**ADDCHANCE HOLDINGS LIMITED**
**互益集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3344)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2008

## HIGHLIGHTS OF FINAL RESULTS

- Turnover for the year ended 31st December, 2008 reached approximately HK$1,316.8 million, representing an increase of approximately HK$149.4 million or 12.8% as compared with last year.

- Profit attributable to shareholders decreased by approximately HK$31.0 million or 31.4% to approximately HK$67.6 million for the year ended 31st December, 2008.

## FINAL RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2008 with comparative figures for the previous year as follows:

## CONSOLIDATED INCOME STATEMENT

*FOR THE YEAR ENDED 31ST DECEMBER, 2008*

| | *NOTES* | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Revenue | *4* | **1,316,764** | 1,167,362 |
| Cost of sales | | **(1,037,235)** | (889,293) |
| Gross profit | | **279,529** | 278,069 |
| Other income | | **58,310** | 15,580 |
| Discount on acquisition of business and subsidiaries | | **–** | 49,306 |
| Selling and distribution costs | | **(88,333)** | (84,419) |
| Administrative expenses | | **(128,790)** | (110,493) |
| Finance costs | | **(44,559)** | (36,195) |
| Profit before tax | | **76,157** | 111,848 |
| Income tax expense | *5* | **(9,308)** | (13,546) |
| Profit for the year | *6* | **66,849** | 98,302 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **67,567** | 98,546 |
| Minority interests | | **(718)** | (244) |
| | | **66,849** | 98,302 |
| Earnings per share, in cents | | | |
| Basic | *8* | **16.89** | 24.64 |

## CONSOLIDATED BALANCE SHEET

*AT 31ST DECEMBER, 2008*

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | | **2,040** | 9,461 |
| Property, plant and equipment | | **768,926** | 628,648 |
| Prepaid lease payments | | **73,127** | 87,200 |
| Available-for-sale investments | | **–** | 1,325 |
| Deposit paid for acquisition of land use rights and property, plant and equipment | | **16,203** | 38,588 |
| Club debentures | | **1,070** | 1,070 |
| Deferred tax assets | | **230** | 315 |
| | | **861,596** | 766,607 |
| **CURRENT ASSETS** | | | |
| Prepaid lease payments | | **1,831** | 2,110 |
| Inventories | | **586,080** | 417,863 |
| Trade receivables, bills receivables and other receivables, deposits and prepayments | *9* | **226,866** | 259,001 |
| Amounts due from related companies | | **163** | 840 |
| Taxation recoverable | | **–** | 4,392 |
| Pledged bank deposits | | **1,387** | 6,692 |
| Fixed bank deposits | | **–** | 4,680 |
| Bank balances and cash | | **94,208** | 25,644 |
| | | **910,535** | 721,222 |
| Assets classified as held for sale | | **7,983** | – |
| | | **918,518** | 721,222 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *10* | **245,462** | 128,751 |
| Bills payable | | **52,595** | 53,381 |
| Amount due to a related company | | **–** | 305 |
| Amount due to a minority shareholder | | **240** | – |
| Amount due to a director | | **–** | 170 |
| Bank borrowings – due within one year | | **570,913** | 440,848 |
| Obligations under finance leases – due within one year | | **8,669** | 9,027 |
| Taxation payable | | **7,347** | 4,519 |
| | | **885,226** | 637,001 |
| **NET CURRENT ASSETS** | | **33,292** | 84,221 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **894,888** | 850,828 |

| | NOTES | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **4,000** | 4,000 |
| Reserves | | **730,675** | 628,041 |
| Equity attributable to equity holders of the Company | | **734,675** | 632,041 |
| Minority interests | | **146** | 864 |
| | | **734,821** | 632,905 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank borrowings – due after one year | | **136,184** | 187,349 |
| Obligations under finance leases – due after one year | | **5,057** | 13,726 |
| Deferred tax liabilities | | **18,826** | 16,848 |
| | | **160,067** | 217,923 |
| | | **894,888** | 850,828 |

## 1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9th June, 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its holding company is Powerlink Industries Limited, a company incorporated in the British Virgin Islands, which is also its ultimate holding company.

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

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board, which are or have become effective.

| | |
|---|---|
| IAS 39 & IFRS 7 (Amendment) | Reclassification of Financial Assets |
| IFRIC – Int 11 | IFRS 2: Group and Treasury Share Transactions |
| IFRIC – Int 12 | Service Concession Arrangements |
| IFRIC – Int 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of those new IFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs[1] |
| IAS 1 (Revised) | Presentation of Financial Statements[2] |
| IAS 23 (Revised) | Borrowing Costs[2] |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| IAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| IAS 39 (Amendment) | Eligible Hedged Items[3] |
| IFRS 1 and IAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| IFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| IFRS 3 (Revised) | Business Combinations[3] |
| IFRS 7 (Amendments) | Improving Disclosures about Financial Instruments[2] |
| IFRS 8 | Operating Segments[2] |
| IFRIC – Int 9 & IAS 39 (Amendments) | Embedded Derivatives[4] |
| IFRIC – Int 13 | Customer Loyalty Programmes[5] |
| IFRIC – Int 15 | Agreements for the Construction of Real Estate[2] |
| IFRIC – Int 16 | Hedges of a Net Investment in a Foreign Operation[6] |
| IFRIC – Int 17 | Distributions of Non-cash Assets to Owners[3] |
| IFRIC – Int 18 | Transfers of Assets from Customers[7] |

[1] *Effective for annual periods beginning on or after 1st January, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1st July, 2009*

[2] *Effective for annual periods beginning on or after 1st January, 2009*

[3] *Effective for annual periods beginning on or after 1st July, 2009*

[4] *Effective for annual periods ending on or after 30th June, 2009*

[5] *Effective for annual periods beginning on or after 1st July, 2008*

[6] *Effective for annual periods beginning on or after 1st October, 2008*

[7] *Effective for transfers on or after 1st July, 2009*

The application of IFRS 3 (Revised) may affect the accounting for the Group's business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st January, 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with International Financial Reporting Standards issued by International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

## 4. SEGMENT INFORMATION

**Business segments**

For management purpose, the Group is currently organised into the following five operating divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and contribution to operating results and segment assets and liabilities by business segments is as follows:

**For the year ended 31st December, 2008**

| | Production and sale of cotton yarn | Production and sale of knitted sweaters | Production and sale of dyed yarns | Provision of dyeing services | Trading of cotton and yarns | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | | | | | | | |
| External | **84,636** | **633,015** | **523,194** | **38,293** | **37,626** | **–** | **1,316,764** |
| Inter – segment sales | **239,826** | **510,373** | **498,241** | **23,030** | **153,023** | **(1,424,493)** | **–** |
| | **324,462** | **1,143,388** | **1,021,435** | **61,323** | **190,649** | **(1,424,493)** | **1,316,764** |
| RESULTS | | | | | | | |
| Segment results | **4,754** | **53,716** | **43,165** | **5,652** | **(165)** | **–** | **107,122** |
| Interest income | | | | | | | **252** |
| Rental income | | | | | | | **527** |
| Unallocated corporate income | | | | | | | **23,219** |
| Unallocated corporate expenses | | | | | | | **(10,404)** |
| Finance costs | | | | | | | **(44,559)** |
| Profit before tax | | | | | | | **76,157** |
| Income tax expense | | | | | | | **(9,308)** |
| Profit for the year | | | | | | | **66,849** |

For the year ended 31st December, 2007

| | Production and sale of cotton yarn | Production and sale of knitted sweaters | Production and sale of dyed yarns | Provision of dyeing services | Trading of cotton and yarns | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | | | | | | | |
| External | 50,540 | 551,628 | 464,212 | 31,531 | 69,451 | – | 1,167,362 |
| Inter – segment sales | 139,248 | 379,380 | 428,203 | 11,099 | 197,193 | (1,155,123) | – |
| | 189,788 | 931,008 | 892,415 | 42,630 | 266,644 | (1,155,123) | 1,167,362 |
| RESULTS | | | | | | | |
| Segment results | (2,876) | 65,266 | 37,472 | 6,231 | (2,543) | – | 103,550 |
| Discount on acquisition of business and subsidiaries | | | | | | | 49,306 |
| Interest income | | | | | | | 2,915 |
| Rental income | | | | | | | 1,014 |
| Unallocated corporate expense | | | | | | | (8,742) |
| Finance costs | | | | | | | (36,195) |
| Profit before taxation | | | | | | | 111,848 |
| Income tax expense | | | | | | | (13,546) |
| Profit for the year | | | | | | | 98,302 |

**Geographical segments**

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods.

| | **Turnover by geographical market** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| PRC | **346,800** | 287,310 |
| Hong Kong | **305,873** | 318,024 |
| Other Asian countries | **56,844** | 37,178 |
| Europe | **605,446** | 509,193 |
| North America | **1,801** | 15,657 |
| | **1,316,764** | 1,167,362 |

## 5. INCOME TAX EXPENSE

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| – Current year | **6,791** | 6,616 |
| – Underprovision in prior years | **–** | 990 |
| PRC Enterprise Income Tax | **454** | 3,925 |
| Deferred taxation | | |
| – Current year | **2,290** | 2,015 |
| – Attributable to a change in tax rate | **(227)** | – |
| | **9,308** | 13,546 |

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax applicable for the year is 16.5% (2007: 17.5%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). The first profit-making year of these PRC subsidiaries is the year of 2002 to 2007. Accordingly, the Tax Holiday of these PRC subsidiaries will expire in 2009 to 2012.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. The Tax Holiday continues to be applicable for the PRC subsidiaries after the New Law was implemented.

Starting from 1st January, 2008, the Tax Law of the PRC requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred tax of approximately HK$2,347,000 has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

## 6. PROFIT FOR THE YEAR

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| Directors' remuneration | **8,721** | 6,360 |
| Other staff costs | **260,089** | 199,357 |
| Retirement benefits scheme contributions, excluding directors | **8,739** | 5,231 |
| Total staff costs | **277,549** | 210,948 |
| Allowance for bad and doubtful debts | **569** | 1,765 |
| Amortisation of prepaid lease payments | **2,126** | 1,632 |
| Auditor's remuneration | **2,000** | 2,500 |
| Cost of inventories recognised as an expense | **1,037,235** | 865,739 |
| Depreciation of property, plant and equipment | **68,310** | 52,318 |
| Depreciation of investment properties | **190** | 176 |
| Impairment loss on available-for-sale investments included in administrative expenses | **1,325** | – |
| and after crediting the following other income items: | | |
| Interest income | **252** | 2,915 |
| Exchange gain | **179** | 4,213 |
| Gain on disposal of properties | **42,779** | 2,292 |
| Gain on disposal of property, plant and equipment | **28** | 317 |
| Gross rental income from investment properties | **589** | 1,014 |
| *Less:* direct operating expenses from investment properties that generated rental income during the year | **(62)** | (230) |
| | **527** | 784 |

## 7. DIVIDENDS

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution during the year | | |
| – Final dividend of HK5.0 cents per share for 2007 (2007: HK3.3 cents per share for 2006) | **20,000** | 13,200 |

A final dividend for the year 2007 of HK5.0 cents per share amounting to HK$20,000,000 was paid to shareholders during the year.

A final dividend for the year 2006 of HK3.3 cents per share amounting to HK$13,200,000 was paid to shareholders during the year ended 31st December, 2007.

No final dividend was proposed during the year 2008, nor has any dividend been proposed since the balance sheet date.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the Company of approximately HK$67,567,000 (2007: HK$98,546,000) and on the number of shares in issue during the year of 400,000,000 (2007: 400,000,000).

No diluted earnings per share is presented as the Company had no potential ordinary shares outstanding during both years.

## 9. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group generally allows an average credit period of 30 days to 120 days to its trade customers.

Included in trade receivables, bills receivables and other receivables, deposits and prepayments are trade receivables of HK$160,964,000 and bills receivables of HK$21,441,000 (31.12.2007: HK$132,444,000 and HK$82,841,000 respectively) and their aged analysis is follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Aged: | | |
| 0 – 30 days | **115,568** | 77,524 |
| 31 – 60 days | **28,969** | 67,696 |
| 61 – 90 days | **12,437** | 30,204 |
| 91 – 120 days | **7,030** | 18,467 |
| Over 120 days | **27,904** | 30,328 |
| | **191,908** | 224,219 |
| *Less:* Allowance for doubtful debts | **(9,503)** | (8,934) |
| | **182,405** | 215,285 |
| Prepaid expenses | **29,672** | 29,730 |
| VAT receivables | **7,287** | 5,140 |
| Deposits | **1,455** | 2,317 |
| Others | **6,047** | 6,529 |
| | **226,866** | 259,001 |

Before accepting any new customers, the Group will assess and understand the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly.

### 10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Aged: | | |
| 0 – 60 days | **38,145** | 31,452 |
| 61 – 90 days | **15,450** | 5,906 |
| Over 90 days | **26,417** | 15,820 |
| | **80,012** | 53,178 |
| Receipt in advance | **4,131** | 4,146 |
| Payable for acquisition of property, plant and equipment | **13,284** | 3,560 |
| Payable for acquisition of prepaid lease payments | **1,424** | 1,450 |
| Accrued expenses | **62,626** | 62,491 |
| VAT tax payables | **3,679** | 898 |
| Other payables | **2,306** | 3,028 |
| Deposit received for disposal of properties | **78,000** | – |
| | **245,462** | 128,751 |

## BUSINESS REVIEW AND OUTLOOK

2008 was a challenging year for Addchance and all the players in the textile industry because of the uncertain global economic environment brought about by the US subprime mortgage crisis, as well as the escalating fuel and raw material costs. As a result, the operating environment was getting tough for manufacturers and exporters in China.

However, in view of the challenging operating environment, Addchance implemented various strategies to minimize the negative impacts from external environment. Thanks to the continuous effort in upholding our competitive edge and offering excellent products to our customers, we do not only consolidate the leading position in the textile industry, but also pave the way for our future business growth momentum.

During the year under review, all the major business segments performed satisfactorily. Our sweater business achieved encouraging growth in terms of revenue and sales volume, which were mainly driven by the increased average selling prices, sustainable economies of scale and improved operational efficiency. With strong support from the international reputable brands, we further expanded our customer base and gained a number of new customers at the beginning of 2009.

Besides, we have maintained a close relationship with the existing customers of the dyed yarn business, and achieved a 12.7% growth in revenue for this business segment, which resulted in the dyed yarn business to remain as the core business of the Group.

Amid the volatile operating environment, we continued to leverage on our core competence to maintain high standard of facilities and production knowhow in our manufacturing bases in China. Upon the completion of the acquisition of spinning facilities in Xinjiang and the expansion of the spinning mill in Anqing in 2007, our spinning production capabilities were further improved and upgraded. In addition, we strategically implemented a series of production modification process to enhance our production efficiency and product quality.

For the year ahead, we believe that it would be another year of challenge as the uncertain global economic climate will continue to give pressures to the operating environment of the textile industry. Nevertheless, with our production knowhow associated with the strategically located production bases, as well as the persistent effort in promoting vertical integration, we are confident to maintain our competitiveness and consolidate our market position as one-stop service provider for garment customers.

Addchance will strive to achieve a sustainable growth by exercising stringent cost control strategies and pursuing market diversification. We are confident that the China's economy will remain sound and be able to achieve moderate growth given its solid economic foundation and the stimulus packages proposed by the Central Government. Hence, we will continue to expand our production capacity with reference to the market demand and upgrade the equipment and technology on an on-going basis in order to maintain our competitiveness in the industry. We are confident that we will possess the competitive attributes and qualities to further consolidate our market leadership position and upgrade us to the next level.

# MANAGEMENT DISCUSSION AND ANALYSIS

The year 2008 was full of challenges for Addchance and the textile industry. The outbreak of US subprime mortgage crisis has developed into a global financial tsunami since the second half of 2008. Customers became more cautious in placing their orders and the financial tsunami had a negative impact on consumer confidence and their purchasing power. The higher prices of oil, coal and other raw materials significantly increased our production costs. Despite such an adverse operating environment, Addchance could still manage to achieve a double-digit growth in turnover in 2008. We believe that increased domestic capital contribution and investment in China will benefit Addchance, and the Company is sizable enough to maintain its strengths amid the consolidation of the textile industry and can actually play a positive role in the process.

The Group has advanced dyeing facilities and enjoys a good reputation in the market. It is equipped with the production know-how associated with its strategically located production bases, and it has made persistent efforts in promoting vertical integration. Addchance has actively developed itself into a one-stop service provider for garment customers, engaging in different stages of production of yarn products – from the supply of cotton yarn to the manufacture of well-knitted sweaters, and from the spinning of cotton into yarn to the provision of yarn dyeing service. The vertically-integrated facilities have well positioned the Group for increasing its market share following the consolidation of the textile supply chain and when demand gradually recovers in the coming years.

We are pleased to report the results of the Group for the 12 months ended 31st December, 2008. The Group has proven its capability to increase sales and expand business during such challenging economic conditions.

Looking forward, the macroeconomic uncertainty triggered by the global financial tsunami will continue to exist. It is anticipated that the global economic environment will remain tough and difficult. With the disappointing sales expectation and uncertain outlook for the year 2009, many retailers and brands have announced plans for store closures. The volatile market conditions and changing operating environment have created utmost challenges for all players in the textile industry and we anticipated that the market will further limit the room for survival of smaller and weaker competitors. In view of these challenges, Addchance will maintain its vigilance to further tighten its cost control measures as well as to enhance its production efficiency and effectiveness. We believe that the Group can enhance its competitiveness and meet new challenges in the market with our solid foundation, well-planned environmental measures and facilities and devoted management team.

## FINANCIAL REVIEW

### Turnover

The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarn, the provision of dyeing services and knitting services, and the trading of cotton and yarns. Its major products include dyed yarns made of over 200 different types of cotton, cashmere, ramie, rayon, acrylic, polyester, silk, wool, nylon, linen and a mixture of the above, and knitted sweaters including cardigans and pullovers.

Addchance recorded another year of double-digit growth in turnover in 2008, with its business continuing to expand. For the year under review, the total turnover increased by approximately 12.8% as compared with the previous year, from approximately HK$1,167.4 million to approximately HK$1,316.8 million. Revenue from each of our major business segments grew satisfactorily during the year under review despite the unfavorable global market conditions.

Turnover of the sweater business grew by approximately 14.8%, from approximately HK$551.6 million to approximately HK$633.0 million, representing approximately 48.1% of the Group's total turnover. The knitted sweater segment continued to perform well during the year under review. In term of the output quantity of knitted sweaters, the volume increased by approximately 5.5% whereas the revenue in term of monetary value increased by approximately 14.8%. The growth in revenue was mainly driven by higher average selling prices, sustainable economies of scale and improved operational efficiency. Our sweater products were still mainly exported to Europe. New customers were secured at the start of year 2009 in order to expand our customer base. In the coming year, the Group will target our new clients in China and try to increase the domestic market share as we believe that China's economic foundation will remain sound in spite of the global financial tsunami. Those favorable economic foundation include high saving rate, large-scale infrastructure and rapid urbanization, availability of work force and improving quality of education.

Dyed yarn remains the core product of Addchance. Turnover derived from the production and sale of dyed yarns for the year under review was approximately HK$523.2 million, which represented an increase of 12.7% as compared with the previous year and accounted for 39.7% of the Group's total turnover. Revenue generated from the provision of dyeing services increased from approximately HK$31.5 million for the previous year to approximately HK$38.3 million during the year under review, represented an increase of approximately 21.6% from the previous year. Most of the Group's dyed yarn was sold to the PRC and Hong Kong manufacturers with production bases in Guangdong, Jiangsu and Zhejiang and sales derived from the PRC, Hong Kong and Macau accounted for approximately 95.0% of the Group's total sales proceeds from dyed yarn. The remainder of the total amount was derived from exports to overseas countries including Thailand, Taiwan, and Indonesia.

Following the completion of the acquisition of spinning facilities in Xinjiang and the expansion of the spinning mill in Anqing last year, our spinning production scale and capabilities have increased as expected. Production efficiency and product quality improved through a series of production modification process. Addchance experienced apparent sales growth in the spinning business by approximately 67.5%, from about HK$50.5 million last year to approximately HK$84.6 million for the year under review. Both the internal and external utilization rate of the cotton yarn increased. Through the dedicated effort of our marketing teams in exploring new customers from domestic PRC markets, revenue and net profit of the spinning business increased steadily for the year under review.

**Cost of Sales**

The new PRC labour contract law launched in the year 2008 has the effect of exerting upward pressure on labour costs, a stronger Renminbi exerted pressure on general overhead and the rising oil and coal prices largely increased the fuel costs of the Group. The sharp rise in commodity prices including fuel costs posed a threat against our production cost. Against such a difficult environment, the cost of sales increased by approximately 16.6% from HK$889.3 million last year to approximately HK$1,037.2 million for the year under review, with approximately 12.8% increase in turnover.

Raw material costs continued to be the major component of the Company's cost of sales, representing at approximately 45.0% in the year 2008 with cotton and yarn representing approximately 50% of each of the raw materials portion. With the expansion of the spinning business last year, the purchases of yarn from outsiders decreased by approximately 24.0% compared with the same period last year. Fuel and coal costs also increased by approximately 65.0% compared with last year because of the sharp rises in the unit prices of oil and coal since the 3rd quarter of the year 2008.

However, with the continuous implementation of stringent cost control measures, enhancement in overall operational efficiency as well as the high level of flexibility achieved from the strong production bases located in a wide range of areas, the Group's cost of sales only increased by approximately 16.6% compared with last year, despite the exaggerated uplift of the unit costs of commodities.

**Gross profit and gross profit margin**

The Group recorded approximately HK$279.5 million in gross profit for the year under review, representing a slight increase of approximately 0.5% from HK$278.1 million for the previous year. Gross profit margin decreased from 23.8% for last year to approximately 21.2% for the year under review. Although the Group managed to increase the average selling price of our products in each of the segments, the higher fuel and labour costs had brought an adverse impact on the profit margin. During the year under review, difficult trading environment resulting from the global financial tsunami continued to undermine the garment industry and affect the profit margin. We will continue to exercise stringent cost controls, efficient order schedulings and production planning so as to improve the profit margins in the coming year.

**Net profit margin**

With the drop in gross profit margin, net profit margin decreased accordingly. Net profit decreased by HK$31.5 million, or approximately 32.0% from approximately HK$98.3 million in 2007 to approximately HK$66.8 million for the year under review.

**Borrowings**

As at 31st December, 2008, the Group had outstanding bank borrowings of approximately HK$720.8 million, of which approximately HK$579.6 million and HK$141.2 million were due within one year and within 2 to 5 years respectively.

In line with the expansion of various business segments in operation, the utilization rate for banking facilities increased and the bank borrowing level increased from approximately HK$651.0 million as at 31st December, 2007 to approximately HK$720.8 million as at 31st December, 2008. The net gearing ratio, which represents total bank borrowings net of bank balances and cash divided by net assets, improved from 1.07 as at 31st December, 2007 to 0.92 as at 31st December, 2008.

The Group will focus on reducing the net gearing ratio continuously to a more sustainable level over the coming year by improving profitability, seeking disposal of non-core properties as well as implementation of tighter control over cost working capital and capital expenditure.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2008, the Group's total assets amounted to approximately HK$1,780.1 million, representing an increase of approximately HK$292.3 million compared with HK$1,487.8 million in 2007. The Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term borrowings.

Net cash inflow in the amount of approximately HK$50.7 million was generated from operating activities, primarily reflecting growth in the Group's core business. Also, the decrease in purchase of inventories and the collection of accounts receivables increased further the net cash inflow generated from operating activities.

For the year under review, the net cash used in investing activities decreased substantially by approximately HK$236.3 million compared with previous year. Capital expenditure for 2008 greatly decreased by approximately HK$108.4 million from HK$282.7 million to approximately HK$174.3 million due to the absence of acquisitions of companies and expansion of factories during the year under review.

The sales of the Group were evenly denominated in Hong Kong dollar, US dollar, Renminbi and EURO respectively, while the purchases of the Group were mainly made in Hong Kong dollar, US dollar and Renminbi. Part of the effect of the appreciation of the Renminbi against the US dollar was naturally hedged through our PRC operations while another part of that effect was mitigated through appropriate hedging arrangements. Fluctuations in foreign currencies such as the US dollar, EURO and the Renminbi remained a concern of the Group. To mitigate foreign currency risk, the Group will enter into appropriate hedging arrangements.

## GROUP REORGANISATION AND LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 9th June, 2004.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 29th August, 2005.

The shares of the Company were listed on the Stock Exchange with effect from 5th October, 2005.

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

During the year ended 31st December, 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31st December, 2008, none of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save that Code Provision A.2.1 requires that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Sung Chung Kwun is the Chairman of the Board and there is no chief executive officer appointed by the Company and the day-to-day management of the Group is led by Dr. Sung Chung Kwun. There is no time schedule to change this management structure as the Directors consider that this management structure provides the Group with strong and consistent leadership in the Company's decision making and operational efficiency.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's final results for the year ended 31st December, 2008.

The audit committee of the Company has reviewed with the management of the Group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters and the final results for the year ended 31st December, 2008.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and related notes thereto for the year ended 31st December, 2008 as set out in this Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this Preliminary Announcement.

## PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2008 annual report containing all the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

## MEMBERS OF THE BOARD

As at the date of this announcement, the Board comprises Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Ip Siu Lam, Ms. Mok Pui Mei, Mr. Sung Kim Ping and Mr. Cheung Yung Fat, Albert as executive Directors, Mr. Lau Gary Q. as non-executive Director and Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling as independent non-executive Directors.

On behalf of the Board, I would like to express my heartfelt gratitude to our management team, staff and shareholders for their dedication and contribution to the Group in the past year.

By Order of the Board
**Sung Chung Kwun**
*Chairman*

Hong Kong, 17th April, 2009