	19	**–**	68,232
Other receivable and prepayment	20	**67,920**	53,200
		1,033,382	1,091,308
CURRENT ASSETS			
Inventories	21	**63,122**	56,208
Trade receivables	22	**154,688**	152,147
Prepayments, deposits and other receivables		**60,195**	109,947
Fixed bank deposits		**155,262**	154,901
Bank and cash balances	23	**261,004**	357,432
		694,271	830,635
CURRENT LIABILITIES			
Trade payables	24	**30,469**	30,243
Other payables and accruals		**223,878**	194,626
Interest-bearing borrowings	25	**–**	48,000
Current tax liabilities		**13,971**	14,416
		268,318	287,285
NET CURRENT ASSETS		**425,953**	543,350
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,459,335**	1,634,658
NON-CURRENT LIABILITIES			
Convertible bonds	26	**123,323**	137,328
Deferred tax liabilities	27	**23,845**	25,505
		147,168	162,833
NET ASSETS		**1,312,167**	1,471,825
CAPITAL AND RESERVES			
Share capital	28	**14,468**	14,468
Reserves	32	**1,297,699**	1,457,357
TOTAL EQUITY		**1,312,167**	1,471,825

Approved and authorised for issue by the Board of Directors on 17 December 2012.

Cai Zhenyao
Director

Choi Wing Toon
Director

The notes on pages 42 to 102 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2012

	Note	Share capital HK$'000	Share premium HK$'000 (note 32(c)(i))	Properties revaluation reserve HK$'000 (note 32(c)(ii))	Warrants reserve HK$'000 (note 29)	Share-based payment reserve HK$'000 (note 32(c)(iii))	Convertible bonds reserve HK$'000 (note 26)	Translation reserve HK$'000 (note 32(c)(iv))	Retained profits HK$'000	Total equity HK$'000
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 loss for the year		–	–	18,868	–	–	–	82,229	(138,456)	(37,359)
Recognition of share-based payments	30	–	–	–	–	22,116	–	–	–	22,116
Disposal of subsidiaries		–	–	(97)	–	–	–	–	97	–
Disposal of properties		–	–	(997)	–	–	–	–	997	–
At 30 September 2011 and 1 October 2011		14,468	500,524	62,897	2,149	50,173	21,383	226,527	593,704	1,471,825
Total comprehensive loss for the year		–	–	4,529	–	–	–	3,262	(190,775)	(182,984)
Derecognition upon modification of convertible bonds	26	–	–	–	–	–	(21,383)	–	21,383	–
Recognition upon modification of convertible bonds	26	–	–	–	–	–	23,326	–	–	23,326
Lapse of share options granted in prior years		–	–	–	–	(1,618)	–	–	1,618	–
Lapse of warrants issued in prior years		–	–	–	(2,149)	–	–	–	2,149	–
Disposal of subsidiaries		–	–	(5,523)	–	–	–	–	5,523	–
At 30 September 2012		14,468	500,524	61,903	–	48,555	23,326	229,789	433,602	1,312,167

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.

The notes on pages 42 to 102 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 September 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(190,526)**	(133,903)
Adjustments for:			
Bank interest income		**(2,850)**	(3,195)
Interest expense on convertible bonds		**888**	1,500
Imputed interest on convertible bonds		**8,128**	8,311
Other finance costs		**2,208**	7,796
Depreciation		**70,614**	82,497
Loss on disposal of subsidiaries		**2,386**	140,155
Impairment loss on property, plant and equipment		**114,383**	–
Loss on disposals of property, plant and equipment		**5,423**	4,867
Loss on modification of convertible bonds		**1,943**	–
Amortisation of technical know-how		**1,226**	1,175
Fair value change on investment properties		**–**	(3,290)
Loss on disposals of investment properties		**48,189**	–
Property, plant and equipment written off		**527**	8,711
Equity-settled share-based payments		**–**	22,116
Operating profit before working capital changes		**62,539**	136,740
(Increase)/decrease in inventories		**(6,914)**	6,372
Increase in trade receivables		**(2,541)**	(25,300)
Decrease in prepayments, deposits and other receivables		**34,337**	76,433
Increase/(decrease) in trade payables		**288**	(10,983)
Increase in other payables and accruals		**28,373**	48,929
Cash generated from operations		**116,082**	232,191
Income tax paid		**(2,484)**	(5,159)
Net cash generated from operating activities		**113,598**	227,032
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(172,415)**	(131,355)
Proceeds from disposals of property, plant and equipment		**1,359**	2,150
Proceeds from disposals of investment properties		**3,679**	–
Net proceeds from disposal of subsidiaries	34	**3,220**	46,767
Increase in fixed bank deposits		**(361)**	–
Interest received		**3,545**	1,259
Net cash used in investing activities		**(160,973)**	(81,179)

Consolidated Statement of Cash Flows

For the year ended 30 September 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans raised	**–**	54,900
Repayment of bank loans	**(48,000)**	(98,567)
Convertible bond interest paid	**(752)**	(1,453)
Other finance costs paid	**(2,207)**	(7,796)
Net cash used in financing activities	**(50,959)**	(52,916)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(98,334)**	92,937
Effect of foreign exchange rate changes	**1,906**	20,685
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**357,432**	243,810
CASH AND CASH EQUIVALENTS AT END OF YEAR	**261,004**	357,432
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**261,004**	357,432

The notes on pages 42 to 102 form part of these consolidated financial statements.

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 33 to the consolidated financial statements.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordnance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Initial application of IFRSs

In the current year, the Group initially applied the following new or revised standards and amendments ("New IFRSs") issued by IASB, which are effective for the Group's financial year beginning on 1 October 2011:–

IAS 24 (Revised)	Related Party Disclosures
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Improvements to IFRSs (2010)	Amendments to IFRS 7, IAS 1 and IFRIC 13

The adoption of the New IFRSs had no material impact on the Group's consolidated financial statements for the current or prior accounting periods.

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective

The following IFRSs in issue at 30 September 2012 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 October 2011:–

IAS 19 (2011)	Employee Benefits[2]
IAS 27 (2011)	Separate Financial Statements[2]
IAS 28 (2011)	Investments in Associates and Joint Ventures[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Annual improvements to IFRSs (2009 – 2011)	Amendments to IAS 1, IAS 16 and IAS 32[2]

1 Effective for annual periods beginning on or after 1 October 2012
2 Effective for annual periods beginning on or after 1 October 2013
3 Effective for annual periods beginning on or after 1 October 2014
4 Effective for annual periods beginning on or after 1 October 2015

The Group is in the process of making an assessment of what the impact of above IFRSs is expected to be in the period of initial application. So far it is concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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 consolidated financial statements.

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year included in the profit or loss from the date that control commenced or up to the date that control ceased. When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at that date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of an investment in an associate or jointly controlled entity or other investments.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and noncontrolling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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

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

Non-controlling interests represent the equity or deficiency in a subsidiary not attributable directly or indirectly to the Company, and in respect of those interest that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income or loss for the year between noncontrolling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

(b) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred to the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 September. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(c) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollar, which is also the Company's functional currency. The functional currency of the Company or its subsidiaries is the currency of the primary economic environment in which the Company or its subsidiaries operates.

Foreign currency transactions of the Company or its subsidiaries are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the end of reporting period and the exchange differences arising are recognised in the profit or loss. Non-monetary items carried at fair value denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined and the exchange differences arising are recognised in the profit or loss, except for the exchange component of a gain or loss that is recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising are recognised as a separate component of equity. Such translation differences are recognised in the profit or loss for the year in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

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

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

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the properties revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the properties revaluation reserve are charged against 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 costs or revalued amounts, less their residual values, if any, on a straight-line basis over their estimated useful lives 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 for 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 3(n).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(f)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 3(f).

(f) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(e)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases (continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(u). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 3(e)).

(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. Technical know-how are amortised from the date they are available for use and the estimated useful lives are ten years from the date they are available for use according to the agreements entered by the Group for acquisition of the technical know-how.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments (continued)

Available-for-sale financial assets (continued)

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

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

(k) Trade and other receivables

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

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

(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, having been within three months of maturity at acquisition. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial liabilities and equity instruments (continued)

Convertible bonds (continued)

The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated In convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the accumulated profits. No gain or loss is recognised in the profit or loss upon conversion or expiration of the option.

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.

The liability component (or part of the liability component) of the convertible bonds is derecognised when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expired.

A significant modification of the terms of the convertible bond is accounted for as a recognition of a new compound instrument and an extinguishment of the original compound instrument before maturity. The difference between the carrying amount of the original liability component extinguished and its fair value at the date of modification is recognised in profit or loss. The difference between the fair value at the date of modification of the original liability component extinguished and the fair value of the newly recognised liability component is recognised in the equity/convertible bond reserve. The carrying amount of the equity component of the original compound instrument extinguished is released from convertible bond reserve to retained profits.

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.

(iii) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share-based payments

The Group issues equity-settled share-based payments to certain 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Impairment of assets (continued)

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

Operating segments, and amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting (continued)

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

Segment assets included all tangible, intangible, non-current and current assets with the exception of corporate assets. Segment liabilities included current and non-current liabilities attributable to the individual segments.

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

Unallocated items may comprise financial and corporate assets, interest-bearing loans, other income, corporate and financing expenses, loss on modification of convertible bonds, loss on disposal of investment properties, and loss on disposal of subsidiaries.

(x) 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 consolidated 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 buildings and leasehold land the PRC

As stated in note 15 to the consolidated financial statements, the ownership certificates of certain buildings and leasehold land located in the PRC were not issued to the Group as at 30 September 2012. Despite the fact that the Group has not obtained the relevant ownership certificates, the directors determine to recognise those buildings and leasehold land located in the PRC 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 leasehold land located in the PRC.

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 and property, plant and equipment

Determining whether goodwill and property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which these items have 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.

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 judgements and are satisfied that the method of valuation is reflective of the current market conditions.

(f) *Fair value of the liability component of convertible bonds*

A suitable discount rate is determined by the directors in order to calculate the fair value of the liability component of convertible bonds. The directors have exercised their judgements and estimates with reference to the current market conditions. If different discount rate is adopted, the fair value of liability component of convertible bonds will change.

(g) *Fair values of share options granted*

The Group appointed an independent professional valuer to assess the fair values of the share options granted. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgements 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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HKD, RMB and Macau Pataca ("MOP") 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.

The following table details the Group's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The exposure arising from the current accounts among the Company and its subsidiaries which are form part of net investment in foreign operations is excluded.

	2012				2011			
	HKD HK$'000	**USD HK$'000**	**RMB HK$'000**	**Total HK$'000**	HKD HK$'000	USD HK$'000	RMB HK$'000	Total HK$'000
Bank and cash balances	**1,245**	**25**	**–**	**1,270**	54	66	–	120
Fixed bank deposits	**–**	**155,262**	**–**	**155,262**	–	154,901	–	154,901
Trade receivables	**–**	**53,588**	**–**	**53,588**	–	60,916	–	60,916
Deposits and other receivables	**30,093**	**1,472**	**–**	**31,565**	38,118	2,167	–	40,285
Due from a fellow subsidiary	**–**	**–**	**99,569**	**99,569**	–	–	67,429	67,429
Trade payables	**–**	**(13,690)**	**(3,707)**	**(17,397)**	–	(11,779)	(3,757)	(15,536)
Other payables	**–**	**–**	**–**	**–**	(207)	–	–	(207)
Interest-bearing borrowings	**–**	**–**	**–**	**–**	(48,000)	–	–	(48,000)
	31,338	**196,657**	**95,862**	**323,857**	(10,035)	206,271	63,672	259,908

Since HKD is pledged to USD and MOP, material fluctuations in the exchange rates between HKD, USD and MOP are remote.

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign currency risk (continued)

The following table summarise the currencies that the Group is exposed to currency risk after excluding those financial assets and liabilities which have remote exchange effect as per above paragraph:

	2012 HK$'000	2011 HK$'000
HKD	**1,223**	8
USD	**10**	–
RMB	**95,862**	63,672
	97,095	63,680

The net financial assets denominated in HKD and USD are held by subsidiaries of which the functional currencies are RMB. The net financial assets denominated in RMB are held by a subsidiary of which the functional currency is MOP.

Should RMB and MOP at 30 September 2012 devalue by 10% against all foreign currencies, the carrying amount of the net financial assets exposed to currency risk at 30 September 2012 would be increased, and hence the equity at 30 September 2012 would be increased, by HK$9,710,000 (2011 : HK$6,368,000); and the loss for the year ended 30 September 2012 would be decreased by HK$9,710,000 (2011: HK$6,368,000).

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group has a credit policy in place and exposure to the credit risk is monitored on an ongoing basis.

The carrying amounts of financial assets as at 30 September 2011 and 2012, which represented the Group's significant exposure to credit risk, are as follows:–

	2012 **HK$'000**	2011 HK$'000
Trade receivables	**154,688**	152,147
Deposits and other receivables	**96,084**	104,780
Fixed bank deposits	**155,262**	154,901
Bank balances	**257,406**	352,776
	663,440	764,604

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors are due within 30 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The directors consider that the credit risk from fixed bank deposits and bank balances is minimal as the balances are placed with financial institutions with high credit ratings.

The directors consider that the credit risk from deposits and other receivable is minimal as there are no indications for deterioration of creditworthiness of counter parties and the recoverability are reasonably assured.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Except for the financial guarantee given by the Group as set out in note 36, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantee at the end of the reporting period is disclosed in note 36.

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manage liquidity risks by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the debt-to-adjusted capital ratio.

Maturities of the financial liabilities of the Group as at 30 September 2011 and 2012 were as follows:

	At 30 September 2012				
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year HK$'000**	**1 to 2 years HK$'000**	**2 to 5 years HK$'000**
Trade payables	**30,469**	**30,469**	**30,469**	**–**	**–**
Other payables and accruals	**223,878**	**223,878**	**223,878**	**–**	**–**
Convertible bonds	**123,323**	**150,000**	**–**	**–**	**150,000**
	377,670	**404,347**	**254,347**	**–**	**150,000**

	At 30 September 2011				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000
Trade payables	30,243	30,243	30,243	–	–
Other payables and accruals	194,626	194,626	194,626	–	–
Interest bearing borrowings	48,000	48,672	48,672	–	–
Convertible bonds	137,828	152,966	1,500	151,466	–
Financial guarantee contracts	–	12,200	12,200	–	–
	410,697	438,707	287,241	151,466	–

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, liability component of convertible bonds, fixed bank deposits, other long-term receivable and bank balances. Except for the interest bearing borrowings, liability component of convertible bonds, fixed bank deposits and other long-term receivable which are held at fixed interest rates, all bank balances are held at variable rates. The Group does not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group is closely monitored by the management and may enter into appropriate swap contracts, when it is considered significant and cost-effective, to manage the interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 30 September 2011 and 2012:

	2012		2011	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate financial assets				
Other long-term receivable	**1.75%**	**53,200**	1.75%	53,200
Fixed bank deposits	**1.20%**	**155,262**	1.20%	154,901
Fixed rate financial liabilities				
Interest-bearing borrowings	**–**	**–**	3.41%	(48,000)
Convertible bonds – liability component	**5.90%**	**(123,323)**	7.32% – 7.85%	(137,328)
Variable rate financial assets				
Bank balances	**0.01% – 0.35%**	**257,025**	0.01% – 0.35%	353,035
		342,164		375,808

It is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, the Group's loss for the year ended 30 September 2012 and respective accumulated losses would be decreased by approximately HK$2,570,000 (2011: HK$3,530,000).

The sensitivity analysis above has been determined based on the exposure to interest rate for both derivatives and non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of asset and liability outstanding at the end of reporting period was outstanding for the whole year. 100 basis points increase are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonable possible change in interest rates.

5. FINANCIAL RISK MANAGEMENT (continued)

(e) 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.

	2012 **HK$'000**	2011 HK$'000
Provision of fabric processing services	**429,219**	582,840
Sale of goods	**109,899**	144,426
	539,118	727,266

7. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Bank interest income	**2,850**	3,195
Subcontracting income	**515**	1,974
Government grants	**1,968**	387
Rental income	**2,301**	2,892
Waiver of debt by other creditor	**–**	3,587
Others	**1,511**	386
	9,145	12,421

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 consolidated financial statements. Segment profits or losses do not include unallocated other income, unallocated corporate expenses, finance costs, loss on modification of convertible bonds, loss on disposal of investment properties, loss on disposal of subsidiaries and impairment loss on property, plant and equipment. 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	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
REVENUE						
Revenue from external customers	**444,228**	600,073	**94,890**	127,193	**539,118**	727,266
Segment profit/(loss)	**36,455**	83,955	**(49,550)**	(23,693)	**(13,095)**	60,262
Impairment loss on property, plant and equipment					**(114,383)**	–
Loss on disposal of investment properties					**(48,189)**	–
Unallocated other income					**9,145**	12,421
Unallocated corporate expenses					**(8,451)**	(48,824)
(Loss)/profit from operations					**(174,973)**	23,859
Finance costs					**(11,224)**	(17,607)
Loss on modification of convertible bonds					**(1,943)**	–
Loss on disposal of subsidiaries					**(2,386)**	(140,155)
Loss before tax					**(190,526)**	(133,903)
Income tax expense					**(249)**	(4,553)
Loss for the year					**(190,775)**	(138,456)

	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Consolidated	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
ASSETS						
Segment assets	**749,893**	743,143	**507,262**	560,379	**1,257,155**	1,303,522
Unallocated assets					**470,498**	618,421
Consolidated total assets					**1,727,653**	1,921,943
LIABILITIES						
Segment liabilities	**185,968**	164,878	**64,918**	57,546	**250,886**	222,424
Unallocated liabilities					**164,600**	227,694
Consolidated total liabilities					**415,486**	450,118

8. SEGMENT INFORMATION (continued)

	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Unallocated		Consolidated	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Other segment information:								
Additions to segment non-current assets	**155,673**	81,605	**16,742**	50,211	**–**	9	**172,415**	131,825
Depreciation and amortisation	**45,545**	58,930	**26,232**	24,670	**63**	72	**71,840**	83,672
Property, plant and equipment written off	**527**	8,587	**–**	124	**–**	–	**527**	8,711
Loss on disposals of property, plant and equipment	**5,423**	4,867	**–**	–	**–**	–	**5,423**	4,867
Impairment loss on property, plant and equipment	**68,945**	–	**45,438**	–	**–**	–	**114,383**	–

Geographical information:

Turnover by geographical location is as below:–

	2012 HK$'000	2011 HK$'000
The Philippines	**191,826**	197,412
The PRC	**301,921**	469,582
Australia	**9,851**	4,598
United States of America	**14,751**	19,335
Canada	**4,054**	8,315
Republic of Mozambique	**–**	2,965
Taiwan	**16,715**	25,059
Consolidated total	**539,118**	727,266

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 2011 and 2012.

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 2012

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Cai Zhenrong	–	360	–	–	360
Mr. Cai Zhenyao	–	304	–	–	304
Mr. Cai Zhenying	–	304	–	–	304
Mr. Cai Yangbo	–	1,800	–	–	1,800
Mr. Choi Wing Toon	–	324	27	13	364
Independent non-executive directors					
Ms. Choy So Yuk, *JP*	120	–	–	–	120
Mr. Lawrence Gonzaga	120	–	–	–	120
Mr. Wong Siu Hong (resigned on 31 July 2012)	100	–	–	–	100
Mr. Wong Chi Hung Stanley (appointed on 31 July 2012)	20	–	–	–	20
Total	360	3,092	27	13	3,492

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

For the year ended 30 September 2011

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 30 September 2011 and 2012.

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

The five highest paid individuals in the Group during the year included two (2011: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2011: three) individuals are set out below:

	2012 HK$'000	2011 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,583	1,838
Equity-settled share-based payments	–	367
Retirement benefits scheme contributions	26	24
	1,609	2,229

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	3	3

During the years ended 30 September 2011 and 2012, 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.

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank loans and overdrafts	858	5,188
Interest expense on convertible bonds	888	1,500
Imputed interest on convertible bonds	8,128	8,311
Bank charges	1,350	2,608
	11,224	17,607

11. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Current tax – the PRC enterprise income tax		
Provision for the year	**2,039**	4,629
Under-provision in prior year	**–**	26
	2,039	4,655
Deferred tax (note 27)	**(1,790)**	(102)
	249	4,553

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit derived from Hong Kong for the years ended 30 September 2011 and 2012.

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 loss before tax multiplied by the PRC enterprise income tax rate is as follows:

	2012 HK$'000	2011 HK$'000
Loss before tax	**(190,526)**	(133,903)
Tax at the PRC enterprise income tax rate of 25%	**(47,632)**	(33,476)
Tax effect of income that is not taxable	**(60,624)**	(32,020)
Tax effect of expenses that are not deductible	**81,004**	64,776
Tax effect of impairment on property, plant and equipment	**28,596**	–
Under-provision in prior year	**–**	26
Effect of different tax rates of subsidiaries	**(1,095)**	5,247
Income tax expense	**249**	4,553

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2012 HK$'000	2011 HK$'000
Amortisation of technical know-how (included in cost of services provided and costs of sales)	**1,226**	1,175
Auditor's remuneration	**1,250**	1,930
Cost of inventories sold	**135,670**	159,231
Depreciation	**70,614**	82,497
Exchange loss	**274**	574
Loss on disposals of property, plant and equipment	**5,423**	4,867
Operating lease charges on land and buildings	**1,438**	987
Staff costs (excluding directors' remuneration (note 9)):		
Salaries, bonus and allowances	**61,273**	78,538
Retirement benefits scheme contributions	**6,490**	2,382
Equity-settled share-based payments	**–**	520
	67,763	81,440
Property, plant and equipment written off	**527**	8,711
Other equity-settled share-based payments	**–**	21,596

The cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$37,321,000 (2011: HK$34,603,000) 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 before 1 June 2012 and HK$1,250 on or after 1 June 2012 respectively, 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 for the years ended 30 September 2011 and 2012.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the following:

	2012 **HK$'000**	2011 HK$'000
Loss		
Loss for the purpose of calculating basic loss per share	**(190,775)**	(138,456)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,446,838,580**	1,446,838,580

Diluted loss per share has not been disclosed as the effects of all potential ordinary shares are anti-dilutive for the years ended 30 September 2011 and 2012.

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 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 and 1 October 2011	104,072	399,428	588,929	10,612	34,694	1,137,735
Additions	68,579	45,455	124,882	43	2,170	241,129
Transfers	–	–	887	–	(887)	–
Disposals	–	–	(23,642)	–	–	(23,642)
Disposal of subsidiaries	(3,568)	(10,199)	(12,327)	(492)	(71)	(26,657)
Write off	–	–	(1,234)	–	–	(1,234)
Deficit on revaluation	–	(17,411)	–	–	–	(17,411)
Exchange differences	1,530	2,977	3,664	(6)	255	8,420
At 30 September 2012	**170,613**	**420,250**	**681,159**	**10,157**	**36,161**	**1,318,340**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Accumulated depreciation						
At 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 and 1 October 2011	8,056	–	213,381	6,707	–	228,144
Charge for the year	3,655	23,728	42,344	887	–	70,614
Disposals	–	–	(16,860)	–	–	(16,860)
Disposal of subsidiaries	(935)	(327)	(11,936)	(456)	–	(13,654)
Write off	–	–	(707)	–	–	(707)
Write-back on revaluation	–	(23,451)	–	–	–	(23,451)
Exchange differences	702	50	897	7	–	1,656
At 30 September 2012	**11,478**	**–**	**227,119**	**7,145**	**–**	**245,742**
Accumulated impairment						
At 1 October 2010, 30 September 2011 and 1 October 2011	–	–	–	–	–	–
Impairment loss	–	–	114,383	–	–	114,383
Exchange differences	–	–	244	–	–	244
At 30 September 2012	**–**	**–**	**114,627**	**–**	**–**	**114,627**
Carrying amount						
At 30 September 2012	**159,135**	**420,250**	**339,413**	**3,012**	**36,161**	**957,971**
At 30 September 2011	96,016	399,428	375,548	3,905	34,694	909,591

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	170,613	–	681,159	10,157	36,161	898,090
At valuation	–	420,250	–	–	–	420,250
At 30 September 2012	170,613	420,250	681,159	10,157	36,161	1,318,340

At 30 September 2012, the Group's buildings, including certain buildings of approximately HK$190,200,00 (2011: HK$368,956,000) 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$420,250,000 (2011: HK$399,428,000). The resulting revaluation surplus of approximately HK$6,040,000 (2011: HK$24,788,000) has been credited to the properties revaluation reserve. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Group.

Had the Group's buildings been stated at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2012 would have been approximately HK$351,097,000 (2011: HK$327,506,000).

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

The directors considered that there was an indication of impairment for property, plant and equipment as the Group's operating result was worse than expected. An independent valuer was appointed to assess the recoverable amounts of property, plant and equipment, which were based on the fair values less costs to sell. As a result, an impairment loss of HK$114,383,000 was made for the year ended 30 September 2012.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land of approximately HK$83,497,000 (2011: HK$87,408,000) represent payments for land use rights in the PRC.

The Group's leasehold land of approximately HK$8,361,000 (2011: HK$8,608,000) 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 2012, the Group's leasehold land, included certain leasehold land of approximately HK$97,892,000 (2011: HK$40,232,000) for which the Group were in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major obstacles to complete the transfer of the legal title of the above-mentioned land use rights to the Group.

16. INVESTMENT PROPERTIES

	HK$'000
At 1 October 2010	44,872
Fair value change on investment properties	3,290
Exchange differences	3,444
At 30 September 2011 and 1 October 2011	51,606
Disposals	(51,868)
Exchange differences	262
At 30 September 2012	–

At 30 September 2012, the Group's investment properties included certain buildings of approximately HK$Nil (2011: HK$12,721,000) 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 on the open market value basis by BMI Appraisals Limited, an independent firm of professional valuers.

The Group's investment properties were located outside Hong Kong with medium-term leases.

Property leasing revenue includes gross rental income from investment properties of approximately HK$2,301,000 (2011: HK$2,892,000).

Pursuant to the Sale and Purchase Agreement dated 10 January 2012, the Group's investment properties were sold to an independent third party at a consideration of RMB3 million (equivalent to approximately HK$3.6 million) with reference to the valuation report issued by a PRC Valuer on 11 December 2011. The consideration had been fully settled in cash on the date of completion. Based on the net book value of the investment properties of approximately HK$51.8 million at the date of disposal, loss on disposal of the investment properties of HK$48.2 million is recorded in profit or loss.

17. INTANGIBLE ASSETS

	Technical know-how HK$'000	Goodwill HK$'000 (Note)	Total HK$'000
Cost			
At 1 October 2010	11,360	33,015	44,375
Disposal of subsidiaries	–	(30,133)	(30,133)
Exchange differences	842	–	842
At 30 September 2011 and 1 October 2011	12,202	2,882	15,084
Exchange differences	87	–	87
At 30 September 2012	12,289	2,882	15,171
Accumulated amortisation			
At 1 October 2010	6,019	–	6,019
Charge for the year	1,175	–	1,175
Exchange differences	492	–	492
At 30 September 2011 and 1 October 2011	7,686	–	7,686
Charge for the year	1,226	–	1,226
Exchange differences	58	–	58
At 30 September 2012	8,970	–	8,970
Carrying amount			
At 30 September 2012	3,319	2,882	6,201
At 30 September 2011	4,516	2,882	7,398

17. 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:

	2012 HK$'000	2011 HK$'000
Provision of fabric processing services:		
United Glory Development Limited	**2,882**	2,882

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 HK$'000	2011 HK$'000
Unlisted equity securities, at cost	**1,290**	1,281

Unlisted equity securities with carrying amount of HK$1,290,000 (2011: HK$1,281,000) 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.

19. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

	HK$'000
At 1 October 2010	63,534
Exchange differences	4,698
At 30 September 2011 and 1 October 2011	68,232
Transfer to property, plant and equipment	(68,579)
Exchange differences	347
At 30 September 2012	–

20. OTHER RECEIVABLE AND PREPAYMENT

	2012 HK$'000	2011 HK$'000
Other receivable	**53,200**	53,200
Lease prepayment	**14,720**	–
	67,920	53,200

(i) The Group's other receivable represented the remaining unsettled consideration for the disposal of its two subsidiaries, Elite League Investment Limited ("Elite") and its subsidiary, Lingfeng Dyeing & Wearing Co., Ltd. Shishi City ("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.

(ii) Lease prepayment represented approximately HK$22,399,000 of total lease charge paid for a land located in the PRC for production purpose up to August 2015, of which the current portion of approximately HK$7,680,000 was classified as current assets under prepayments, deposits and other receivable.

21. INVENTORIES

	2012 HK$'000	2011 HK$'000
Consumables	**30,849**	30,502
Raw materials	**17,378**	15,606
Work in progress	**3,178**	2,027
Finished goods	**11,717**	8,073
	63,122	56,208

22. TRADE RECEIVABLES

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

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

	2012 **HK$'000**	2011 HK$'000
0 – 30 days	**50,076**	51,146
31 – 60 days	**39,191**	42,507
61 – 90 days	**35,522**	35,401
Over 90 days	**29,899**	23,093
	154,688	152,147

As of 30 September 2012, trade receivables of approximately HK$8,780,000 (2011: HK$6,943,000) 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:

	2012 **HK$'000**	2011 HK$'000
0 – 30 days	**4,959**	4,473
31 – 60 days	**1,150**	1,131
61 – 90 days	**964**	607
Over 90 days	**1,707**	732
	8,780	6,943

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

	2012 **HK$'000**	2011 HK$'000
USD	**53,588**	60,916
RMB	**101,100**	91,231
	154,688	152,147

23. BANK AND CASH BALANCES

At 30 September 2012, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$260 million (2011: HK$357 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. TRADE PAYABLES

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

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

	2012 **HK$'000**	2011 HK$'000
0 – 30 days	**14,649**	13,645
31 – 60 days	**9,981**	6,549
61 – 90 days	**5,212**	6,231
Over 90 days	**627**	3,818
	30,469	30,243

25. INTEREST-BEARING BORROWINGS

	2012 HK$'000	2011 HK$'000
Unsecured bank loans repayable within one year	–	48,000

At 30 September 2011, according to the terms of unsecured bank loans, 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 banking facility. The Group was also required to comply with certain financial covenants throughout the term life of the facilities.

The bank loan was fully repaid during the year ended 30 September 2012.

26. CONVERTIBLE BONDS

On 9 October 2009, the Company and Tanrich Capital Limited (the "Placing Agent") entered into a placing agreement in relation to the placing of convertible bonds (the "Placing Agreement"). Pursuant to the Placing Agreement, the Company issued the three-year 1% coupon convertible bonds (the "Convertible Bonds") up to an aggregate principal amount of HK$150 million. Based upon the initial conversion price of HK$0.28 per conversion share, a total of 535,714,277 shares (with an aggregate nominal value of approximately HK$5,357,000) would be allotted and issued upon the exercise of all the conversion rights attached to the Convertible Bonds.

The placing of the Convertible Bonds in the principal amount of HK$60,000,000 (the "First Tranche Bonds") 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 would be allotted and issued upon exercise of the conversion rights attached to the First Tranche Bonds in full.

The placing of the Convertible Bonds in the principal amount of HK$90,000,000 (the "Last Tranche Bonds") 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 would 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.

26. CONVERTIBLE BONDS (continued)

Modification of terms

On 10 April 2012, a supplemental deed poll was executed by the Company. Details of the modification of the First Tranche Bonds and the Last Tranche Bonds (the "modified Convertible Bonds") are set out as follows:–

(i) conversion price was reduced from HK$0.28 to HK$0.18;

(ii) coupon rate was reduced to 0% per annum; and

(iii) the final maturity date was extended to 11 February 2016.

The modification resulted in the extinguishment of the financial liability of First Tranche Bonds and Last Tranche Bonds and the recognition of its new financial liability and equity components. The fair value of the new liability immediately following the modification was approximately HK$120,423,000. The financial liability was determined using an effective interest rate of 5.90%.

As a result of the modification, a loss of approximately HK$1,943,000 was recognised during the year ended 30 September 2012, which represented the amount by which the fair value of the original liability component exceeded the carrying amount of the original liability component derecognised at the date of modification.

26. CONVERTIBLE BONDS (continued)

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 HK$'000	Last Tranche Bonds HK$'000	Total HK$'000
Liability component at 30 September 2010	51,583	77,387	128,970
Interest expense	600	900	1,500
Imputed interest	3,492	4,819	8,311
Interest paid	(600)	(853)	(1,453)
Liability component at 30 September 2011	55,075	82,253	137,328
Interest expense before modification	355	533	888
Imputed interest before modification	2,202	3,026	5,228
Interest paid before modification	(301)	(451)	(752)
Transfer of unpaid interest to other payables upon modification	(355)	(533)	(888)
Derecognition of original liability component	(56,976)	(84,828)	(141,804)
Recognition of new liability component upon modification	48,169	72,254	120,423
Imputed interest after modification	1,160	1,740	2,900
Liability component at 30 September 2012	49,329	73,994	123,323

	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 2011	9,007	12,376	21,383
Derecognition of original equity component upon modification	(9,007)	(12,376)	(21,383)
Recognition of new equity component upon modification	9,331	13,995	23,326
Equity component at 30 September 2012	9,331	13,995	23,326

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

26. CONVERTIBLE BONDS (continued)

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

The Interest charged of the modified Convertible Bonds for the year is calculated by applying an effective interest rate of 5.90% per annum to the liability component.

The directors estimate the fair value of the liability component of the modified Convertible Bonds at 30 September 2012 to be approximately HK$126,354,000 (2011: HK$141,957,000). This fair value has been calculated by discounting the future cash flows at the market rate.

27. DEFERRED TAX LIABILITIES

(a) The following are the major deferred tax liabilities/(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 2011	(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 34(b))	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
Charge to equity for the year	–	1,511	–	1,511
Charge/(credit) to profit or loss for the year (note 11)	5,772	–	(7,562)	(1,790)
Disposal of subsidiaries (note 34(a))	782	(2,341)	–	(1,559)
Exchange differences	15	126	37	178
At 30 September 2012	–	23,845	–	23,845

(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$5,681,000 (2011: HK$5,018,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

28. SHARE CAPITAL

	2012 HK$'000	2011 HK$'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 (2011: 1,446,838,580) ordinary shares of HK$0.01 each	**14,468**	14,468

There are no movements for the issued share capital of the Company during the years ended 30 September 2011 and 2012.

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.

29. WARRANTS

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

The Warrants were placed on 17 March 2010 and the subscription period is from the date of issue of the Warrants to the expiry of the second anniversary of the issue of the Warrants. The proceeds from the placing of the Warrants were HK$2,149,000, net of issuance expenses. During the year ended 30 September 2011, no warrants were exercised. During the year ended 30 September 2012, all unexercised warrants were lapsed.

30. SHARE-BASED PAYMENTS

Equity-settled share option schemes

On 24 February 2012, the Company has passed the resolutions in a shareholders' meeting for the termination of the share option scheme adopted on 30 August 2002 (the "Terminated Scheme") and the adoption of an new share option scheme (the "New Scheme"). Outstanding share options granted under the Terminated Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Terminated Scheme.

The Company operates the share option schemes (the "Schemes") 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 Schemes, 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 Schemes 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 Schemes 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 Schemes, 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.

30. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (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 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:

	2012		2011	
	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	**397,660,000**	**0.359**	253,060,000	0.335
Granted during the year	**–**	**N/A**	144,600,000	0.400
Lapsed during the year	**(35,400,000)**	**0.125**	–	N/A
Outstanding at the end of the year	**362,260,000**	**0.381**	397,660,000	0.359
Exercisable at the end of the year	**362,260,000**	**0.381**	397,660,000	0.359

30. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (continued)

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.58 years (2011: 3.27 years) and the exercise prices range from HK$0.255 to HK$0.520 (2011: 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 4 April 2011 is approximately HK$22,116,000.

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

	Option 2011
Weighted average share price	HK$0.40
Weighted average exercise price	HK$0.40
Expected volatility	75%
Expected life	5 years
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 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.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 HK$'000	2011 HK$'000
Investments in subsidiaries	**133,900**	133,900
Due from subsidiaries (note)	**1,417,168**	1,418,993
Other current assets	**430**	895
Due to subsidiaries (note)	**(629,151)**	(618,105)
Convertible bonds	**(123,323)**	(137,328)
Other current liabilities	**(3,325)**	(2,248)
NET ASSETS	**795,699**	796,107
Capital and reserves		
Share capital	**14,468**	14,468
Reserves	**781,231**	781,639
TOTAL EQUITY	**795,699**	796,107

Note:

The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

32. 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$'000 (note 32(c)(i))	Warrants reserve HK$'000 (note 29)	Share-based payment reserve HK$'000 (note 32(c)(iii))	Convertible bonds reserve HK$'000 (note 26)	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 loss for the year	–	–	–	–	(40,991)	(40,991)
Recognition of share-based payments	–	–	22,116	–	–	22,116
At 30 September 2011 and 1 October 2011	633,071	2,149	50,173	21,383	74,863	781,639
Total comprehensive loss for the year	–	–	–	–	(23,734)	(23,734)
Derecognition of original equity component of convertible bonds (Note 26)	–	–	–	(21,383)	21,383	–
Recognition of new equity component upon modification of convertible bonds (Note 26)	–	–	–	23,326	–	23,326
Lapsed of share options granted in prior years	–	–	(1,618)	–	1,618	–
Lapsed of warrants issued in prior years	–	(2,149)	–	–	2,149	–
At 30 September 2012	633,071	–	48,555	23,326	76,279	781,231

Loss attributable to owners of the Company included a loss of approximately HK$23,734,000 (2011: approximately HK$40,991,000) which has been dealt with in the financial statements of the Company.

32. RESERVES (continued)

(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.

(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 consolidated 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 Schemes. Further information about share-based payments to the directors and employees was set out in note 30 to the consolidated 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 consolidated 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 consolidated financial statements.

33. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2012 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
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
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.

34. DISPOSALS OF SUBSIDIARIES

(a) On 28 February 2012, the Group disposed of its two subsidiaries, Wealth Key Investments Ltd. and its subsidiary, Huafeng Textile (Lianyungang) Co., Ltd..

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	13,003
Bank and cash balances	230
Trade payables	(62)
Other payables and accruals	(145)
Deferred tax liabilities	(1,559)
Net assets disposed of	11,467
Release of foreign currency translation reserve	(5,631)
Direct cost to the disposal	50
Loss on disposal of subsidiaries	(2,386)
Total consideration – satisfied by cash	3,500
Net cash inflow arising on disposal:	
Cash consideration received	3,500
Cash paid for direct cost	(50)
Cash and cash equivalents disposed of	(230)
	3,220

34. DISPOSALS OF SUBSIDIARIES (continued)

(b) 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. MAJOR NON-CASH TRANSACTIONS

During the year ended 30 September 2012, the Group disposed of its investment properties. According to the agreement, the Group does not need to refund to the buyer the rental deposits received in advance from the tenants in the previous financial period amounted to approximately HK$1,534,000 (2011: HK$Nil). The Group recognised such amount in profit or loss at the date of disposal.

Included in the addition of property, plant and equipment was an amount of approximately HK$Nil (2011: HK$470,000) 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$Nil (2011: HK$12,200,000 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$Nil (2011: HK$12,200,000).

The fair value of the guarantee at date of inception is not material and is not recognised in the consolidated 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:

	2012 **HK$'000**	2011 HK$'000
Within one year	**1,434**	1,444
In the second to fifth years, inclusive	**1,267**	1,406
	2,701	2,850

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 (2011: 2 to 3 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:

	2012 **HK$'000**	2011 HK$'000
Within one year	**–**	763
In the second to fifth years, inclusive	**–**	2,289
	–	3,052

The Group leases out investment properties under operating leases. At 30 September 2011, the leases typically run for an initial period of 2 to 5 years. None of the leases include contingent rentals. At 30 September 2012, the Group did not lease out investment properties as the investment properties were disposed during the year.

37. COMMITMENTS (continued)

(b) Capital commitments

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

	2012 HK$'000	2011 HK$'000
Contracted but not provided for:		
Construction of buildings	**2,012**	4,781
Purchase of plant and machinery	**141**	7,601
Purchase of a parcel of land	**1,317**	1,308
	3,470	13,690

(c) Other commitments

At the end of the reporting period, the Group had outstanding commitment in respect of purchase of raw materials amounting to HK$Nil (2011: HK$18,910,000).

38. RELATED PARTY TRANSACTIONS

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

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 December 2012.

40. ULTIMATE CONTROLLING PARTY

At 30 September 2012, the directors consider the ultimate controlling party of the Group to be Mr. Cai Zhenrong, the major shareholder of the Company.