福田實業(集團)有限公司
Fountain Set (Holdings) Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 420)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST AUGUST, 2011

The Board of Directors announces that the audited consolidated results of the Company and its subsidiaries (the "Group ") for the year ended 31st August, 2011 are as follows:

CONSOLIDATED INCOME STATEMENT

	NOTES	2011	2010
		HK$'000	HK$'000
Revenue	2	**7,593,889**	6,148,949
Cost of sales		**(6,429,052)**	(5,154,109)
Gross profit		**1,164,837**	994,840
Other income		**54,967**	70,351
Gain on disposal of property interests		**-**	96,387
Reversal of impairment loss on property, plant and equipment		**-**	1,813
Distribution and selling expenses		**(189,496)**	(244,071)
Administrative expenses		**(613,459)**	(560,564)
Other expenses		**(22,281)**	(59,006)
Finance costs	3	**(71,589)**	(48,201)
Impairment loss on assets classified as held for sale		**-**	(1,801)
Impairment loss on property, plant and equipment		**-**	(419)
Net gain on disposal of subsidiaries		**20,212**	766
Profit before taxation		**343,191**	250,095
Income tax expense	4	**(103,473)**	(6,516)
Profit for the year	5	**239,718**	243,579
Profit for the year attributable to:			
Owners of the Company		**210,886**	223,798
Non-controlling interests		**28,832**	19,781
		239,718	243,579
		HK cents	HK cents
Earnings per share	7		
Basic		**26.6**	28.2
Diluted		**26.6**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011 HK$'000	2010 HK$'000
Profit for the year	**239,718**	243,579
Other comprehensive income (expense):		
Exchange differences arising on translation of foreign operations	**7,835**	29,316
Reclassification adjustment of translation reserve upon disposal of subsidiaries	**(5,166)**	(766)
Other comprehensive income for the year	**2,669**	28,550
Total comprehensive income for the year	**242,387**	272,129
Total comprehensive income for the year attributable to:		
Owners of the Company	**209,246**	239,444
Non-controlling interests	**33,141**	32,685
	242,387	272,129

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At 31st August, 2011 HK$'000	At 31st August, 2010 HK$'000 (restated)	At 1st September, 2009 HK$'000 (restated)
Non-current assets				
Investment properties		**-**	-	12,755
Property, plant and equipment		**2,155,311**	2,328,801	2,293,055
Prepaid lease payments - non-current portion		**119,207**	125,324	129,491
Consideration receivable - non-current portion	8	**-**	-	168,672
Deferred tax assets		**25,689**	25,309	16,111
		2,300,207	2,479,434	2,620,084
Current assets				
Inventories	9	**1,683,454**	1,938,592	1,180,756
Trade and bills receivables	10	**1,275,741**	1,372,026	1,135,082
Prepayments, deposits and other receivables		**214,193**	209,979	217,108
Prepaid lease payments - current portion		**2,732**	2,812	2,848
Consideration receivable - current portion	8	**-**	171,283	64,042
Derivative financial instruments		**4,984**	2,514	-
Tax recoverable		**3,039**	18,957	26,267
Bank deposits with restricted use		**-**	-	2,127
Short-term bank deposits		**106,075**	42,438	58,015
Bank balances and cash		**1,018,477**	627,938	742,400
		4,308,695	4,386,539	3,428,645
Assets classified as held for sale		**-**	-	5,493
		4,308,695	4,386,539	3,434,138
Current liabilities				
Trade and bills payables	11	**698,433**	867,513	610,859
Other payables and accruals		**320,661**	331,771	279,133
Amounts due to non-controlling shareholders		**80,100**	80,100	80,100
Consideration payable - current portion	12	**23,501**	58,446	28,672
Deferred income - current portion		**1,458**	1,458	1,458
Derivative financial instruments		**108**	773	-
Tax payable		**131,311**	26,187	20,572
Restructuring provisions		**-**	730	4,689
Bank borrowings - due within one year		**1,443,532**	1,604,591	839,538
Bank overdrafts		**-**	3,386	969
		2,699,104	2,974,955	1,865,990
Net current assets		**1,609,591**	1,411,584	1,568,148
Total assets less current liabilities		**3,909,798**	3,891,018	4,188,232

	NOTE	**At 31st August, 2011 HK$'000**	At 31st August, 2010 HK$'000 (restated)	At 1st September, 2009 HK$'000 (restated)
Non-current liabilities				
Consideration payable - non-current portion	12	**-**	-	46,316
Deferred income - non-current portion		**67,080**	68,538	69,996
Derivative financial instruments		**45,583**	54,389	30,898
Bank borrowings - due after one year		**755,854**	951,275	1,489,018
Deferred tax liabilities		**3,055**	3,721	3,247
		871,572	1,077,923	1,639,475
Net assets		**3,038,226**	2,813,095	2,548,757
Capital and reserves				
Share capital		**158,802**	158,802	158,802
Reserves		**2,679,224**	2,474,523	2,235,079
Equity attributable to owners of the Company		**2,838,026**	2,633,325	2,393,881
Non-controlling interests		**200,200**	179,770	154,876
Total equity		**3,038,226**	2,813,095	2,548,757

NOTES

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are mandatorily effective for the current financial year.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st September, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively. This resulted in the Group's prepaid lease payments with the carrying amounts of HK$9,266,000 and HK$9,021,000 as at 1st September, 2009 and 31st August, 2010, respectively, being reclassified to property, plant and equipment. Therefore, the carrying amount of the Group's property, plant and equipment as at 1st September, 2009 increased from HK$2,283,789,000 to HK$2,293,055,000 and the carrying amount of the Group's property, plant, and equipment as at 31st August, 2010 increased from HK$2,319,780,000 to HK$2,328,801,000.

1. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued**

Amendments to HKAS 17 "Leases" - continued

As at 31st August, 2011, leasehold land that qualifies for finance lease classification with the carrying amount of HK$8,776,000 has been included in the Group's property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the Group's reported profit or loss or earnings per share figures for the current and prior years and on the Company.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax Recovery of Underlying Assets[5]
HKAS 19 (as revised in 2011)	Employee Benefits[3]
HKAS 24 (as revised in 2009)	Related Party Disclosures[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[3]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[1]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[3]

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

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. REVENUE AND SEGMENT INFORMATION

The board of directors of the Company, i.e. the chief operating decision maker, regularly reviews the operating results and financial information based on distinct geographical areas of location of customers, including Hong Kong (place of domicile of the Group), the People's Republic of China (the "PRC"), Taiwan, Korea, Sri Lanka, America, Europe and Others (i.e. representing other geographical locations mainly Singapore and Macau). All of these geographical areas are operating segments except "Others" which is an aggregation of operating segments.

The following is an analysis of the Group's revenue and profit from the production and sales of dyed fabrics, sewing threads, yarns and garments and results by reportable segment for the year.

2011

	Hong Kong	The PRC	Taiwan	Korea	Sri Lanka	America	Europe	Others	Segment total	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE											
External sales	2,090,673	1,484,926	1,072,529	782,444	748,313	331,627	81,133	1,002,244	7,593,889	-	7,593,889
Inter-segment sales (note)	4,832,987	2,719,455	-	-	486,374	85,574	-	65,462	8,189,852	(8,189,852)	-
Total segment revenue	6,923,660	4,204,381	1,072,529	782,444	1,234,687	417,201	81,133	1,067,706	15,783,741	(8,189,852)	7,593,889
RESULTS											
Segment profit	274,480	188,802	153,923	113,239	79,632	13,657	9,704	140,517			973,954
Interest income											9,779
Unallocated income											4,316
Unallocated expenses											(593,481)
Finance costs											(71,589)
Net gain on disposal of subsidiaries											20,212
Profit before taxation											343,191

2010

	Hong Kong	The PRC	Taiwan	Korea	Sri Lanka	America	Europe	Others	Segment total	Eliminations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE											
External sales	1,707,561	1,045,977	910,026	609,452	631,836	246,681	53,148	944,268	6,148,949	-	6,148,949
Inter-segment sales (note)	4,296,142	2,951,383	-	-	386,798	37,580	-	154,593	7,826,496	(7,826,496)	-
Total segment revenue	6,003,703	3,997,360	910,026	609,452	1,018,634	284,261	53,148	1,098,861	13,975,445	(7,826,496)	6,148,949
RESULTS											
Segment profit (loss)	191,088	122,841	130,460	87,886	72,096	(725)	4,912	134,989			743,547
Interest income											18,506
Gain on disposal of property interests											96,387
Reversal of impairment loss on property, plant and equipment											1,813
Unallocated income											2,526
Unallocated expenses											(563,029)
Finance costs											(48,201)
Impairment loss on assets classified as held for sale											(1,801)
Impairment loss on property, plant and equipment											(419)
Gain on disposal of a subsidiary											766
Profit before taxation											250,095

Note: Inter-segment sales are charged at prices with reference to the prevailing market rates.

Segment profit/loss represents the profit earned by/loss incurred from each segment without allocation of central administration costs and other expenses (including non-production related employee benefits costs, directors' emoluments, bank charges, etc.), depreciation charges, interest income, gain on disposal of property interests, gain or loss on disposal/written-off of property, plant and equipment, impairment loss/reversal of impairment loss on property, plant and equipment and assets classified as held for sale, net gain or loss from derivative financial instruments, finance costs, net gain on disposal of subsidiaries, etc.. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment. No analysis on segment assets and liabilities is disclosed as it is not presented to the board of directors of the Company.

2. **REVENUE AND SEGMENT INFORMATION - continued**

Revenue from the Group's products

The following is an analysis of the Group's revenue from external customers by products:

	2011 HK$'000	2010 HK$'000
Production and sales of dyed fabrics, sewing threads and yarns (note)	**6,643,889**	5,419,354
Production and sales of garments	**950,000**	729,595
	7,593,889	6,148,949

Note: The balance substantially represents revenue from sales of dyed fabrics for both years.

Geographical information

The following is an analysis of geographical location of the Group's non-current assets (note) at the end of the reporting period:

	At 31st August, 2011 HK$'000	At 31st August, 2010 HK$'000 (restated)	At 1st September, 2009 HK$'000 (restated)
The PRC	**2,081,324**	2,248,900	2,219,217
Hong Kong	**21,556**	22,287	48,706
America	**201**	193	255
Sri Lanka	**170,198**	181,160	164,879
Others	**1,239**	1,585	2,244
	2,274,518	2,454,125	2,435,301

Note: Non-current assets excluded consideration receivable and deferred tax assets.

Information about major customers

No revenue from individual customer contributed over 10% of the total revenue of the Group for each of the two years ended 31st August, 2011.

3. **FINANCE COSTS**

	2011 HK$'000	2010 HK$'000
Finance costs on:		
Bank borrowings wholly repayable within five years	**70,904**	48,020
Imputed interest expense on consideration payable (note 12)	**685**	1,653
Total finance costs	**71,589**	49,673
Less: amounts capitalised	**-**	(1,472)
	71,589	48,201

3. **FINANCE COSTS - continued**

Finance costs capitalised during the year ended 31st August, 2010 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 2.06% per annum on expenditure of qualifying assets.

4. **INCOME TAX EXPENSE**

	2011	2010
	HK$'000	HK$'000
Current tax:		
Hong Kong	**52,164**	6,795
The PRC	**9,396**	3,307
Other jurisdictions	**3,318**	22
	64,878	10,124
Under(over)provision in prior years:		
Hong Kong	**9**	-
The PRC	**(1,865)**	5,741
Other jurisdictions	**497**	(625)
	(1,359)	5,116
Provision for the tax audit	**41,000**	-
	104,519	15,240
Deferred tax :		
Hong Kong	**78**	8
The PRC	**(729)**	(8,901)
Other jurisdictions	**(395)**	169
	(1,046)	(8,724)
	103,473	6,516

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% starting from 1st January, 2008 onwards. Certain of the Company's PRC subsidiaries are entitled to exemption from the PRC Enterprise Income Tax for two calendar years and thereafter, they are entitled to 50% relief from the PRC Enterprise Income Tax for the following three calendar years (the "Tax Holiday"). The reduced tax rate for the relief period is 12.5% for both years. The Tax Holiday will expire by 31st December, 2012.

Pursuant to the relevant laws and regulations in Sri Lanka, the profit generated from a subsidiary of the Company is entitled to exemption from the Sri Lanka income tax until 31st August, 2015. Accordingly, no provision for the income tax was made on the profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

4. INCOME TAX EXPENSE - continued

In February 2008, the IRD initiated a tax audit on the Company and its subsidiaries for the years of assessment from 2001/02 onwards and is obtaining information and documents from the Group. In March 2008, 2009 and 2010 and February 2011, notices of estimated additional assessment (the "Protective Assessments") for the years of assessment 2001/02, 2002/03, 2003/04 and 2004/05 in an aggregate amount of HK$14,352,000, HK$19,844,000, HK$18,390,000 and HK$62,834,000, respectively, were issued to the Company and certain subsidiaries of the Company by the IRD. Regarding the Protective Assessments for the year of assessment 2003/04, out of the aggregate amount of HK$18,390,000, two Protective Assessments of HK$4,375,000 issued to the Company and a Hong Kong subsidiary, respectively, were in effect alternative assessments to that of an overseas subsidiary. Regarding the Protective Assessments for the year of assessment 2004/05, out of the aggregate amount of HK$62,834,000, two Protective Assessments of HK$2,266,000 and HK$23,194,000 issued to the Company and a Hong Kong subsidiary, respectively, were also in effect alternative assessments to that of an overseas subsidiary. Objections against the Protective Assessments were lodged. For the years of assessment 2001/02 and 2002/03, full amounts were held over unconditionally. For the years of assessment 2003/04 and 2004/05, amounts were held over on the condition that Tax Reserve Certificates in the amount of HK$1,600,000 and HK$23,000,000 were purchased in May 2010 and in April 2011 respectively. The scope and outcome of the tax audit cannot be readily ascertained at this stage.

Having taken the advices from the Group's tax advisor, the directors of the Company made an aggregate provision of HK$41,000,000 in the current year, which was charged to the consolidated income statement, in relation to the tax audit and believe that other than the aforesaid provision, no significant amount of additional profits tax will be payable for the tax audit.

Since the process to finalise the tax audit with the IRD is still at a preliminary stage, it is too remote to consider the eventual amount of penalty and interest payable, if any, under the tax audit at this stage. Hence, no amount of penalty or interest has been considered as necessary.

Given the above stance of the Group, the directors of the Company are also considering various approaches in the best interests of the Group to resolve the dispute with the IRD. If the above dispute is not resolved before 31st March, 2012, the IRD will issue 2005/06 Protective Assessment to the Group for revenue protection purpose. It may affect the Group's financial position and results of its operations.

5. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**4,600**	4,770
Cost of inventories recognised as expenses	**6,429,052**	5,154,109
Depreciation of investment properties	**-**	121
Depreciation of property, plant and equipment (note)	**256,808**	239,919
Employee benefits expense (including directors' emoluments)	**876,284**	751,736
Impairment loss recognised on trade receivables, net	**-**	24,870
Loss on disposal/written-off of property, plant and equipment, other than property interests (included in other expenses)	**5,169**	14,740
Net exchange losses (included in other expenses)	**17,112**	5,086
Net loss from derivative financial instruments (included in other expenses)	**-**	39,180
Release of prepaid lease payments included in		
- cost of sales (note)	**2,711**	1,914
- administrative expenses	**80**	113
and after crediting:		
Amortisation of deferred income*	**1,458**	1,458
Imputed interest income on consideration receivable* (note 8)	**6,469**	15,055
Interest income*	**3,310**	3,451
Net rental income from investment properties*	**-**	2,590
Net gain from derivative financial instruments*	**2,521**	-
Impairment loss reversed on trade receivables, net	**8,245**	-

* Included in other income

Note: Upon the application of amendments to HKAS 17 "Leases" (see note 1) during the current year, the Group reclassified an amount of HK$245,000 from release of prepaid lease payments to depreciation of property, plant and equipment for year ended 31st August, 2010.

6. DIVIDENDS

	2011	2010
	HK$'000	HK$'000
Dividend recognised as distribution during the year:		
2010 final dividend of HK1 cent (2010: Nil) per share	**7,940**	-

No interim dividend was paid or proposed for both years.

The final dividend of HK1 cent in respect of the year ended 31st August, 2011 (2010: HK1 cent) per share, amounting to HK$7,940,000 (2010: HK$7,940,000) in total, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2011	2010
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**210,886**	223,798

	2011	2010
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	**794,010,960**	794,010,960

The computation of diluted earnings per share for the year ended 31st August, 2011 does not assume the exercise of the Company's outstanding share options because the adjusted exercise prices of those options calculated in accordance with HKAS 33 "Earnings Per Share" are higher than the average market price of the shares for the relevant period.

Diluted earnings per share is not presented for the year ended 31st August, 2010 as there were no potential ordinary shares outstanding during that year.

8. CONSIDERATION RECEIVABLE

On 27th April, 2009, Dongguan Fuan Textiles Limited ("Dongguan Fuan"), a non wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to sell the parcels of land located at Dongguan Fuan Textiles Complex, Changan Town, Dongguan City, Guangdong, the PRC and certain buildings and furniture, fixtures and equipment (the "Properties") for a total cash consideration of Renminbi ("RMB") 255,000,000 (approximately HK$288,136,000) payable in 5 installments (the "Property Agreement").

Of the above consideration, RMB30,000,000 was settled upon the signing of the Property Agreement as the first installment. The second and the third installments of RMB30,000,000 (approximately HK$34,474,000) and RMB40,000,000 (approximately HK$46,497,000), respectively, were settled during the year ended 31st August, 2010. The fourth and last installments of RMB77,500,000 (approximately HK$94,145,000) and RMB77,500,000 (approximately HK$98,405,000), respectively, were settled during the current financial year.

The receivable amounts were unsecured and interest-free. The fair value of the deferred consideration at the date of initial recognition was determined as RMB231,643,000 (approximately HK$261,743,000) based on the estimated future cash flows by applying a discount rate of 9.8% per annum.

Details of the above transaction are set out in the circular of the Company dated 30th July, 2009.

9. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Spare parts	**98,941**	118,224
Raw materials	**787,348**	1,006,077
Work in progress	**397,242**	421,254
Finished goods	**399,923**	393,037
	1,683,454	1,938,592

10. TRADE AND BILLS RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Trade receivables	**1,116,780**	1,220,305
Bills receivables	**187,184**	199,566
Less: allowance for doubtful debts	**(28,223)**	(47,845)
	1,275,741	1,372,026

10. TRADE AND BILLS RECEIVABLES - continued

The Group allows a credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables based on the payment due date net of allowance for doubtful debts:

	2011	2010
	HK$'000	HK$'000
Not yet due	**919,114**	925,897
Overdue 1 - 30 days	**179,692**	226,351
Overdue 31 - 60 days	**109,931**	128,389
Overdue > 60 days	**67,004**	91,389
	1,275,741	1,372,026

As at 31st August, 2011, included in bills receivables is an amount of HK$8,735,000 (2010: Nil) which has been discounted with recourse.

11. TRADE AND BILLS PAYABLES

	2011	2010
	HK$'000	HK$'000
Trade payables	**418,672**	518,923
Bills payables	**279,761**	348,590
	698,433	867,513

The following is an aged analysis of trade payables based on the payment due date:

	2011	2010
	HK$'000	HK$'000
Not yet due	**363,886**	413,674
Overdue 1 - 30 days	**26,801**	61,053
Overdue 31 - 60 days	**6,550**	17,801
Overdue > 60 days	**21,435**	26,395
	418,672	518,923

All the bills payables of the Group are not yet due at the end of the reporting period.

The average credit period on purchase of goods ranges from 30 days to 120 days. The Group has financial risk management policies in place to ensure that payables are within the credit time frame.

12. CONSIDERATION PAYABLE

On 27th April, 2009, Folktune Limited, a wholly-owned subsidiary of the Company, entered into an agreement with certain non-controlling shareholders of Dongguan Fuan (the "Transferors") to acquire from the Transferors in aggregate 39% of the equity interests in Dongguan Fuan at a total consideration of HK$77,326,205 (the "Share Transfer Agreement"). Upon completion of the Share Transfer Agreement, Dongguan Fuan became a 90% owned subsidiary of the Company.

Pursuant to the Share Transfer Agreement, the consideration is payable by 5 installments. The payable amounts are unsecured and interest-free. The fair value of the deferred consideration at the date of initial recognition was determined as HK$74,433,000 based on the estimated future cash flows by applying a discount rate of 3.7% per annum. During the current year, an amount of HK$35,630,000 was settled by the Group. The remaining balance is repayable on demand at the end of the reporting period.

Details of the above transaction are set out in the circular of the Company dated 30th July, 2009.

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CHAIRMAN'S STATEMENT

FELLOW SHAREHOLDERS

On behalf of the Board, I am pleased to report to shareholders the results of the Group for the year ended 31st August, 2011. The revenue was approximately HK$7,593,889,000, an increase of 23.5% over last year. Profit attributable to owners of the Company amounted to approximately HK$210,886,000, a decrease of 5.8% over last year. Net profit margin under review was 2.8%, compared with 3.6% in the same period last year. Basic earnings per share was HK 26.6 cents, compared to HK 28.2 cents in 2010. However, if excluding non-recurring exceptional items for the current and previous years (comprising gain on disposal of property interests, net gain on disposal of subsidiaries and provision for tax audit), profit attributable to owners of the Company increased drastically by 82.9% from last year, net profit margin was 3.1% as compared with 2.1% last year, and basic earnings per share was HK 29.2 cents as compared with HK 16.0 cents in 2010.

	2011 HK$'000	2010 HK$'000	% change
Profit attributable to owners of the Company	**210,886**	223,798	(5.8%)
Add/(less): non-recurring exceptional items:			
Gain on disposal of property interests	**-**	(96,387)	
Net gain on disposal of subsidiaries	**(20,212)**	(766)	
Provision for tax audit	**41,000**	-	
Profit attributable to owners of the Company (excluding non-recurring exceptional items)	**231,674**	126,645	82.9%
	HK cents	HK cents	
Basic earnings per share	**26.6**	28.2	
Basic earnings per share (excluding non-recurring exceptional items)	**29.2**	16.0	

During the earlier part of financial year 2011, the World economy showed some signs of stabilization. However, the price of cotton and cotton yarn repeatedly broke new record highs during the first half of the period under review, due partly to shortage of supply and reducing global inventory. During the year under review, the Group's revenue increased by 23.5% as compared with the previous financial year due to the significant increase in average selling price. Other manufacturing costs such as energy and wages also increased during the period under review. Although customers have generally accepted escalation in the price of fabrics, such escalation compensated majority of the cost increases due to upsurge in the price of raw materials as well as inflation in other manufacturing costs but were generally insufficient for the fabric manufacturers to maintain gross profit margin.

Through a series of continuous and proactive management actions, we were able to reduce administrative expenses to revenue ratio as well as distribution and selling expenses to revenue ratio when compared with the previous financial year. The Group's improvement in quality and on-time delivery performances resulted in reduction in claims and last-minute air freight expenses, enabling significant reduction in the distribution and selling expenses by more than 22% over last year even though the revenue increased by 23.5%. In addition, the Group's factory utilization rate improved over the same period last year especially in the first half of the financial year. At the same time, apart from the continuous expansion into the domestic market in China, the Group has also successfully built new working relationships with brands and retailers in the sports wear and casual wear sectors in emerging markets such as Russia.

During the second half of our financial year, cotton price declined sharply within a short period of time, thus resulting in relatively higher inventory value as compared with the market price of raw materials at that time. This negative impact was reflected partially during the second half of the financial year as average selling price adjusted downward following deflation in price of raw material. Severe consolidation in the textile industry has continued following the global financial crisis in 2008 and escalated by the unprecedented volatility of cotton prices in 2010 and 2011. This consolidation will provide some relief to stronger players in the supply-chain such as the Group as customers place more confidence in partnering with more reputable, better established, and well resourced fabric suppliers.

The Group continued to strengthen its financial position during the period under review. As at 31st August, 2011, the Group's total cash and cash equivalents approximately amounted to HK$1,124,552,000 while bank borrowings were reduced by HK$359,866,000 or 14.1% over last year. Improved financial management enabled the Group to remain financial stability during a period of severe raw material cost volatility. It is our aim to further enhance our financial position, especially given the expectation of tighter liquidity in the banking sector in the near future.

Regarding the tax audit case initiated by the Hong Kong Inland Revenue Department ("IRD"), the Group has been cooperating closely with the IRD to provide all requested information in the past few years. Based on the advice from the Group's tax advisor, the Group made a tax provision of HK$41,000,000 in the current year. At this stage, it is not possible for the Group to ascertain the outcome of the tax audit. However, we will consider various approaches in the best interests of the Group to resolve this dispute with the IRD.

In addition, the Group has set up a sustainability and corporate social responsibility committee since 2009 and is committed to investing and implementing environmental-friendly procedures in our business and production processes as well as promoting and encouraging eco-living to our staff. With the aim of enhancing energy efficiency, reducing emission, and promoting sustainable initiatives, numerous green programs have been planned and executed in factories and offices, such as installation of energy saving devices, recycle and reduce wastes and water, process reengineering and actively promote green culture within the Group.

DIVIDEND

The Board has resolved to pay a final dividend of HK1.0 cent per share for the year ended 31st August, 2011. The total dividend for the year would be HK1.0 cent per share as compared with HK1.0 cent per share for last year.

AWARDS

Jiangyin Fuhui Textile Limited, the Group's wholly owned subsidiary, was accredited "Hundred Star Enterprise" by the People's Government of Jiangyin this year. It was also awarded with "Outstanding Enterprise of Foreign Investment" and "Outstanding Organization for Environmental Protection" by the Jiangyin Economic Development Zone Government.; and "Caring Enterprise" by the Jiangyin Charity Federation and "Outstanding Staff Library of Chinese Trade Unions" by the All China Federation of Trade Unions. Ocean Lanka (Private) Limited, a Group's fabric subsidiary, has been accredited with the "Fair-trade Certificate" since 2006. Dongguan Shatin Lake Side Textiles Printing & Dyeing Co., Ltd., a fabric subsidiary of the Group, was granted a "Gold label" of Low Carbon Manufacturing Programme (LCMP) from World Wildlife Fund (WWF), a leap from the "Certified Label" in 2010. Two of our fabric mills namely Dongguan Shatin Lake Side Textiles Printing & Dyeing Co. Ltd. and Ocean Lanka (Private) Limited received the "Global Organic Textiles Standard" (GOTS) certificate by the Institute for Marketecology.

BUSINESS OUTLOOK

The difficult business environment is expected to persist as unemployment rate remains high and the recent economic data are not promising in parts of North America and Europe, resulting in lower consumer confidence and demand for textile products. The possibility of further worsening of debt crisis in Europe is leading to more uncertainty and instability in the global economic environment that is likely to remain fragile and weak in the near future. Meanwhile, the average selling price of knitted fabrics for the next year will most likely be lower compared with that of the year under review as the prices of cotton and cotton yarn have declined substantially since early 2011. Through our focus on products, services and efficiency, the Group will continue to build upon our strong reputation and loyal customer base to seek growth in export market share.

China has one of the fastest growing consumer markets in the world coupled with strong government initiatives to further stimulate domestic consumption. The Group will continue to expand our sales in China by strategically targeting both domestic and foreign branded clients as the local consumer preference shifts towards better product quality, safety and innovations. Our domestic sales have shown continuous improvement since the establishment of our Shanghai and Shenzhen sales offices as well as the active promotion of our product brand "fabric by Fountain Set™" to the textile and apparel supply chain in China over the past few years. We anticipate our domestic sales for textiles and apparel in China to continue increasing at a faster pace over export during the next few years.

The Group currently possesses a total of approximately 25 million pounds of monthly fabric production capacity. Our latest fabric mill, Yancheng Fuhui Textiles Limited, located in Yancheng City of the Jiangsu province in China has commenced production during last financial year. The Yancheng mill will provide an enormous potential for future expansion of the Group as the domestic consumption in China continues to grow and when export market recovers. The Group targets to maintain approximately 3 million pounds of monthly fabric dyeing output in the Yancheng mill during the next financial year. Eventually, the Yancheng mill could be developed to house a total fabric dyeing capacity of over 10 million pounds per month upon completion of all phases. The Group will carefully monitor market conditions and the development plans of our customers before further investing and developing any additional capacity.

Sales of garment during the financial year under review have increased by 30.2% when compared with the previous year as a result of strengthening effort in business development. We expect the momentum of sales growth in the garment business to continue in the coming year.

The Group will also further optimize its operations and infrastructure to cope with changing market conditions while maintaining a solid foundation to support future growth. These initiatives include ongoing review of management functions such as cost and performance measurements, risk management and corporate governance. The Group will also focus on reducing net gearing ratio to a more sustainable level over the next few years by maintaining stringent control over working capital and capital expenditure.

Based on the current assessment, the Group expects industrial environment in the coming financial year to be very challenging, especially during the earlier part of the year due to relatively higher price inventory coupled with declining selling price. However, we expect this situation to improve as material and selling prices are expected to stabilize during the later part of the year. We therefore maintain a somewhat cautious view on the Group's overall performance in the near term. Nevertheless, with our strategically located fabric mills in Guangdong and Jiangsu provinces in China and Sri Lanka as well as the growth in domestic sales in China, we are well positioned to increase our market share following further consolidation of the supply chain and when market demand gradually recovers in the future. Therefore, we are relatively more optimistic on business outlook for the longer term.

ACKNOWLEDGEMENT

Finally, I would like to thank our employees around the world for their dedicated efforts throughout the year. I am grateful to my fellow directors for their countless contribution and support. On behalf of the Group, I express my sincere appreciation to our shareholders, customers, partners and vendors for their continuous support.

On behalf of the Board

HA Chung Fong
Chairman

Hong Kong
25th November, 2011

BUSINESS REVIEW

During the year under review, the profit attributable to owners of the Company was approximately HK$210,886,000, a decrease of 5.8% over last year, or an increase of 82.9% last year if excluding non-recurring exceptional items (comprising gain on disposal of property interests, net gain on disposal of subsidiaries and provision for tax audit) in current year and last year. Gross Profit margin decreased slightly from 16.2% last year to 15.3% this year due to increase in manufacturing costs such as material, staff and energy cost as compared with previous year. The Group's operation efficiency is gradually returned to a normalized level because of the improved market environment. Distribution and selling expenses significantly decreased by over 22%, representing 2.5% of revenue compared with 4.0% in 2010. Administrative expenses to revenue also dropped from 9.1% in 2010 to 8.1% in this financial year. The increase in finance costs, from HK$48,201,000 to HK$71,589,000, was due to the increase in bank borrowings and interest rates. With aggressive and stringent credit control implemented during the year, our trade receivable day improved from 81 days in 2010 to 61 days in 2011. Furthermore, the Group received the fourth and last installments amounted totally to RMB155,000,000 in this financial year after the disposal of a Group's subsidiary, Dongguan Fuan Textiles Limited's properties in April 2009.

Production and Sales of Dyed Fabrics, Sewing Threads and Yarns

During the year under review, revenue from the production and sales of dyed fabrics, sewing threads and yarns reached approximately HK$6,643,889,000, an increase of 22.6% as compared with last year, and accounted for 87.5% of the Group's total revenue.

Production and Sales of Garments

Annual revenue from the production and sales of garments was approximately HK$950,000,000, an increase of 30.2% as compared with last year, and accounted for 12.5% of the Group's total revenue.

Analysis by Customer Geographical Regions

The Group's major customers were garment manufacturers located in Asia and accounted for approximately 94.6% of the Group's total revenue, a decrease of 0.5 percentage points when compared with 95.1% of last year. The remaining 5.4% was generated from sales to customers based in America and Europe. A more substantial growth was achieved in business with customers based in China, accounted for approximately 19.6% of the Group's total revenue. The Group has established local marketing offices or fabric mills and strategically targeted China as our potential growth country in the past few years.

FINANCIAL REVIEW

Liquidity and Financial Information

At 31st August, 2011, the Group's total assets amounted to approximately HK$6,608,902,000, representing a decrease of approximately HK$257,071,000 over last year. Total assets included non-current assets of approximately HK$2,300,207,000 and current assets of approximately HK$4,308,695,000. The above assets were financed by current liabilities of approximately HK$2,699,104,000, non-current liabilities of approximately HK$871,572,000, non-controlling interests of approximately HK$200,200,000 and equity attributable to owners of the Company of approximately HK$2,838,026,000.

The Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term bank borrowings. Capital expenditure was mainly financed by long-term bank borrowings and proceeds received from sale of properties.

Bank borrowings totally decreased by approximately HK$359,866,000 and the total amount of short-term bank deposits, bank balances and cash increased by approximately HK$454,176,000.

At 31st August, 2011, the principal financial ratios (after inclusion of proposed final dividend) were as follows:

	2011	2010
Gearing Ratio	**1.24**	1.52
Bank Borrowing Ratio	**0.78**	0.97
Net Bank Borrowing Ratio	**0.38**	0.72

The sales and the purchase of raw materials of the Group are mainly denominated in Hong Kong dollars, US dollars and Renminbi. Bank borrowings are also denominated in Hong Kong dollars, US dollars and Renminbi and interests are mainly charged on a floating rate basis. In addition, the Group mainly operates in China and is exposed to foreign exchange risk arising from Renminbi exposure. The fluctuations in the US dollars and Renminbi have always been the concern of the Group. In order to mitigate the foreign currency risk and interest rate risk, the Group would enter into appropriate hedging arrangements in accordance with the Group's risk management policies.

Capital Expenditure

During the year, the Group invested approximately $110,334,000 (2010: HK$268,104,000) in the additions of property, plant and equipment. Capital expenditure of approximately $35,000,000 was postponed from financial year 2011 to 2012. As a result, the Group expects that capital expenditure for financial year 2012 will not exceed HK$180,000,000.

Inventory

The Group's inventory approximately amounted to HK$1,683,454,000 as of 31st August, 2011 (2010: HK$1,938,592,000) and the inventory turnover day was 96 days (2010: 137 days). The decrease is due to significantly decline in purchase of cottons and yarns in second half of financial year as a result of highly fluctuated prices of cotton and cotton yarn.

Employees and Emolument Policies

At 31st August, 2011, the Group had approximately 14,200 full time employees (2010: 16,200). The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in various regions, and are reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group.

The Group has established a share option scheme for its employees, and also provides regular training courses and subsidies for continuing education so as to improve the skills of its employees with respect to production, selling and management.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Monday, 9th January, 2012, to Thursday, 12th January 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company on Thursday, 12th January, 2012, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 6th January, 2011.

The proposed final dividend for the year ended 31st August, 2011 is subject to the approval by the shareholders at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members will be closed from Wednesday, 18th January, 2012 to Thursday, 19th January, 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 17th January, 2012. Dividend warrants will be posted on or around 2nd February, 2012.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the year with the code provisions of the Code on Corporate Governance promulgated by The Stock Exchange of Hong Kong Limited except that for the period from 1st September, 2010 to 30th April, 2011, with respect to the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") were performed by the same individual.

Under the code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. Mr. HA Chung Fong was the Chairman and Managing Director of the Company for the period from 1st September, 2010 to 30th April, 2011. On 1st May, 2011, Mr. HA Kam On, Victor was appointed as Group Managing Director in place of Mr. HA Chong Fong, details of which were set out in the announcement dated 24th May, 2011. After such change, the roles of the chairman and CEO of the Company are separate that Mr. HA Chung Fong acts the Chairman while Mr. HA Kam On, Victor acts CEO role. The Board viewed that the aforesaid arrangements were in the best interest of the Company after having considered the business operation and nature of the Company.

AUDIT COMMITTEE

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and system of internal controls. The Audit Committee presently comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed the audited final results and the system of internal controls for the year ended 31st August, 2011.

As at the date of this announcement, Mr. Ha Chung Fong, Mr. Ha Kam On, Victor, Mr. Ha Hon Kuen and Dr. Yen Gordon are the executive directors of the Company; Mr. Chan Yuk Yin is the non-executive director of the Company; and Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, SBS, JP, and Mrs. Fung Yeh Yi Hao, Yvette are the independent non-executive directors of the Company.

On behalf of the Board

HA Chung Fong
Chairman

Hong Kong
25th November, 2011