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, 2011

HIGHLIGHTS OF FINAL RESULTS

- **Revenue for the year ended 31st December, 2011 reached approximately HK$1,291.8 million, represented a slight decrease of approximately HK$125.9 million or 8.9% as compared with last year.**

- **Profit for the year increased by approximately HK$18.8 million or 26.3% to approximately HK$90.3 million for the year ended 31st December, 2011.**

- **Allied with the net exceptional gain of HK$19.9 million for the year ended 31st December, 2011, the net profit for the year reached approximately HK$90.3 million.**

- **Earnings per share increased by around 22.1% to HK20.38 cents.**

- **The Directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31st December, 2011 to shareholders appearing on the register of members of the Company as at 31st May, 2012, which is subject to approval of the shareholders at the annual general meeting.**

FINAL RESULTS

The board (the "Board") of directors (the "Directors") of Addchance Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2011 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2011

	NOTES	**2011** HK$'000	2010 HK$'000
Revenue	4	**1,291,790**	1,417,661
Cost of sales		**(1,007,627)**	(1,144,798)
Gross profit		**284,163**	272,863
Other income		**14,827**	19,491
Other gains and losses		**19,852**	(742)
Selling and distribution costs		**(75,914)**	(67,356)
Administrative expenses		**(116,474)**	(119,701)
Finance costs		**(33,163)**	(25,052)
Profit before tax		**93,291**	79,503
Income tax expense	5	**(3,038)**	(8,072)
Profit for the year	6	**90,253**	71,431
Other comprehensive income for the year			
Exchange differences arising on translation of foreign operations		**46,069**	19,241
Total comprehensive income for the year		**136,322**	90,672
Profit for the year attributable to:			
Owners of the Company		**89,939**	71,272
Non-controlling interests		**314**	159
		90,253	71,431
Total comprehensive income attributable to:			
Owners of the Company		**136,008**	90,513
Non-controlling interests		**314**	159
		136,322	90,672
Earnings per share, in HK cents	8		
Basic		**20.38**	16.69

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,884**	1,936
Property, plant and equipment		**823,838**	734,115
Prepaid lease payments		**60,047**	58,653
Deposit paid for acquisition of prepaid lease payments and property, plant and equipment		**50,110**	20,134
Club debenture		**1,070**	1,070
Deferred tax assets		**159**	159
		937,108	816,067
CURRENT ASSETS			
Prepaid lease payments		**1,504**	1,437
Inventories		**782,497**	540,473
Trade receivables, bills receivable and other receivables, deposits and prepayments	*9*	**333,125**	295,322
Amounts due from related companies		**1,725**	191
Tax recoverable		**2,898**	–
Bank balances and cash		**156,903**	99,115
		1,278,652	936,538
Assets classified as held for sale		**–**	27,158
		1,278,652	963,696
CURRENT LIABILITIES			
Trade and other payables	*10*	**141,002**	244,997
Bills payable		**6,294**	32,773
Amounts due to non-controlling interests		**–**	175
Derivative financial instruments		**18,221**	–
Bank borrowings – due within one year		**967,486**	490,878
Tax liabilities		**3,418**	1,899
Bank overdrafts		**23,532**	–
		1,159,953	770,722
NET CURRENT ASSETS		**118,699**	192,974
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,055,807**	1,009,041

	2011	2010
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**4,413**	4,413
Reserves	**1,030,434**	907,664
Equity attributable to owners of the Company	**1,034,847**	912,077
Non-controlling interests	**1,621**	1,550
	1,036,468	913,627
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	**–**	74,535
Deferred tax liabilities	**19,339**	20,879
	19,339	95,414
	1,055,807	1,009,041

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. The beneficial owner of Powerlink Industries Limited is Dr. Sung Chung Kwun, an executive director and former Chairman of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 1 (Amendments)	Government Loans[2]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
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]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]

[1] *Effective for annual periods beginning on or after 1st July, 2011*
[2] *Effective for annual periods beginning on or after 1st January, 2013*
[3] *Effective for annual periods beginning on or after 1st January, 2015*
[4] *Effective for annual periods beginning on or after 1st January, 2012*
[5] *Effective for annual periods beginning on or after 1st July, 2012*
[6] *Effective for annual periods beginning on or after 1st January, 2014*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

  The directors anticipate that the adoption of IFRS 9 in the future will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities as at 31st December, 2011.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. The directors anticipate that the standard will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with IFRSs. 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

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised.

Specifically, the Group's operating and reportable segments under IFRS 8 are as follows:

1. Production and sale of cotton yarn

2. Production and sale of knitted sweaters

3. Production and sale of dyed yarns

4. Provision of dyeing services

5. Trading of cotton and yarns

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31st December, 2011

	Production and sale of cotton yarn *HK$'000*	Production and sale of knitted sweaters *HK$'000*	Production and sale of dyed yarns *HK$'000*	Provision of dyeing services *HK$'000*	Trading of cotton and yarns *HK$'000*	Total for reportable segments *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE								
External sales	**116,002**	**698,638**	**425,938**	**28,994**	**22,218**	**1,291,790**	**–**	**1,291,790**
Inter – segment sales	**199,164**	**–**	**243,738**	**24,562**	**137,453**	**604,917**	**(604,917)**	**–**
Segment revenue	**315,166**	**698,638**	**669,676**	**53,556**	**159,671**	**1,896,707**	**(604,917)**	**1,291,790**
SEGMENT PROFIT	**2,213**	**85,336**	**26,443**	**2,905**	**2,217**	**119,114**	**–**	**119,114**
Interest income								**415**
Rental income								**509**
Unallocated income								**12**
Unallocated expenses								**(23,198)**
Other gains and losses								**29,602**
Finance costs								**(33,163)**
Profit before tax								**93,291**

For the year ended 31st December, 2010

	Production and sale of cotton yarn *HK$'000*	Production and sale of knitted sweaters *HK$'000*	Production and sale of dyed yarns *HK$'000*	Provision of dyeing services *HK$'000*	Trading of cotton and yarns *HK$'000*	Total for reportable segments *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE								
External sales	184,381	606,261	558,614	36,167	32,238	1,417,661	–	1,417,661
Inter – segment sales	186,977	–	207,613	20,033	120,414	535,037	(535,037)	–
Segment revenue	371,358	606,261	766,227	56,200	152,652	1,952,698	(535,037)	1,417,661
SEGMENT PROFIT	15,601	76,838	24,750	4,238	2,558	123,985	–	123,985
Interest income								267
Rental income								608
Unallocated income								63
Unallocated expenses								(20,368)
Finance costs								(25,052)
Profit before tax								79,503

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**442,993**	589,917	**700,146**	604,425
Hong Kong	**204,945**	222,160	**17,519**	23,032
Other Asian countries	**71,175**	96,472	**219,284**	188,451
Europe	**523,411**	471,060	**–**	–
North America	**49,266**	38,052	**–**	–
	1,291,790	1,417,661	**936,949**	815,908

Included in revenue for customers located in Europe, amounts of HK$254,024,000 (2010: HK$119,803,000) and HK$34,589,000 (2010: HK$156,230,000) were arising from sales to customers based in United Kingdom and Netherlands, respectively.

Note: Non-current assets excluded deferred tax assets.

5. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**2,057**	4,940
– Overprovision in prior years	**(218)**	(784)
PRC Enterprise Income Tax – current year	**2,739**	3,519
	4,578	7,675
Deferred taxation		
– Current year	**(1,540)**	397
	3,038	8,072

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 1st January, 2008 onwards.

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 range from of 2002 to 2007. Accordingly, the Tax Holiday of these PRC subsidiaries have expired by 2011. The Tax Holiday continued to be applicable for the PRC subsidiaries after the EIT Law on Enterprise Income Tax was implemented.

Pursuant to the relevant laws and regulations in Cambodia, the profit generated from subsidiaries of the Company are entitled to exemption from the Cambodian Income Tax until 2018.

6. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting) the following items:		
Directors' remuneration	**7,491**	6,869
Other staff costs	**267,558**	242,696
Retirement benefits scheme contributions, excluding directors	**9,706**	7,750
Total staff costs	**284,755**	257,315
Amortisation of prepaid lease payments	**1,470**	1,437
Auditor's remuneration	**2,000**	2,000
Net exchange losses (included in other gains and losses)	**9,750**	742
Cost of inventories recognised as an expense	**1,007,627**	1,144,798
Depreciation of property, plant and equipment	**89,921**	90,034
Depreciation of investment properties	**52**	52
Written off on trade receivables	**127**	257
Written off on other receivables	**1,500**	1,500
and after crediting the following other income items:		
Interest income	**415**	267
Gain on disposal of property, plant and equipment	**12**	37
Gross rental income from investment properties	**509**	608
Less: direct operating expenses from investment properties that generated rental income during the year	**(114)**	(58)
	395	550

7. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year		
– 2010 Final dividend of HK3.0 cents (2010: 2009 final dividend of HK2.0 cents) per share	**13,238**	8,825

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 owners of the Company of HK$89,939,000 (2010: HK$71,272,000) and on the weighted average number of shares in issue during the year of 441,250,000 (2010: 427,010,000).

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

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

The Group generally allows credit period ranged from 30 days to 120 days to its trade customers.

At 31st December, 2011, included in trade receivables, bills receivable and other receivables, deposits and prepayments are trade receivables of HK$212,611,000 and bills receivable of HK$70,793,000 (2010: HK$230,100,000 and HK$22,252,000, respectively) and their aged analysis, presented based on the invoice date at the end of the reporting period is follows:

	2011	2010
	HK$'000	*HK$'000*
Aged:		
0 – 30 days	**133,846**	149,783
31 – 60 days	**64,882**	53,412
61 – 90 days	**33,673**	14,605
91 – 120 days	**26,738**	5,029
Over 120 days	**33,703**	38,961
	292,842	261,790
Less: Allowance for doubtful debts	**(9,438)**	(9,438)
	283,404	252,352
Prepaid expenses	**18,013**	17,927
VAT receivables	**8,284**	3,850
Deposits	**1,142**	1,021
Others	**22,282**	20,172
	333,125	295,322

Before accepting any new customer, 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 presented based on the invoice dates at the end of reporting period:

	2011	2010
	HK$'000	*HK$'000*
Aged:		
0 – 60 days	**36,073**	24,960
61 – 90 days	**6,322**	4,680
Over 90 days	**10,678**	11,488
	53,073	41,128
Receipt in advance	**22,624**	83,631
Deposit received from disposal of a subsidiary	**–**	34,535
Payable for acquisition of property, plant and equipment	**1,038**	10,423
Payable for acquisition of prepaid lease payments	**1,528**	1,457
Accrued expenses	**57,746**	67,577
VAT tax payables	**144**	1,673
Other payables	**4,849**	4,573
	141,002	244,997

BUSINESS REVIEW AND OUTLOOK

The global market was affected by the economic downturn in Europe and the United States. Shock waves from the European debt crisis were pending for further solution. Spending power in foreign countries was weakened. There was also an increase in production costs along with the appreciation of Renminbi ("RMB"), the rise in inflation and the increase in wages in the PRC. Given all these adverse environment, 2011 was relatively a challenging year. Despite this, the Group has made unwavering efforts to put into place a series of measures in this regard. Moreover, the Group has adhered to a strategy of vertical integration of production processes ranging from spinning, dyeing and knitting. This move helped us to reduce production costs, and brought complementary synergies among various production chains, thus significantly reinforcing the external competitive edges of the Group.

As part of internal strategy, the Group has also unswervingly sought for continued improvement and advancement through upgrade and transition of some of the traditional industries. Traditional manual-operated device has been transformed to fully-automated operation. For example, we have taken advantage of Xinjiang's predominance in cotton use and upgraded some of the cotton mill equipment. Automated textile machines have also been used to save manpower. Fully-automated, computer-operated knitting machines introduced from Germany have been increasingly employed for our sweater knitting business. The manual operation of 160 traditional crafts can be simply replaced with one skilled machinist and knitter. This can significantly boost productivity and quality, thus lowering production and labour costs. Efforts have been made to keep ahead of market changes and alleviate the continued rise in production costs. We have provided an assurance of superb services of total satisfaction for customers.

To address the acute problem of the global climate changes, the Group always expresses great concern about energy conservation and emission reduction, and plays an active role in protecting the environment. In the past year, the Group's plant in Zhangjiagang significantly reduced sewage discharge through increased application of sewage recycling facilities. To cultivate a green production culture across the Group, the Group has switched to the use of energy-efficient fluorescent tubes to substantially reduce lighting power consumption. The Group is also well aware that widespread energy-efficient operations can be promoted across all production segments. Accordingly, our green plant plans were unveiled in Cambodia plant last year. The design of the newly-built plant was based on the concept of energy efficiency and emission reduction.

In addition, the Group has made investment in Luoding City, Guangdong Province, the PRC for a couple of years. The export value has remained the top 5 in Yunfu prefecture-level city. During the year, the Group was awarded the "Enterprise with Outstanding Contribution in Luoding City" Award by the Luoding municipal government, in recognition of its contribution.

In line with the strategic move to achieve economic restructuring and industrial upgrading in Guangdong Province, the PRC, the Group has reconstructed an existing old plant occupying a site area of 201 mu into a commercial and residential district with gross floor area of 560,000 square metres. Written reply and consent have been received from the municipal government in respect of the redevelopment. Further, the transformation of the old plant into a residential and commercial land use has been granted with the land use right certificates by the Land Resources Bureau of Luoding City. At present, according to the valuation conducted by an valuer, based on the current market value of Luoding City of more than HK$2.70 million per mu, the market capitalization of the land is valued at about HK$550 million.

In 2011, despite the sluggish consumer sentiment in the external market, the domestic sales market in China sustained robust growth. During the year, orders for sweaters placed with the Group's Luoding plant from the domestic sales market recorded a growth to 1.50 million pieces, thus contributing to a business turnover of nearly RMB70 million. In light of the aforesaid, the Group plans to continue to expand the domestic sales and production scale of sweaters in 2012 in order to cater for the market demand.

As the debt crisis in Europe has not been fully resolved, the Group's vision for its sweater business is to explore and extend into foreign orders for United States brands, in order to enhance the Group's share in the export market, thereby balancing risk exposures among various regions around the world.

Finally, I would like to express my heartfelt thanks to the fellow members of the Board and the management team for their efforts and support towards the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to report the results of the Group for the year ended 31st December, 2011. The Group's consolidated revenue slightly decreased by approximately 8.9% to HK$1,291.8 million. Profit for the year derived from the core business of the Group was approximately HK$70.4 million with net profit margin of about 5.4%.

The European debt crisis and the slow recovery of US economy continue to affect the economy in the year under review. The operating environment of the textile industry was still full of challenges with the fluctuating raw material prices and the continuous appreciation of the RMB. Cotton prices achieved a record high in the first quarter of 2011 while it started to drop gradually after that as a result of the domestic and global macro-economic environment. Prices of cotton have dropped by over 40% since the first quarter of 2011. The fall in the cotton and cotton-related costs discouraged the customers from placing large orders in order to avoid pilling-up of the inventories. Downstream customers adopted a wait-and-see approach with the expectation that the downward trend will go on. As a result, the sales of the Group were being affected and it decreased accordingly for the year under review.

The fluctuation in cotton prices and other related raw material costs pose a change on our sales and inventory management strategies. Other direct manufacturing costs such as energy and wages also increased due to the inflation worldwide. However, being a one-stop service provider, the Group was still able to stabilize our supply chain and strengthen our control on raw material costs. Leveraging on our competitive strengths, the Group still managed to improve the gross profit margin. With the downward trend of cotton and cotton-related yarn costs, the Group deliberately increased both the cotton inventory and yarn inventory just before year end with the expectation that the pricing will turnaround after Lunar New Year.

In view of the upsurge of the raw material cost, we continuously adopted a new series of strategies to lock-in our profit margin without being affected by any sudden increase in cotton prices. The Group requested full deposits on cotton or yarn purchases in advance upon accepting new customers' orders. This deposit received in advance can lock-in the cotton costs and can neutralize the rising cost and maintain our margins at a stable level.

PROSPECTS

Cotton price has shown significant fluctuation during the year under review. Cotton and cotton-related prices are expected to increase steadily in the coming year. Therefore, the Group will continue to adopt series of strategies to lock-in the profit margin and will procure our raw materials in a timely and flexible manner according to the market conditions. The Group will proactively procure low-price cotton at each cycle to combat fluctuating raw material prices and to maintain the inventory at an optimal level for continued order flow and production. Our existing spinning arms in SuSong and Xinjiang do allow the Group to further sustain our cost advantages by providing stable supply chain at a lower controllable cost.

Sweater business still remained our most profitable business and therefore the Group will continue to increase its production capacity for the recovering export demand. Batches of computerized knitting machines were being imported to the PRC and Cambodia knitting manufacturing arms on schedule and were placed into operation since the second half of 2011. Furthermore, an environmental friendly factory was built in different phases in Cambodia to increase our production capacity of knitted sweaters and strengthen our competitive advantages towards those European customers. The establishment of this green factory is on good progress and we expect that this factory can further expand our customer base. Further, we will continue to raise the output per person by upgrading the automation of machinery and enhancing the overall production efficiency. With the weakening of the demand of those low-end products in the PRC, the Group will continue to focus on the production of those medium-to-high-end products so as to maintain our market share in this competitive environment. Also, the dominant contribution from the domestic market bode well the Group to increase our domestic sales in the PRC. Sales to the PRC markets would be expected to increase further thereafter.

Looking ahead, we expect that the global economy will continue to recover at a slow growth rate. The growth in the demand for cotton textile products in those European countries would be expected to slow down while the US economy will recover comparatively faster. On the other hand, it is believed that the domestic market will maintain a steady growth momentum. The prevailing tough operating environment will continue to exert pressures on industry players and poised for further industry consolidation. The Group will continue to enhance its competitive strengths to grasp the opportunities arising from this challenge and strive to implement further stringent cost control measures and streamline existing operations and structures to further enhance operational efficiency and profit margin.

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. The Group also started to expand our product base to hosiery products.

Total revenue for the year ended 31st December, 2011 was about HK$1,291.8 million. Comparing with the same last year, the revenue slightly decreased by around 8.9% for the year under review, decreased from HK$1,417.7 million to approximately HK$1,291.8 million for the year under review. Production and sales of knitted sweaters and dyed yarn remained as the principal operation of the Group.

Turnover of the sweater business increased by about 15.2%, from approximately HK$606.3 million during the year ended 31st December, 2010 to approximately HK$698.6 million during the year under review, representing approximately 54.1% of the Group's total turnover. Owing to soft market conditions, total sales volume was still maintained more or less the same as that in last year. With a focus on value-added products and improved product mix, average selling price increased by around 17.2% on a year-on-year basis. With the challenging operating environment and the fluctuating raw material costs, our existing vertically integrated infrastructure do enhance our competitive advantage. Our sweater business is being vertically benefited from our upstream spinning arms by utilizing the raw materials at a controllable and stable costs and in turn improving our profit margins. Revenue generated from sweater business increased mainly due to the increase in average selling price and our high-profit margin orders received increased during the year under review. Our sweater products were still mainly exported to Europe and the Group continues to expand our customer base to reduce our reliance on some customers. As a percentage of the revenue of sweater business, the sales made to our largest customer was approximately 13.3% this year as planned. Also, we gained new customers in the year 2011 and the PRC domestic sales also increased upon the signing of those strategic agreements with certain PRC customers. We are able to keep a balance between the PRC domestic sales and export sales in order to naturally hedge against the continuous appreciation of the RMB. Besides, textile products imported from Cambodia are subject to tax-free arrangement for those European customers and again strengthen the bargaining power of the Group.

Dyed yarn remains the core product of the Group. Turnover from the production and sale of dyed yarns for the year under review was approximately HK$425.9 million, which represented a decrease of approximately 23.8% as compared with the previous year and accounted for about 33.0% of the Group's total turnover. With the adoption of our new sales strategies towards uprising raw materials costs, the Group focused on those high-profit margin orders as well as the full deposits made on the raw materials at the same time. Therefore, this adjustment in the sales strategy made the average selling price per pound of dyed yarn increased by approximately 38.9% whereas the sales volume drop by around 46.6% due to the change in the product mix. With our competitive advantage of our self-owned upstream manufacturing facilities, the Group can provide stable and lower market cost yarn products for production of dyed yarns despite the fluctuating cotton costs for the year under review and in turn profit margin derived from dyed yarns segment increased. We continued to exercise tight cost controls and efficient order scheduling and production planning to streamline our existing operations and improve our profit margin.

In line with the consistent sales strategy, revenue generated from the provision of dyeing services also decreased from approximately HK$36.2 million during the year ended 31st December, 2010 to about HK$29.0 million during the year under review, representing a decrease of about 19.8% 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, the PRC. Sales proceeds from the PRC, Hong Kong and Macau accounted for approximately 95.0% of the Group's total sales proceeds derived from sales of dyed yarn. The remainder of the sales proceeds was derived from exports to overseas countries including Thailand, Taiwan, and Indonesia.

Production and sales of cotton yarns is another core segment of the Group following the series of expansion of our spinning facilities in Xinjiang and Anqing, the PRC. Revenue generated from cotton yarns decreased from approximately HK$184.4 million to approximately HK$116.0 million with around 37.1% decrease. During the year under review, the cotton prices recorded a highest point in the 1st quarter of 2011 and started to drop since the 2nd quarter of 2011. Therefore, the proportion of external and internal usage of cotton yarns was changed to prohibit the low-profit margin finished cotton yarns sales. With the decrease in the cotton yarns prices since the 2nd quarter, more cotton yarns products were consumed by the Group's downstream subsidiaries internally and lesser cotton yarns products were sold to outsiders in order to sustain the profit margin. Accordingly, the external utilization rate of the cotton yarn decreased from approximately 48.7% last year to approximately 36.1% during the year under review. The average selling price per ton increased by approximately 18.8% comparing with that in last year. The fluctuating cotton price caused the customers to adopt a wait-and-see approach and deferred the demand of downstream customers, and thus imposed pressure on the production and operation of our cotton-spinning manufacturing arm.

Cost of Sales

In line with the decrease in sales of approximately 8.9%, the cost of sales decreased further by around 12.0% from approximately HK$1,144.8 million for the year ended 31st December, 2010 to approximately HK$1,007.6 million for the year under review. Raw materials remained a major factor of the Group's cost of sales, standing at around 45.0% for the year under review with cotton and yarn making up 50% each respectively. With the increase in the minimum wages in the PRC, direct labour costs have increased by around 10.7% whereas the electricity charges and depreciation decreased, comparing with the same in last year.

Gross profit and gross profit margin

The Group recorded approximately HK$284.2 million in gross profit for the year under review, representing an increase of approximately 4.1% as compared with approximately HK$272.9 million for the year ended 31st December, 2010. During the year, the price of cotton and cotton-related products repeatedly broke new record highs and customers generally accepted increases in selling price of yarns products, which could compensate part of the increase in the costs of sales. With our improvement in the operation efficiency, factory utilization rate as well as other cost control measures, the Group still managed to improve the gross profit margin. The Group was able to pass part of the cost to the end-customers by raising the average selling price of various products. Allied with the change in product mix and with a focus on those value-added products, the average selling prices in each segment increased significantly, including approximately 38.9% increase in the price of dyed yarn, approximately 17.2% increase in the price of knitted sweaters and approximately 18.8% increase in the price of cotton yarns. The Group will continuously maintain a well-stocked inventory by proactively purchasing cotton at different cycles to stabilize our raw material costs.

Net profit margin

On 27th April, 2010, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of a subsidiary at a consideration of approximately HK$73.2 million (equivalent to RMB61.5 million). A gain of approximately HK$47.8 million from the disposal of this subsidiary was recognized for the year ended 31st December, 2011.

Excluding the effect of those exceptional gain and loss, an approximately HK$70.4 million net profit was achieved from the core business of the Group for the year under review and the net profit margin was around 5.4%. The Group will continuously overcome the challenges by sharpening its competitive strengths.

Other revenue

Other revenue of approximately HK$14.8 million mainly comprised the income derived from the disposal of scrapped materials and interest income.

Selling and distribution costs

Selling and distribution costs mainly included transportation cost, accessories and packing expenses. For the year under review, the Group's selling and distribution costs amounted to approximately HK$75.9 million, representing approximately 5.9% of the Group's turnover.

Administrative expenses

Administrative expenses of approximately HK$116.5 million, represented approximately 9.0% of the Group's turnover and mainly consisted of staff cost, which covered employees' salary and welfare, directors' remuneration, bank charges and depreciation.

Finance costs

Finance costs mainly comprised interests on bank borrowings and obligations under finance leases which remained at approximately HK$33.2 million, which represented approximately 2.6% of the Group's turnover.

Borrowings

As at 31st December, 2011, the Group had outstanding bank borrowings of approximately HK$991.0 million, which were due within one year.

Bank loans significantly increased by approximately HK$425.6 million, from approximately HK$565.4 million as at 31st December, 2010 to approximately HK$991.0 million as at year end. The increase was mainly attributable to the substantial increase in trade loans that involved most of the delivery of sweater products after year end. With the increase in the production lead time and the increase in the average selling price of those sweater orders, the trade loan associated with the sweaters orders increased significantly throughout the year. This kind of short-term trade loan would be released upon delivery was made. On the other hand, no material fluctuation is noted in the term loan amount with the absence of large-scale investment projects. Net gearing ratio, which represents bank borrowings net of bank balances and cash divided by net assets, increased from 0.51 as at 31st December, 2010 to 0.81 as at 31st December, 2011.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2011, the Group's cash and cash equivalents amounted to approximately HK$133.4 million, which increased slightly from HK$101.2 million last year. Total assets increased to approximately HK$2,215.8 million as at year end.

With the increase in procuring the raw materials during the year under review, net cash outflow in operating activities increased to around HK$165.8 million as at 31st December, 2011. Net cash used in investing activities increased to HK$150.9 million, together with the increase in net cash generated from bank loans raised, the cash and cash equivalents remained at around HK$133.4 million.

The Group mainly met its funding requirements in its usual course of operation by cash flows generated from operations, as well as long-term and short-term borrowings. The Group will focus on reducing the net gearing ratio continuously by improving profitability, procuring the disposal of non-core properties as well as the implementation of tighter control over costs, working capital and capital expenditure.

The sales and purchases of the Group were evenly denominated in Hong Kong dollar, US dollar and RMB respectively. Part of the effect of the appreciation of the RMB against the US dollar was 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 and the RMB remained a concern of the Group. To mitigate foreign currency risk, the Group will enter into appropriate hedging arrangements from time to time.

Stock turnover days

Stock turnover days of the Group for the year ended 31st December, 2011 was around 283 days, which substantially increased by around 111 days as compared with 172 days for the year ended 31st December, 2010. As at year end, batches of knitted panels were piled up for the delivery that will be made in the 1st quarter of 2012. Stock turnover days will go back to a similar level as the normal one at year end if we exclude this 1st quarter delivery. Further, our inventory level was deliberately increased in light of the fluctuating cotton cost in the market so as to keep the stable supply of the cotton and yarns for production. Prices of cotton was expected to increase steadily in the year 2012 and therefore we procure the cotton gradually throughout the year at a lower cost. Cotton yarns have also been piled up since March 2011. We expect that the Group's inventory will have a positive impact on its financial performance in the year ending 31st December, 2012 with the improvement in the textile products market.

Debtors' turnover days

The debtors' turnover days was kept at a similar level as that at year end at around 80 days. Credit control on debt collection and new customers selection procedures are still being handled in a stringent manner continuously. Generally, the Group offers credit terms of 30 days to 120 days to its trade customers subject to the trading history and the individual creditability of the customers.

Dividend Policy

The declaration of dividends is subject to the discretion of the Board and is expected to take into account various factors such as the Group's financial results, shareholders' interests, general business conditions and strategies, the Group's capital requirements, contractual restrictions on the payment of dividends by the Company to its shareholders or by the Group's subsidiaries to the Company, taxation considerations, possible effects on the Group's creditworthiness, statutory and regulatory restrictions and any other factors as the Board may deem relevant. The Directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31st December, 2011 to shareholders appearing on the register of members of the Company as at 31st May, 2012, which is subject to approval of the shareholders at the forthcoming annual general meeting.

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

During the year ended 31st December, 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31st December, 2011, 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 was the Chairman of the Board until 30th September, 2011 and was succeeded by Mr. Sung Kim Wa thereafter and there was no chief executive officer appointed by the Company and the day-to-day management of the Group was led by Dr. Sung Chung Kwun before 30th September, 2011 and by Mr. Sung Kim Wa after 30th September, 2011. There is no time schedule to change this structure, as the Directors consider that this structure provides the Group with strong and consistent leadership in the Company's decision making process and operational efficiency.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29th May, 2012 (Tuesday) to 31st May, 2012 (Thursday) (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 28th May, 2012 (Monday).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code for the year ended 31st December, 2011.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's final results for the year ended 31st December, 2011.

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, 2011.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2011 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

The 2011 annual report containing all the information required by the Listing Rules will be published on the Stock Exchange's website and the Company's website in due course.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board comprises Mr. Sung Kim Wa, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Sung Kim Ping, Ms. Sung Kit Ching and Mr. Ip Siu Lam 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.

ACKNOWLEDGEMENT

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
Mr. Sung Kim Wa
Chairman

Hong Kong, 28th March, 2012

As at the date of this announcement, (i) the executive Directors are Mr. Sung Kim Wa, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Sung Kim Ping, Ms. Sung Kit Ching and Mr. Ip Siu Lam; (ii) the non-executive Director is Mr. Lau Gary Q.; and (iii) the independent non-executive Directors are Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling.