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## **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, 2013**

#### **HIGHLIGHTS OF FINAL RESULTS**

- **Turnover for the year ended 31st December, 2013 reached approximately HK\$1,401.7 million, represented a slight decrease of approximately HK\$48.5 million or 3.3% as compared with the year ended 31st December, 2012.**
- **Profit attributed to equity shareholders for the year significantly increased from HK\$30.6 million to about HK\$59.5 million, net profit margin was improved to 4.2% for the year under review.**
- **The directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31st December, 2013 to shareholders appearing on the register of members of the Company as at 10th June, 2014, which is subject to approval of the shareholders at the annual general meeting.**

## 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, 2013 with comparative figures for the previous year as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2013

	NOTES	2013 HK\$'000	2012 HK\$'000
Revenue	4	1,401,667	1,450,209
Cost of sales		<u>(1,078,744)</u>	<u>(1,171,741)</u>
Gross profit		322,923	278,468
Other income		20,400	15,691
Other gains and losses		(750)	(5,291)
Selling and distribution costs		(97,187)	(82,844)
Administrative expenses		(141,069)	(135,001)
Finance costs		<u>(42,989)</u>	<u>(42,368)</u>
Profit before tax		61,328	28,655
Income tax (expense) credit	5	<u>(1,873)</u>	<u>1,906</u>
Profit for the year	6	<u>59,455</u>	<u>30,561</u>
<b>Other comprehensive income that may be subsequently reclassified to profit or loss for the year</b>			
Exchange differences arising on translation of foreign operations		<u>3,119</u>	<u>19,130</u>
Total comprehensive income for the year		<u><u>62,574</u></u>	<u><u>49,691</u></u>
Profit for the year attributable to:			
Owners of the Company		59,455	32,139
Non-controlling interests		<u>–</u>	<u>(1,578)</u>
		<u><u>59,455</u></u>	<u><u>30,561</u></u>
Total comprehensive income attributable to:			
Owners of the Company		62,574	51,269
Non-controlling interests		<u>–</u>	<u>(1,578)</u>
		<u><u>62,574</u></u>	<u><u>49,691</u></u>
Earnings per share, in HK cents			
Basic	8	<u><u>13.47</u></u>	<u><u>7.28</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2013

	NOTES	2013 HK\$'000	2012 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties		1,780	1,832
Property, plant and equipment		823,026	823,421
Prepaid lease payments		46,535	121,787
Deposit paid for acquisition of prepaid lease payments and property, plant and equipment		24,723	24,723
Club debenture		1,070	1,070
Other assets		15,899	15,899
Deferred tax assets		36	159
		<u>913,069</u>	<u>988,891</u>
<b>CURRENT ASSETS</b>			
Prepaid lease payments		2,509	2,293
Inventories		880,723	765,237
Trade receivables, bills receivable and other receivables, deposits and prepayments	9	654,138	619,841
Amounts due from related companies		3,543	2,278
Tax recoverable		218	3,213
Pledged bank deposits		46,296	–
Bank balances and cash		82,513	132,598
		<u>1,669,940</u>	<u>1,525,460</u>
Assets classified as held for sale		<u>108,963</u>	<u>–</u>
		<u>1,778,903</u>	<u>1,525,460</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	175,682	148,522
Bills payable		13,072	53,704
Deposit received from transfer of the operation rights of a subsidiary		184,774	–
Derivative financial instruments		19,845	20,199
Tax liabilities		3,007	4,149
Bank borrowings – due within one year		1,153,911	1,076,727
Bank overdrafts		17,564	25,506
		<u>1,567,855</u>	<u>1,328,807</u>
<b>NET CURRENT ASSETS</b>		<u>211,048</u>	<u>196,653</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,124,117</u>	<u>1,185,544</u>

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>4,413</b>	4,413
Reserves	<b>1,104,567</b>	1,072,880
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>1,108,980</b>	1,077,293
Non-controlling interests	<b>–</b>	43
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	<b>1,108,980</b>	1,077,336
	<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>15,137</b>	15,821
Deposit received from transfer of the operation rights of a subsidiary	<b>–</b>	92,387
	<hr/>	<hr/>
	<b>1,124,117</b>	1,185,544
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## 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 are 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, the former executive director and the 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 amendments to IFRSs issued by the International Accounting Standards Board.

Amendments to IFRSs	Annual Improvements to IFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, 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.

### ***IFRS 13 Fair Value Measurement***

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and nonfinancial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### ***Amendments to IAS 1 Presentation of Items of Other Comprehensive Income***

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2010 – 2012 Cycle <sup>4</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2011 – 2013 Cycle <sup>2</sup>
IFRS 9	Financial Instruments <sup>3</sup>
IFRS 14	Regulatory Deferral Accounts <sup>5</sup>
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities <sup>1</sup>
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
IFRIC – Int 21	Levies <sup>1</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1st January, 2014, with early application is permitted.*

<sup>2</sup> *Effective for annual periods beginning on or after 1st July, 2014, with early application is permitted.*

<sup>3</sup> *Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.*

<sup>4</sup> *Effective for annual periods beginning on or after 1st July, 2014, with limited exceptions.*

<sup>5</sup> *Effective for first annual IFRS financial statements beginning on or after 1st January, 2016.*

### **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, and further amended in 2013 to include the new requirements for hedge accounting.

***Key requirements of IFRS 9 are described as follows:***

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are 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 new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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, 2013.



### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared 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 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 revenue 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, 2013**

	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	Total for reportable segments	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE								
External sales	131,486	811,026	403,156	43,113	12,886	1,401,667	-	1,401,667
Inter-segment sales	155,847	-	326,624	22,406	190,431	695,308	(695,308)	-
Segment revenue	<u>287,333</u>	<u>811,026</u>	<u>729,780</u>	<u>65,519</u>	<u>203,317</u>	<u>2,096,975</u>	<u>(695,308)</u>	<u>1,401,667</u>
SEGMENT PROFIT	<u>(7,157)</u>	<u>93,075</u>	<u>31,913</u>	<u>2,608</u>	<u>(17,355)</u>	<u>103,084</u>	<u>-</u>	<u>103,084</u>
Interest income								680
Rental income								1,770
Unallocated expenses								(1,571)
Other gains and losses								354
Finance costs								(42,989)
Profit before tax								<u>61,328</u>

For the year ended 31st December, 2012

	Production and sale of cotton yarn <i>HK\$'000</i>	Production and sale of knitted sweaters <i>HK\$'000</i>	Production and sale of dyed yarns <i>HK\$'000</i>	Provision of dyeing services <i>HK\$'000</i>	Trading of cotton and yarns <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE								
External sales	154,076	879,342	363,038	33,396	20,357	1,450,209	–	1,450,209
Inter-segment sales	173,191	–	222,285	17,435	129,331	542,242	(542,242)	–
Segment revenue	<u>327,267</u>	<u>879,342</u>	<u>585,323</u>	<u>50,831</u>	<u>149,688</u>	<u>1,992,451</u>	<u>(542,242)</u>	<u>1,450,209</u>
SEGMENT PROFIT	<u>(4,378)</u>	<u>73,672</u>	<u>18,230</u>	<u>5,331</u>	<u>471</u>	<u>93,326</u>	<u>–</u>	<u>93,326</u>
Interest income								668
Rental income								754
Unallocated expenses								(21,747)
Other gains and losses								(1,978)
Finance costs								(42,368)
Profit before tax								<u>28,655</u>

### ***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	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
PRC	<b>458,919</b>	469,259	<b>568,178</b>	719,199
Hong Kong	<b>193,058</b>	188,344	<b>26,594</b>	28,942
Other Asian countries	<b>147,450</b>	157,949	<b>318,261</b>	240,591
Australia	<b>2,070</b>	28,891	–	–
Europe	<b>548,614</b>	586,517	–	–
North America	<b>51,556</b>	19,249	–	–
	<u><b>1,401,667</b></u>	<u>1,450,209</u>	<u><b>913,033</b></u>	<u>988,732</u>

Included in revenue for customers located in Europe, amounts of HK\$301,114,000 (2012: HK\$294,360,000), HK\$37,315,000 (2012: HK\$42,623,000), HK\$53,674,000 (2012: HK\$30,650,000) and HK\$181,000 (2012: HK\$21,719,000) were arising from sales to customers based in United Kingdom, France, Germany and Netherlands, respectively.

## 5. INCOME TAX EXPENSE (CREDIT)

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax		
– Current year	618	1,275
– Under (over) provision in prior years	555	(391)
PRC Enterprise Income Tax – current year	<u>1,261</u>	<u>728</u>
	2,434	1,612
Deferred taxation		
– Current year	<u>(561)</u>	<u>(3,518)</u>
	<u><u>1,873</u></u>	<u><u>(1,906)</u></u>

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 years of these PRC subsidiaries range from of 2002 to 2007. Accordingly, the Tax Holiday of these PRC subsidiaries have expired by 2012.

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

## 6. PROFIT FOR THE YEAR

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration	9,606	8,440
Other staff costs	349,724	297,126
Retirement benefits scheme contributions, excluding directors	<u>10,611</u>	<u>9,497</u>
Total staff costs	<u>369,941</u>	<u>315,063</u>
Amortisation of prepaid lease payments	2,996	2,266
Auditor's remuneration	2,200	2,100
Cost of inventories recognised as an expense	1,078,744	1,171,741
Depreciation of property, plant and equipment	92,044	90,562
Depreciation of investment properties	52	52
Written off on trade receivables	221	891
Written off on other receivables	594	1,500
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(1,883)	11
Interest income (as included in other income)	680	668
Gross rental income from investment properties (as included in other income)	1,770	754
Less: direct operating expenses from investment properties that generated rental income during the year	<u>(189)</u>	<u>(102)</u>
	<u><u>1,581</u></u>	<u><u>652</u></u>

## 7. DIVIDENDS

	<b>2013</b>	2012
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Dividend recognised as distribution during the year		
– 2012 Final dividend of HK2.0 cents (2012: 2011 final dividend of HK2.0 cents) per share	<b>8,823</b>	8,823
– 2012 Special dividend of HK3.0 cents per share	<b>13,240</b>	–
– 2013 Interim dividend of HK2.0 cents (2012: nil) per share	<b>8,824</b>	–
	<hr/> <b>30,887</b> <hr/>	<hr/> 8,823 <hr/>

During the year ended 31st December, 2013, a final dividend of HK2.0 cents and a special dividend of HK3.0 cents per share in respect of the year ended 31st December, 2012 (2012: final dividend of HK2.0 cents in respect of the year ended 31st December, 2011) and an interim dividend of HK2.0 cents per share in respect of the six months ended 30th June, 2013 (six months ended 30th June, 2012: nil) were declared and paid to the owners of the Company.

Subsequent to the end of the current reporting period, a final dividend in respect of the year ended 31st December, 2013 of HK2.0 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

## 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\$59,455,000 (2012: HK\$32,139,000) and on the number of shares in issue during the year of 441,250,000 (2012: 441,250,000).

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, 2013, included in trade receivables, bills receivable and other receivables, deposits and prepayments are trade receivables of HK\$522,108,000 and bills receivable of HK\$71,507,000 (2012: HK\$449,280,000 and HK\$134,760,000, respectively) and their aged analysis, presented based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates, is as follows:

	<b>2013</b>	2012
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Aged:		
0 – 30 days	<b>327,869</b>	266,875
31 – 60 days	<b>85,415</b>	109,614
61 – 90 days	<b>81,863</b>	90,001
91 – 120 days	<b>20,051</b>	51,374
Over 120 days	<b>87,855</b>	75,614
	<b>603,053</b>	593,478
<i>Less: Allowance for doubtful debts</i>	<b><i>(9,438)</i></b>	<i>(9,438)</i>
	<b>593,615</b>	584,040
Prepaid expenses	<b>13,876</b>	15,432
VAT receivables	<b>16,876</b>	5,297
Deposits	<b>2,166</b>	1,279
Others	<b>27,605</b>	13,793
	<b>654,138</b>	619,841

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:

	<b>2013</b>	2012
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Aged:		
0 – 60 days	<b>35,957</b>	40,229
61 – 90 days	<b>13,195</b>	4,064
Over 90 days	<b>21,204</b>	15,700
	<b>70,356</b>	59,993
Receipt in advance from customers	<b>9,249</b>	7,096
Accrued expenses	<b>74,387</b>	70,274
VAT tax payables	<b>788</b>	2,238
Other payables	<b>20,902</b>	8,921
	<b>175,682</b>	148,522
Trade and other payables shown under current liabilities	<b><u>175,682</u></b>	<b><u>148,522</u></b>

## **BUSINESS REVIEW**

In 2013, the European and U.S. market and economy had bottomed out, the adoption of exit strategy by the U.S. Federal Reserve had led to economic turmoil in some emerging markets, as shown by the relatively greater volatility in currency values as well as apparent changes in the prices of assets such as stocks and bonds in these emerging economies. Under this environment, there were hidden financial and political risk exposures in the international market, resulting in lingering heightened uncertainties around the globe. Meanwhile, in view of the inflation as well as the continued rise in wages, raw material costs and production costs domestically, the Group has begun to streamline its production in the PRC through re-allocation and integration of resources in various regions. Leveraging on our manpower, policies and resources in Cambodia, we stepped up efforts on developing our sweater dyeing and finishing business.

In addition, the reinforcement of control and requirements on imported goods was an important step taken by the governments around the world in line with their concern over the very essence of environmental protection. Moreover, people are becoming increasingly aware of the importance of energy conservation and emission reduction in order to protect the environment. Along with this trend, the adoption of a wide array of environmental protection initiatives by manufacturers in their supply chains would be much cherished by customers, who are no longer simply care about their personal health and safety. Over the past years, we carried out upgrades in our production facilities in compliance with the standard of the British Martha's Environmental Protection Plan A. As a successful example, in 2013, our Cambodian plant became the Group's first eco-friendly green plant, making use of natural resources, ambient lighting board illumination that is resistant to strong ultraviolet light and insulation materials. The plant is equipped with water curtain facilities that reduce indoor temperature as well. With garbage classification, environment greening and use of energy-efficient facilities that reduce power consumption, the plant can help us to reduce carbon dioxide emissions. Capitalizing on a couple of features and facilities of the green plant, the Group can save power consumption by at least 20% when compared with traditional plants. The green plant is set to bring more cost-effective contribution to the Group in the long run. For our future plans, we will consider the extension of these green standards to other production plants.



On the other hand, with respect to the requirements for products or raw materials, the focus of the market is no longer simply placed on product safety such as the control over hazardous substances and environmental friendliness. Rather, the emphasis of the market is put on environmentally-friendly goods with sustainability, such as BCI cotton. The goals are to reduce water consumption, achieve pesticide-free and fertilizer-free production, improve human health and environmental health, enhance soil quality and ecological balance, reap economic benefits for farmers, and promote clean cotton production across the world. In 2012, we took the first-mover step to become a member of Better Cotton Initiative (BCI). After two years of active development, the Group became one of a few BCI approved suppliers in Mainland China. The Group's current controllable BCI cotton production volume exceeds 50,000 mu of farmland, with annual output of BCI cotton of up to 8,000 tons. The Group's resources and capacity would provide a strong support to its leading status in the production of BCI cotton-related products.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

We are pleased to report the audited results of the Group for the year ended 31st December, 2013. The Group's consolidated revenue slightly decreased by approximately 3.3% to HK\$1,401.7 million. Profit attributable to equity shareholders derived from the core business of the Group was approximately HK\$59.5 million, representing approximately 4.2% of the net profit margin.

The operating environment of the world's textile and garment industry showed recovery since the beginning of 2013. Market demands from European customers increased significantly while the orders from the PRC dropped as expected. Our average selling price was kept steady despite the competitive environment. Our production capacity increased with the expansion of our green factory in Cambodia and the corresponding production costs were generally averaged down. Overall baseline was much improved for 2013.

Sweater business is still the most profitable business of the Group and we have been continuing to increase our production capacity to cope with the recovering export demand. Our first green factory in Cambodia was completed by the end of 2012 and has commenced operation in the first quarter of 2013. Production capacity was increased as planned in 2013. According to China National Textile and Apparel Council, China has started working towards building a greener environment in the coming years to develop a sustainable growth strategy for the local textile industry. This, to a large extent, synchronizes with our development plan. Our green factory, which was inspired by our customer, Marks and Spencer, was established under the concept of reuse, reduce and recycle. By using environmental-friendly materials and implementing green production process, we aim to achieve better energy conservation and minimize daily disposals. We have received the recognized environmental-related permits as planned. Full operation was commenced in 2013 and the production costs were averaged down. The establishment of the green factory not only increased our production capacity but also strengthened our competitive advantages towards those EU customers. We expect that we can launch new environmental-friendly product with higher average selling price in order to maintain our market share in this competitive environment. As the pioneer in green textile manufacturing, we will use our best endeavour to optimize the overall production efficiency as well as making contributions to create a greener and more environmental-friendly industry in the future. We will also endeavour to increase the output per person by upgrading the automation of machineries and enhancing the overall production efficiency and optimize our value chain and operation efficiency.

On 29th June, 2012, the Group entered into an Operation Right Transfer Agreement with third parties to transfer the operating right of Luoding Addchance Limited, one of its subsidiaries in the PRC which is principally engaged in the business of property development. The consideration of this transfer was approximately HK\$554.3 million and will be payable by six installments within 5 years commencing from July 2012. As of 31st December, 2013, we have received 2 instalments of payment in the aggregate sum of approximately HK\$184.8 million. This transfer further strengthens the cash flow position of the Group and will pose a positive impact to the Group's net profit upon completion date.

## PROSPECTS

The market condition for textile industry remained difficult in 2013. The profit of some enterprises slumped and the inventories of franchisees remained heavy, mainly due to the rising raw material prices, reduced purchasing power of the end market as well as real estate control policies. Growth of major industry players was curbed and sentiment remained sluggish. The upsurge in the production costs in the PRC has become a trend in the coming years and this also brings opportunities to the Group. Our manufacturing plant has been established in Cambodia for a number of years and we can enjoy the cost benefits of the human resources in Cambodia and the import tariff concessions from EU and Japan. These factors strengthened our bargaining power of orders received from EU and Japan. Therefore, further development in Cambodia would be our focus in the coming years.

Looking ahead, the global economy will undoubtedly remain uncertain. However, with our focus on Cambodia development, we can, not only hedge against the difficulties of continuously rising production costs in the PRC, but also sharpen our competitiveness on procuring orders from EU and Japan. The long established spinning arms in SuSong and Xinjiang also bode well for the Group on the upstream raw materials supply. Demand for middle and high-end textile products is expected to grow with the growing China domestic consumption. As guided by the 12th Five-Year Plan of the PRC government, textile industry is believed to undergo significant reorganization and transformation. With the better industrial environment, we believe that China will continue to be one of the largest textile manufacturers and exporters in the world, bringing in huge business opportunities for the players.

Being a member of Better Cotton Initiative (“BCI”), the Group aimed to diversify our products variety by reducing the amount of water and chemicals used to grow cotton and improve social and economic benefits for cotton farmers. Working with this international social organization, the Group not only can diversify our products variety but can also take the responsibility for community care. Production of those BCI products has already been started in 2013 from our spinning production arms. We expect that we can continue to strengthen our production technology on value-added yarns in the coming years.

By combining our expertise in production and our efficiency in production capability through full vertical integration, we are capable of delivering an innovative portfolio of products and services with unsurpassed quality. Specializing in the manufacture of dyed yarns and knitted sweaters, we have been recognized by international accreditation organizations for our dedication and commitment to our customers. Further, by leveraging on our new cash flow stream derived from the Operation Right Transfer Agreement, we believe that we are in a much better position to grasp any market opportunities, to mitigate the impacts of the market's current volatility and to maintain our leading position in the global cotton textile industry.

## **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 aforesaid products, and knitted sweaters including cardigans and pullovers as well as socks and hosiery products.

Total revenue for the year ended 31st December, 2013 was approximately HK\$1,401.7 million. Comparing with the same for the year ended 31st December, 2012, the revenue slightly dropped by approximately 3.3% for the year under review, decreased from HK\$1,450.2 million to approximately HK\$1,401.7 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 slightly decreased by approximately 7.8%, from approximately HK\$879.3 million in the year ended 31st December, 2012 to approximately HK\$811.0 million during the year under review, representing approximately 57.9% of the Group's total turnover. During the year under review, the Group's sales growth of sweater business was mainly driven by the increased orders from EU and Japan while the domestic sales from the PRC decreased as expected with continuing rising labour costs in the PRC. As a result, the overall sales generated from sweater business was slightly affected. The Group strategically shifted the sales focus from the PRC to EU customers by utilizing the competitive advantages of the low labour cost in our Cambodia factories. Such competitive advantages allowed the Group to grasp greater market shares. New customers were gained from Europe, Australia and Japan strategically. 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. Our sweater products were still mainly exported to Europe and the Group continues to expand our customer base to reduce its reliance on some customers. With the expansion of our green factory in Cambodia, the Group will focus our production products on those middle to high-end textile products. Beside, textile products imported from Cambodia are subject to tax exemption for those European customers and again strengthen the bargaining power of the Group.

Sales generated from the production and sales of dyed yarn increased by approximately 11.1%, from approximately HK\$363.0 million during the year ended 31st December, 2012 to approximately HK\$403.2 million for the year under review, representing approximately 28.8% of the Group's total turnover. Similar as the results in the interim period, the improvement of the dyed yarn performance was again due to the picking up of cotton and cotton related raw materials. The average selling price of dyed yarn remained at the same level as that during the year ended 31st December, 2012 while the sales volume made from dyed yarn increased by approximately 10.6%. With our competitive advantage gained from our self-owned upstream manufacturing facilities, the Group can provide stable supply on those yarn products for the production of dyed yarns and we continued to exercise tight cost controls and efficient order scheduling and production planning in order to streamline our existing operations and improve our profit margins.

Production and sales of cotton yarns is another core business segment of the Group. Revenue generated from sales of cotton yarns decreased further in the second half of 2013 by approximately 14.7% to approximately HK\$131.5 million. Sales volume of cotton yarns decreased by approximately 10.1% whereas the average selling price recorded a decrease of approximately 5.1%. With the drop in cotton price and the change in the procurement strategy and inventory control strategy, less sales of cotton yarns were made for the year under review. As a result, the external utilization rate of the cotton yarns increased to 50.0% for the year under review.

Revenue generated from the provision of dyeing services increased slightly from HK\$33.4 million during the year ended 31st December, 2012 to approximately HK\$43.1 million for the year under review. Most of the Group's dyed yarn was sold to the PRC and Hong Kong manufacturers with production sites based in Guangdong, Jiangsu and Zhejiang Provinces. Sales proceeds from the PRC, Hong Kong and Macau accounted for over 95% of the Group's total sales proceeds from dyed yarn. The remainder of the sales proceeds was from exports to overseas countries including Thailand, Taiwan, and Indonesia.

## **Cost of Sales**

With the slight decrease in sales of approximately 3.3%, the cost of sales decreased further by approximately 7.9% for the year under review. With the expansion of the production capacity in Cambodia, the change in product mix, the strengthening of our yarns procurement strategies and improvement in the wastage percentage during the production cycles, the raw materials consumed per unit of products decreased comparing with the same during the year ended 31st December, 2012. Direct labour costs and other factory overheads kept increasing but at a controllable level.

## **Gross profit and gross profit margin**

The Group recorded gross profit of approximately HK\$322.9 million for the year under review, with gross profit margin at approximately 23.0%. It improved by about 3.8 percentage points comparing with the gross profit margin of 19.2% during the year ended 31st December, 2012. The Group's production facilities in Cambodia had been operating in full capacity to accommodate the recovered orders from EU and Japanese customers. As a result, the production efficiency had been further improved due to economies of scale. The Group is able to leverage on the cost advantage of our production base in Cambodia and optimize our product mix, thus achieving an enhancement on the profit margin. On the other hand, the Group was still able to pass part of cost to end-customers by raising the average selling price of knitted sweaters products by our focusing on those high-valued products during the year. The Group will continuously try to manage the gross profit margin by improving the operation efficiency as well as factory utilization rate.

## **Net profit margin**

A net profit of approximately HK\$59.5 million was derived from the core business of the Group, with net profit margin of approximately 4.2%. During the year under review, the Group successfully leveraged on the cost advantage and thus allow the Group to improve our profit margin. The Group will continuously overcome the challenges by sharpening its competitive edge.

## **Other income**

Other income of approximately HK\$20.4 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\$97.2 million, representing approximately 6.9% of the Group's turnover.

## **Administrative expenses**

Administrative expenses of approximately HK\$141.1 million mainly consisted of staff cost, which covered employees' salary and welfare, directors' remuneration, bank charges and depreciation. It represented approximately 10.1% of the Group's turnover.

## **Finance costs**

Finance costs mainly comprised interests on bank borrowings and obligations under finance leases which remained at approximately HK\$43.0 million, which represented approximately 3.1% of the Group's turnover. Finance costs were kept at a stable level as that during the year ended 31st December, 2012.

## **Borrowings**

As at 31st December, 2013, the Group had outstanding bank borrowings of approximately HK\$1,171.5 million, which was classified as falling due within one year. The amount of outstanding bank borrowings was at a similar level as that on 31st December, 2012 but decreased comparing with the outstanding bank borrowings in the amount of HK\$1,223.9 million as at 30th June, 2013. Amongst the total bank borrowings, approximately HK\$433.1 million was in term loan nature and approximately HK\$738.4 million was in trade nature. Amongst the total term loan amount of HK\$433.1 million, there was approximately HK\$90.4 million that were repayable in more than one year but not more than five years from 31st December, 2013 but contain a repayment on demand clause in the loan agreements. According to the repayment schedules of the respective loan agreement, approximately HK\$90.4 million will be repayable within 2 to 5 years. The proceeds of the loan were mainly used for the purchases of additional knitting machineries in Cambodia and the PRC production bases while the trade loan mainly comprised those financing arrangements for delivery of sweaters products. It would be released upon the delivery of those goods sold.

Net gearing ratio, which represents bank borrowings net of pledged bank deposits and bank balances and cash divided by net assets, was 0.94, remained at the same level as that on 31st December, 2012.

The transfer of the operating right of Luoding Addchance Limited will strengthen the cash inflow position of approximately HK\$554.3 million in 5 years. 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 implementing tighter control over costs, working capital and capital expenditure.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31st December, 2013, the Group's cash and cash equivalents amounted to approximately HK\$64.9 million, which decreased from HK\$107.1 million as at 31st December, 2012. Total assets increased to approximately HK\$2,692.0 million as at 31st December, 2013.

Less cash was used in operating activities for the year under review with the improvement on the operating profit for the year. Besides, less cash was used in investing activities this year and no material acquisition plan was made for the year under review. With the decrease in net cash generated from financing activities, the net cash and cash equivalents decreased to approximately HK\$64.9 million as at 31st December, 2013.

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. In June 2012, the Group entered into an Operation Right Transfer Agreement with third parties to transfer the operating right of one of its PRC subsidiaries at the consideration of approximately HK\$554.3 million in order to dispose of those non-core business. This disposal will strengthen the cash inflow position of the Group in the coming years.

The daily business transactions of the Group were evenly denominated in Hong Kong dollar, US dollar and Renminbi. Part of the effect of the appreciation of the Renminbi 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 Renminbi 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, 2013 was approximately 298 days, which lengthened by approximately 60 days as compared with 238 days for the year ended 31st December, 2012. Similar as interim period, the lengthening of the production lead time for our major customers also increased our stock turnover days. The Group will continuously monitor its inventory level to a secure level in the coming year.

### **Debtors' turnover days**

The debtors' turnover days was lengthened by 8 days from 147 days for the year ended 31st December, 2012 to 155 days for the year ended 31st December, 2013. Credit control on debt collection and new customers selection procedures are still being made 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 credibility of the customers.

### **Dividend Policy**

The declaration of dividends is subject to the discretion of the Directors 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 Directors may deem relevant. The Company has declared an interim dividend of HK2.0 cents per share during the six months ended 30th June, 2013. The directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31st December, 2013 to shareholders appearing on the register of members of the Company as at 10th June, 2014, 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, 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

## **CORPORATE GOVERNANCE**

During the year ended 31st December, 2013, 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 Corporate Governance Code 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. Mr. Sung Kim Wa is the chairman of the Company and there was no chief executive officer appointed by the Company and the day-to-day management of the Group was led by Mr. Sung Kim Wa. 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**

For the purposes of ascertaining shareholders’ entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 28th May, 2014 (Wednesday) to 30th May, 2014 (Friday) (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for 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 4:30 p.m. on 27th May 2014 (Tuesday).

The Directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31st December, 2013 to those shareholders of the Company whose names appear on the register of members of the Company at the close of business on 10th June, 2014 (Tuesday) (the “Record Date”), subject to the passing of the relevant resolution at the forthcoming annual general meeting. For the purposes of ascertaining shareholders’ entitlement to the final dividend, the register of members of the Company will be closed from 6th June, 2014 (Friday) to the Record Date, i.e. 10th June, 2014 (Tuesday) (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, 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 4:30 p.m. on 5th June, 2014 (Thursday).

## **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, 2013, save and except that Ms. Sung Kit Ching failed to notify the director designated by the Board and received a dated written acknowledgment before she disposed of an aggregate of 470,000 shares in the Company on 21 October 2013, 22 November 2013, 26 November 2013 and 27 November 2013. Ms. Sung Kit Ching was reminded of the procedural requirements for directors to deal with the shares of the Company.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the Group's final results for the year ended 31st December, 2013. 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, 2013.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st December, 2013 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 2013 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 (i) the executive Directors are Mr. Sung Kim Wa (Chairman), Mr. Sung Kim Ping, Mr. Wong Chiu Hong, Ms. Sung Kit Ching, Mr. Ip Siu Lam and Mr. Tsang Fai; (ii) the independent non-executive Directors are Mr. Chan Tsz Fu, Jacky, Mr. Zhuang Zhongxi and Ms. Huang Yunjie.

## **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, 2014

*As at the date of this announcement, (i) the executive Directors are Mr. Sung Kim Wa (Chairman), Mr. Sung Kim Ping, Mr. Wong Chiu Hong, Ms. Sung Kit Ching, Mr. Ip Siu Lam and Mr. Tsang Fai; (ii) the independent non-executive Directors are Mr. Chan Tsz Fu, Jacky, Mr. Zhuang Zhongxi and Ms. Huang Yunjie.*