NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2004

1. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 2901, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation of financial statements

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's leasehold land and buildings as explained below.

(b) Impact of revised Hong Kong Statements of Standard Accounting Practice

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Group has adopted the SSAP 12 (revised) "Income taxes" which became effective for the current financial year.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from the current financial year, in order to comply with SSAP 12 (revised) issued by the HKICPA, the Group adopted a new policy for deferred taxation as set out in note 3(n).

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(b) Impact of revised Hong Kong Statements of Standard Accounting Practice (continued)

The new accounting policy has been adopted retrospectively, the opening balance of fixed asset revaluation reserve at 1 October 2002 and 2003 decreased by HK$6,366,000 and HK$7,384,000 respectively, which represent the net deferred tax liabilities. Details of which are set out in the consolidated statement of changes in equity and note 23(a) to the financial statements.

As a result of the adoption of this accounting policy, the Group's net profit attributable to shareholders for the year has been increased by HK$346,000 (2003: HK$397,000) and the Group's net assets has been decreased by HK$5,961,000 (2003: HK$6,987,000).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of interests in a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related exchange fluctuation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investments in subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable.

(c) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(d) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue from the provision of fabric processing services is recognised when the services are rendered.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to the customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(f) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees in the Company's subsidiaries operating in the People's Republic of China (the "PRC") are members of a retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal governments. The PRC subsidiaries are required to contribute to the PRC RB Scheme to fund the retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the PRC RB Scheme is to meet the required contributions under the PRC RB Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the relevant laws and regulations of the PRC.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Employee benefits (continued)

(iii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, equity is increased by the amount of the proceeds received. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(g) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new fabric processing is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the processes have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Property, plant and equipment (continued)

Changes in the values of property, plant and equipment, other than construction in progress, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 20 to 50 years
Plant and machinery	10 to 20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold buildings under construction is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(l) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account. The reduction is written back to profit and loss account when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

(n) Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(o) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at bank, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Segment reporting

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

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

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of services rendered or goods sold, after allowances for trade discounts and returns.

	2004 HK$'000	2003 HK$'000
Turnover		
Provision of fabric processing services	311,395	333,758
Sale of goods	69,014	4,713
	380,409	338,471
Other revenue		
Bank interest income	218	1,095
Others	851	–
	1,069	1,095
	381,478	339,566

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

The principal activities of the Group are the provision of fabric processing services, manufacture and sale of fabrics, and manufacture and sale of yarns, which are managed according to the geographical location of customers.

Each of the Group's geographical segment, based on the location of customers, represents a strategic business unit that offers services to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenues, results, assets and liabilities are attributed to the segments based on the location of the customers.

The following tables present revenue, results, assets, liabilities and capital expenditure information for the Group's geographical segments.

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**204,023**	214,274	**118,861**	49,745	**57,525**	74,452	**380,409**	338,471
Segment results	**65,619**	74,841	**(5,803)**	14,873	**19,746**	24,435	**79,562**	114,149
Unallocated revenue							**1,069**	1,095
Unallocated expenses							**(7,230)**	(4,719)
Profit from operating activities							**73,401**	110,525
Finance costs							**(5,207)**	(1,217)
Profit before taxation							**68,194**	109,308
Taxation							**(1,616)**	(18,213)
Profit before minority interests							**66,578**	91,095
Minority interests							**319**	(30)
Net profit attributable to shareholders							**66,897**	91,065

5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers (continued)

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**191,663**	176,170	**240,898**	38,805	**50,455**	66,726	**483,016**	281,701
Unallocated assets							**178,449**	232,241
Total assets							**661,465**	513,942
Segment liabilities	**24,721**	26,971	**16,442**	6,262	**6,970**	9,371	**48,133**	42,604
Unallocated liabilities							**177,612**	98,595
Total liabilities							**225,745**	141,199
Other segment information:								
Depreciation	**9,349**	8,305	**7,050**	1,928	**2,635**	2,886	**19,034**	13,119
Capital expenditure	**35,832**	33,844	**48,891**	7,856	**10,103**	11,758	**94,826**	53,458
Unallocated capital expenditure	**–**	–	**–**	–	**–**	–	**–**	116,553
Total capital expenditure	**35,832**	33,844	**48,891**	7,856	**10,103**	11,758	**94,826**	170,011

Note: The 2003 comparative amounts have been restated (see detailed explanation in note 2(b)).

(b) Geographical segments based on the location of assets

All of the Group's assets are located in the Greater China. No additional information in respect of segment assets and capital expenditure information are presented.

For the year ended 30 September 2004

5. SEGMENT INFORMATION (continued)

(c) Business segments

The following table presents revenue, assets and capital expenditure information for the Group's business segments.

	Fabric processing services, manufacture and sale of fabrics		Manufacture and sale of yarns		Elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment								
Sales to external customers	**340,749**	338,471	**39,660**	–	**–**	–	**380,409**	338,471
Intersegment sales	**–**	–	**513**	–	**(513)**	–	**–**	–
Total revenue	**340,749**	338,471	**40,173**	–	**(513)**	–	**380,409**	338,471
Segment assets	**406,795**	281,701	**167,184**	117,704			**573,979**	399,405
Unallocated assets							**87,486**	114,537
							661,465	513,942
Capital expenditure	**54,674**	53,458	**40,152**	116,553			**94,826**	170,011

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004 HK$'000	2003 HK$'000
Cost of inventories sold	76,575	4,006
Depreciation	19,034	13,119
Provision for slow-moving inventories	1,162	–
Write off of fixed assets	8,217	–
Minimum lease payments under operating leases on leasehold land and buildings	974	374
Staff costs (excluding directors' remuneration (note 7)):		
Wages and salaries	17,697	12,440
Retirement benefits scheme contributions	1,445	1,212
	19,142	13,652
Auditors' remuneration	1,005	600
Research and development costs	–	1,583
Gain on disposal of fixed assets	(20)	–

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

	2004 HK$'000	2003 HK$'000
Fees for independent non-executive directors	240	240
Basic salaries, housing benefits, other allowances and benefits in kind for executive directors	2,439	2,925
Retirement benefits scheme contributions:		
Executive directors	23	18
Independent non-executive directors	14	–
	37	18
	2,716	3,183

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of all directors fell within the "Nil – HK$1,000,000" band for the two years ended 30 September 2003 and 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

The five highest paid employees for the year ended 30 September 2004 included three directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two highest paid employees for the year ended 30 September 2004, which fell within the "Nil to HK$1,000,000" band, are as follows:

	2004 **HK$'000**	2003 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**815**	–
Retirement benefits scheme contributions	**21**	–
	836	–

During the year ended 30 September 2003, all the five highest paid employees are directors of the Company, details of whose remuneration are disclosed above.

8. FINANCE COSTS

	2004 **HK$'000**	2003 HK$'000
Interest on bank loans wholly repayable within five years	**4,306**	1,217
Bank charges	**901**	–
	5,207	1,217

9. TAXATION

	2004 HK$'000	2003 HK$'000 (as restated)
Macau		
– current	–	17,661
Elsewhere in the PRC		
– current	1,966	953
– deferred	(350)	(401)
Tax charge for the year	1,616	18,213

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year (2003: Nil).

In 2003, Macau Complementary Tax has been calculated at the rate of 15.75% on the estimated assessable profit of Huafeng Trading Limited, a wholly-owned subsidiary disposed of during the year.

Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the PRC enterprise income tax rate is as follows:

	2004 HK$'000	2003 HK$'000
Profit before taxation	68,194	109,308
Tax at PRC enterprise income tax rate of 33%	22,504	36,072
Tax effect of income that is not taxable in determining taxable profit	(35,304)	(16)
Tax effect of expenses that are not deductible in determining taxable profit	10,146	1,703
Tax effect of income tax on concessionary rates	(437)	(202)
Tax effect of unused tax losses not recognised	4,707	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	–	(19,344)
Taxation charge	1,616	18,213

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 September 2004 was approximately HK$44,400,000 (2003: HK$30,325,000).

11. DIVIDENDS

	2004	2003
	HK$'000	HK$'000
Interim – HK1.60 cents (2003: HK1.50 cents) per ordinary share	**12,391**	10,080
Proposed final – HK1.00 cent (2003: HK2.25 cents) per ordinary share	**7,745**	17,368
	20,136	27,448

The previously recorded final dividend for the year ended 30 September 2003 was HK$17,361,000. The additional amount of approximately HK$7,000 paid was as a result of the exercise of warrants prior to approval of final dividend at the annual general meeting.

The final dividend for the year was proposed by the directors on 17 January 2005.

The proposed final dividend is not recognised as a liability at 30 September 2004 as it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the Group's net profit attributable to shareholders for the year of approximately HK$66,897,000 (2003 as restated: HK$91,065,000) and the weighted average number of 772,989,923 (2003: 665,049,951) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's net profit attributable to shareholders for the year of approximately HK$66,897,000 (2003 as restated: HK$91,065,000) and on 808,651,932 (2003: 670,693,814) ordinary shares, being the weighted average number of 772,989,923 (2003: 665,049,951) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average number of 35,662,009 (2003: 5,643,863) ordinary shares assumed to have been issued at HK$0.65 per share on the deemed exercise of all warrants outstanding during the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:					
At 1 October 2003	45,659	183,636	3,349	32,288	264,932
Additions	7,768	70,668	3,099	43,394	124,929
Transfers	74,778	–	–	(74,778)	–
Acquired on acquisition of a subsidiary	35,000	46,456	44	–	81,500
Disposals	–	(28,680)	–	–	(28,680)
Write-off	(4,538)	(11,627)	–	–	(16,165)
Surplus on revaluation	20,303	–	–	–	20,303
At 30 September 2004	**178,970**	**260,453**	**6,492**	**904**	**446,819**
Analysis of cost or valuation:					
At cost	–	260,453	6,492	904	267,849
At valuation	178,970	–	–	–	178,970
At 30 September 2004	**178,970**	**260,453**	**6,492**	**904**	**446,819**
Accumulated depreciation:					
At 1 October 2003	–	24,194	833	–	25,027
Charge for the year	3,798	14,442	794	–	19,034
Disposals	–	(8,790)	–	–	(8,790)
Write-off	–	(4,409)	–	–	(4,409)
Reversal upon revaluation	(3,798)	–	–	–	(3,798)
At 30 September 2004	**–**	**25,437**	**1,627**	**–**	**27,064**
Net book value:					
At 30 September 2004	178,970	235,016	4,865	904	419,755
At 30 September 2003	45,659	159,442	2,516	32,288	239,905

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings included above are all held under medium term leases in the PRC.

At 30 September 2004, the Group's leasehold land and buildings, including certain land and buildings of approximately HK$147,838,000 (2003: HK$40,942,000) for which the Group are in the process of obtaining the relevant land use right certificates, were revalued by BMI Appraisals Limited, an independent firm of professional valuers, at open market value of approximately HK$178,970,000 (2003: HK$45,659,000). The resulting revaluation surplus of approximately HK$24,101,000 (2003: HK$3,809,000) has been credited to the fixed asset revaluation reserve.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$133,403,000 (2003: HK$19,504,000).

At 30 September 2004, the Group's land and buildings with carrying value of approximately HK$10,378,000 (2003: Nil) and plant and machinery with an aggregate net book value of approximately HK$73,403,000 (2003: HK$4,320,000) were pledged to secure certain banking facilities granted to the Group (note 22).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted investments, at cost	**133,900**	133,900

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

14. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at the balance sheet date are as follows:

Name	Place of incorporation/ establishment	Nominal value of issued and paid-up ordinary shares/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
Treasure Wealth Assets Limited	British Virgin Islands	US$600	100%	Investment holding
Indirectly held				
Huafeng Knitting Co., Ltd. Shishi City, Fujian *	PRC	RMB75,000,000	98.93%	Provision of fabric processing services, manufacture and sale of fabrics
Powerful China Development Limited	Hong Kong	HK$100	100%	Provision of administrative services to group companies
Huafeng Trading Macao Commercial Offshore Limited	Macau	MOP100,000	100%	Provision of fabric processing services
Fujian Fenghua Textile Co., Ltd. #	PRC	US$15,000,000	100%	Manufacture and sale of yarns
Shenyang Huafeng Dyeing & Printing Co., Ltd. *	PRC	US$2,800,000	53.6%	Provision of fabric processing services
Lingfeng Dyeing & Weaving Co., Ltd., Shishi #	PRC	HK$45,000,000	100%	Provision of fabric processing services
Huafeng Textile (Lianyungang) Co., Ltd. #	PRC	US$2,600,000	100%	Manufacture and sale of yarns

* Sino-foreign equity joint ventures established in the PRC.

\# Wholly foreign owned enterprises established in the PRC.

14. INVESTMENTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The principal places of operations of the subsidiaries are the same as their places of incorporation/establishment.

15. GOODWILL

	Group	
	2004	2003
	HK$'000	HK$'000
Cost		
Additions and at 30 September 2004	**12,907**	–

The amounts capitalised in the consolidated balance sheet represent the goodwill arising from the acquisition of subsidiaries immediately before the year end. No amortisation of goodwill was charged for the year as the amount is insignificant.

16. INVESTMENT SECURITIES

	Group	
	2004	2003
	HK$'000	HK$'000
Unlisted investment, at cost	**425**	–

Particulars of the investment are as follows:

Name	**Place of establishment and operations**	**Registered capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
石獅市海天環境工程有限公司	PRC	RMB1,000,000	12%	Provision of sewage treatment services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2004

17. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

	2004 HK$'000	2003 HK$'000
Deposit paid for acquisition of business (note 17(a))	**14,151**	–
Deposit paid for investment in a joint venture (note 17(b))	**1,905**	–
Deposits paid for acquisition of property, plant and equipment	**7,228**	42,040
	23,284	42,040

(a) A cooperative agreement (the "Agreement") was entered into between the Group and an independent third party (the "Party"), on 10 February 2004 in connection with the provision of technical and financial support to the Party by the Group. Pursuant to the Agreement, a supplementary agreement was entered into on 20 February 2004 whereby the Group agreed to advance approximately HK$3.4 million to the Party for its working capital requirements. On 3 April 2004, a second supplementary agreement was entered into whereby the Group made a deposit of approximately HK$14.2 million to indicate its intention to procure the acquisition of the business and operating assets of the Party, and a further advance of working capital of approximately HK$4.7 million to the Party. The total advance of approximately HK$8.1 million are interest-bearing ranging from 5% to 6.372% per annum, and have been classified as current assets.

(b) On 31 May 2004, the Group entered into a joint venture agreement with Manifattura di Valle Brembana. S.p.A. ("MVB"), an independent third party, to establish a joint venture company for manufacturing of high quality shirting fabrics. A supplemental agreement to the joint venture agreement was entered into on 31 August 2004, whereby the Group paid a deposit of approximately HK$1.9 million to MVB.

18. INVENTORIES

	Group	
	2004 HK$'000	2003 HK$'000
Consumables	**22,625**	22,247
Raw materials	**6,653**	4,614
Work in progress	**2,075**	–
Finished goods	**9,275**	5,261
	40,628	32,122

At 30 September 2004 the carrying amount of inventories that are carried at net realisable value was approximately HK$4,339,000 (2003: Nil).

19. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. Full provision is made for outstanding debts aged over one year.

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

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	**25,714**	30,080
31 – 60 days	**23,114**	25,160
61 – 90 days	**23,362**	20,549
Over 90 days	**17,730**	6,897
	89,920	82,686

20. CASH AND BANK BALANCES

At 30 September 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounting to approximately HK$23 million (2003: HK$97 million) were kept in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of these funds are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE PAYABLES

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

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

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	**11,293**	12,524
31 – 60 days	**10,020**	11,413
61 – 90 days	**7,785**	6,757
Over 90 days	**6,209**	671
	35,307	31,365

22. INTEREST-BEARING BORROWINGS

	Group	
	2004	2003
	HK$'000	HK$'000
Secured bank loans repayable:		
Within one year	**112,835**	38,396
In the second year	**28,500**	–
In the third to fifth years, inclusive	**7,250**	–
	148,585	38,396
Portion classified as current liabilities	**(112,835)**	(38,396)
Non-current portion	**35,750**	–

At 30 September 2004, the Group's banking facilities were secured by the following:

(i) fixed charges on the Group's land and buildings with carrying value of approximately HK$10,378,000 (2003: Nil) and plant and machinery with an aggregate net book value of approximately HK$73,403,000 (2003: HK$4,320,000) (note 13); and

(ii) corporate guarantees given by the Company and a subsidiary.

23. DEFERRED TAXATION

(a) The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior periods:

	Accelerated tax depreciation HK$'000	Revaluation of land and buildings and plant and machinery HK$'000	Total HK$'000
At 1 October 2002			
– as previously reported	–	–	–
– adjustments on change in accounting policy	–	6,434	6,434
– as restated	–	6,434	6,434
Credit to profit and loss account for the year	(401)	–	(401)
Charge to equity for the year	–	1,029	1,029
At 30 September 2003	(401)	7,463	7,062
At 1 October 2003			
– as previously reported	–	–	–
– adjustments on change in accounting policy	(401)	7,463	7,062
– as restated	(401)	7,463	7,062
Acquisition of a subsidiary	–	5,748	5,748
Credit to profit and loss account for the year	(350)	–	(350)
Reversal of revaluation surplus upon write-off of fixed assets	–	(916)	(916)
Charge to equity for the year	–	7,307	7,307
At 30 September 2004	**(751)**	**19,602**	**18,851**

(b) At the balance sheet date the Group had unused tax losses of approximately HK$4,130,000 (2003: Nil) available for offset against future profits. Such tax losses would expire within the next five years up to 2009. No deferred tax asset in relation to such tax losses has been recognised due to the unpredictability of future taxable profit streams.

(c) No provision for deferred taxation has been made in the Company's financial statements as the temporary differences are insignificant.

24. SHARE CAPITAL

Shares

	2004 HK$'000	2003 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
774,452,000 (2003: 771,612,000) ordinary shares of HK$0.01 each	**7,745**	7,716

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares issued '000	Nominal value of shares issued HK$'000
At 1 October 2002	640,000	6,400
Shares issued on exercise of warrants	412	4
Shares issued on exercise of share options	64,000	640
Issue of subscribed shares	67,200	672
At 30 September 2003	771,612	7,716
Shares issued on exercise of warrants	2,840	29
At 30 September 2004	**774,452**	**7,745**

During the year, 2,840,000 ordinary shares of HK$0.01 each in the Company were issued to certain warrant holders at a price of HK$0.65 per share, following the exercise of the warrants. The excess of the consideration received over the nominal value of the shares issued, in the amount of approximately HK$1,818,000, was credited to the share premium account (note 26).

24. SHARE CAPITAL (continued)

Warrants

Following the placing and the issue of new shares on 29 August 2002, the Company granted one bonus warrant for every two ordinary shares of HK$0.01 each in the share capital of the Company to: (i) the successful subscribers under the new issue of ordinary shares and the placees under the placing of ordinary shares; and (ii) Mr. Cai Zhen Rong of the balance of the warrants created and issuable.

Each of the bonus warrant will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.65 per share, subject to adjustment, from the date of issue to 21 August 2005 (both days inclusive). Any ordinary shares to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the existing fully-paid ordinary shares of the Company in issue on the relevant subscription date.

At 1 October 2003, the outstanding number of warrants was 127,588,000. During the year, 2,840,000 warrants were exercised for 2,840,000 shares of HK$0.01 each at HK$0.65 per share with proceeds of approximately HK$1,847,000. At 30 September 2004, the Company had 124,748,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 124,748,000 additional ordinary shares of the Company, with proceeds of approximately HK$81,086,200 in aggregate before any related share issue expenses.

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors (including independent non-executive directors), employees of the Group, suppliers of goods or services, customers, persons or entities providing research, development or other technological support to the Group, and any minority shareholder in the Company’s subsidiaries. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month year, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

25. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month year, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise year of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

All the options previously granted were exercised in 2003 and no share option was granted during the year.

26. RESERVES

Company

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1 October 2002	165,222	13,314	178,536
Issue of shares			
Exercise of warrants	264	–	264
Exercise of share options	35,840	–	35,840
Subscribed shares	66,528	–	66,528
Share issue expenses	(2,003)	–	(2,003)
Net profit for the year (note 10)	–	30,325	30,325
Dividends paid (note 11)	–	(22,880)	(22,880)
At 30 September 2003	265,851	20,759	286,610
Representing:			
At 30 September 2003 after proposed final dividend			269,242
Proposed final dividend (note 11)			17,368
			286,610
At 1 October 2003	265,851	20,759	286,610
Issue of shares on exercise of warrants (note 24)	1,818	–	1,818
Net profit for the year (note 10)	–	44,400	44,400
Dividends paid (note 11)	–	(29,759)	(29,759)
At 30 September 2004	**267,669**	**35,400**	**303,069**
Representing:			
At 30 September 2004 after proposed final dividend			295,324
Proposed final dividend (note 11)			7,745
			303,069

26. RESERVES (continued)

The share premium account of the Company includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited in 2002, over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	HK$'000
Net assets disposed of:	
Inventories	24,884
Trade receivables	32,779
Prepayments, deposits and other receivables	648
Cash and bank balances	24
Trade payables	(4,869)
Other payables	(760)
Tax payable	(52,704)
	2
Satisfied by:	
Cash consideration	2

An analysis of the net cash outflow in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	2
Cash and bank balances disposed of	(24)
	(22)

The subsidiaries disposed of during the year made no significant contribution to the Group's cash flow, turnover or net profit attributable to the shareholders for the year ended 30 September 2004.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	HK$'000
Net assets acquired:	
Property, plant and equipment	81,500
Investment securities	425
Inventories	1,479
Trade receivables	6,750
Prepayments, deposits and other receivables	807
Cash and bank balances	386
Interest-bearing bank loans	(12,264)
Trade payables	(6,365)
Other payables	(1,791)
Tax payable	(86)
Deferred tax	(5,748)
	65,093
Goodwill on acquisition	12,907
Cash consideration	78,000

An analysis of the net cash outflow in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	78,000
Cash and bank balances acquired	(386)
	77,614

The subsidiaries acquired during the year made no significant contribution to the Group's cash flow, turnover or net profit attributable to the shareholders for the year ended 30 September 2004.

(c) Major non-cash transactions

The capital injection by the minority shareholder of a subsidiary, Shenyang Huafeng Dyeing & Printing Co., Limited ("Shenyang Huafeng") was made by the injection of plant and machinery amounting to approximately HK$10,140,000.

Certain plant and machinery amounting to approximately HK$19,963,000 acquired during the year were satisfied by way of utilizing the deposits paid in the previous year.

28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2004 (2003: Nil).

At 30 September 2004, the Company had provided corporate guarantee to the extent of HK$50,000,000 (2003: Nil) for banking facilities granted to a subsidiary, which were utilised to the extent of HK$50,000,000 (2003: Nil).

29. COMMITMENTS

(a) Operating lease arrangements

The Group leases certain leasehold land and buildings under operating lease arrangements.

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**156**	403
In the second to fifth years, inclusive	**–**	63
	156	466

The Company did not have any operating lease commitments as at 30 September 2004 (2003: Nil).

29. COMMITMENTS (continued)

(b) Capital commitments

At 30 September 2004, the Group had the following capital commitments:

	Group	
	2004	2003
	HK$'000	HK$'000
Authorized but not contracted for		
Purchase of leasehold land	**6,904**	6,983
Contracted for but not provided for		
Construction of leasehold land and buildings	**3,868**	8,676
Purchase of plant and machinery	**2,896**	19,361
Non-current investments	**91,957**	–
	105,625	35,020

The Company did not have any significant capital commitments as at 30 September 2004 (2003: Nil).

30. RELATED PARTY TRANSACTIONS

(a) During the year, the Group paid rentals of approximately HK$447,000 (2003: Nil) to the minority shareholder of a subsidiary, Shenyang Huafeng, in respect of Shenyang Huafeng's factory premises.

(b) During the year, the Group engaged泉州華豐盛針織紡織有限公司(「華豐盛」) as an agent for facilitating the cash disbursements for suppliers and vendors of the Group at nil remuneration. Mr. Cai Yang Bo and Mr. Cai Zhen Yao, who are also directors of the Company, have beneficial interests in華豐盛. The maximum receivable amount outstanding during the year amounted to approximately HK$2 million. There were no outstanding balances at 30 September 2004.

(c) During the year, the Group obtained a bank loan of approximately HK$3.4 million via 華豐盛 which are secured by certain of the Group's land and buildings with a carrying amount of approximately HK$10,378,000.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

31. POST BALANCE SHEET DATE EVENTS

On 17 January 2005, the Company proposed to declare a final dividend of HK1.00 cent per ordinary share to its shareholders whose names appeared on the register of members of the Company on 21 February 2005, as further detailed in note 11 to the financial statements.

32. COMPARATIVE AMOUNTS

As explained in note 2(b) to the financial statements, due to the adoption of SSAP 12 (revised) for the current financial year, the accounting treatment and presentation of certain items and balances in the financial statements have been changed to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform to the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 January 2005.