NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2006

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its place of business is Room 2107, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 October 2005. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

(a) Presentation of financial statements

HKAS 1 "Presentation of Financial Statements" affects the presentation of minority interests and other disclosures.

(b) Minority interests

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the shareholders of the Company.

With effect from 1 October 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. This change in accounting policy has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) Financial instruments

The adoption of HKAS 32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities" to investments in securities for the 2005 comparative information. The adjustments required for the accounting differences between previous SSAP 24 and HKAS 39 are determined and recognised at 1 October 2005.

The adoption of HKASs 32 and 39 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	HK$'000
Increase in available-for-sale financial assets	**1,461**	—
Decrease in investment securities	**1,461**	—

(d) Leases

Upon the adoption of HKAS 17 "Leases", the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to prepaid land lease payments. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and impairment losses. HKAS 17 has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) Leases (continued)

The adoption of HKAS 17 resulted in an increase in retained profits at 1 October 2004 by approximately HK$1,339,000 and resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in property, plant and equipment	—	37,931
Increase in prepaid land lease payments	—	12,108
Decrease in properties revaluation reserve	—	10,652
Decrease in retained profits	—	1,230
Increase in other operating expenses	—	2,826
Decrease in cost of services provided and cost of sales	—	452
Increase in income tax expense	—	192
Decrease in loss shared by minority interests	—	3
Increase in goodwill	—	10,527
Decrease in deferred tax	—	2,847
Decrease in minority interests	—	361
Decrease in translation reserve	—	206
Decrease in EPS (HK cent)	—	0.32

(e) Business combinations

The adoption of HKFRS 3 "Business Combinations" resulted in a change in the accounting policy for goodwill. Until 30 September 2005, goodwill was:

— Amortised on a straight line basis over 5 years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

— The Group ceased amortisation of goodwill from 1 October 2005;

— Accumulated amortisation as at 30 September 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

— From the year ended 30 September 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) Business combinations (continued)

HKFRS 3 has been applied prospectively from 1 October 2005.

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	HK$'000
Increase in goodwill	6,027	—
Decrease in other operating expenses	6,027	—
Increase in EPS (HK cent)	0.72	—

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 September. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reserve previous revaluation decreases of the same assets. All other revaluation increases are credited to the properties revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same assets are charged against properties revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	The shorter of the lease terms and 20 to 30 years
Plant and machinery	10 - 20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation and, is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(e) Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments made (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives of technical know-how are ten years from the date they are available for use according to the agreements entered by the Group for acquisition of the technical know-how.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments (continued)

(ii) Available-for-sale financial assets

Available-for-sale financial assets are investments not classified as financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Subcontracting fee income is recognised when the subcontracting services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue 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 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 income statement 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 retirement benefits schemes (the "PRC RB Schemes") operated by the local municipal governments. The PRC subsidiaries are required to contribute to the PRC RB Schemes to fund the retirement benefits. The local municipal governments undertakes to assume the retirement benefit 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 Schemes is to meet the required contributions under the PRC RB Schemes. The contributions are charged to the income statement as they become payable in accordance with the relevant laws and regulations of the PRC.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Share-based payments

The Group issues equity-settled payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(p) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(q) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

(r) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and 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.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, 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. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(u) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Impairment of assets (continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(w) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

For the year ended 30 September 2006

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation; other intangible assets and amortisation

The Group determines the estimated useful lives and related depreciation charges and amortisation charges for the Group's property, plant and equipment and other intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and other intangible assets of similar nature and functions. Management will revise the depreciation and amortisation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 30 September 2006 was HK$24,106,000 after an impairment loss of HK$Nil.

(c) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its long-term borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. REVENUE AND OTHER INCOME

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

	2006	2005
	HK$'000	HK$'000
Revenue		
Provision of fabric processing services	444,810	377,535
Sale of goods	141,525	140,512
	586,335	518,047
Other income		
Bank interest income	482	23
Subcontracting income	2,186	2,427
Government grants	358	612
Others	1,754	1,890
	4,780	4,952

7. 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.

For the year ended 30 September 2006

7. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers

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

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment revenue:								
Sales to external customers	**217,760**	191,563	**309,152**	281,132	**59,423**	45,352	**586,335**	518,047
Segment results	**87,894**	80,925	**7,178**	(2,618)	**14,924**	12,483	**109,996**	90,790
Unallocated revenue							**4,780**	4,952
Unallocated expenses							**(13,843)**	(17,544)
Profit from operating activities							**100,933**	78,198
Finance costs							**(13,495)**	(10,773)
Profit before tax							**87,438**	67,425
Income tax expense							**(2,375)**	(1,905)
Profit for the year							**85,063**	65,520
Segment assets	**153,519**	134,691	**535,510**	491,820	**41,893**	31,888	**730,922**	658,399
Unallocated assets							**236,005**	94,149
Total assets							**966,927**	752,548
Segment liabilities	**16,487**	13,471	**51,686**	45,049	**4,499**	3,189	**72,672**	61,709
Unallocated liabilities							**300,115**	204,397
Total liabilities							**372,787**	266,106

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2006

7. SEGMENT INFORMATION (continued)

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

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Other segment information:								
Depreciation and amortisation	**7,041**	5,743	**28,612**	31,605	**1,921**	1,360	**37,574**	38,708
Impairment loss on property, plant and equipment	**—**	—	**2,000**	—	**—**	—	**2,000**	—
Write off of trade receivables and other receivables	**—**	—	**—**	1,031	**—**	—	**—**	1,031
Unallocated forfeiture of deposits paid for investment in a joint venture							**—**	1,905
Allowance for slow moving inventories	**—**	—	**—**	348	**—**	—	**—**	348
Capital expenditure	**4,715**	12,660	**40,979**	65,380	**1,287**	2,997	**46,981**	81,037

7. SEGMENT INFORMATION (continued)

(b) Geographic segments based on the location of assets

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

(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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment								
Sales to external customers	**481,951**	426,790	**104,384**	91,257	**—**	—	**586,335**	518,047
Inter-segment sales	**—**	—	**—**	1,507	**—**	(1,507)	**—**	—
Total revenue	**481,951**	426,790	**104,384**	92,764	**—**	(1,507)	**586,335**	518,047
Segment assets	**524,087**	450,354	**222,328**	208,025			**746,415**	658,379
Unallocated assets							**220,512**	94,169
							966,927	752,548
Capital expenditure	**41,586**	60,328	**5,395**	20,709			**46,981**	81,037

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2006

8. PROFIT FROM OPERATING ACTIVITIES

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

	2006	2005
	HK$'000	HK$'000 (Restated)
Cost of inventories sold	**136,766**	141,064
Depreciation	**36,603**	32,389
Allowance for slow-moving inventories	**—**	348
Minimum lease payments under operating leases on leasehold land and buildings	**1,390**	1,905
Staff costs (excluding directors' remuneration):		
Wages and salaries	**37,648**	34,580
Retirement benefits scheme contributions	**1,391**	1,476
Employee share option benefits (equity settled)	**4,164**	—
	43,203	36,056
Research and development expenditure	**10,097**	—
Auditors' remuneration	**1,491**	1,171
Impairment loss on property, plant and equipment	**2,000**	—
Amortisation of goodwill (included in other operating expenses)	**—**	6,027
Amortisation of technical know-how (included in cost of services provided and cost of sales)	**971**	292
(Reversal)/deficit on revaluation of buildings	**(841)**	890
Loss on disposal of property, plant and equipment	**1,016**	—
(Recovery)/write off of trade receivables	**(282)**	961
Write off of other receivables	**—**	70
Forfeiture of deposit paid for investment in a joint venture	**—**	1,905

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 30 September 2006

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Mr. Cai Zhenrong	—	450	—	—	—	450
Mr. Cai Zhenyao	—	304	—	—	—	304
Mr. Cai Zhenying	—	304	—	—	—	304
Mr. Cai Yangbo	—	304	—	—	—	304
Mr. Choi Wing Toon	—	254	—	—	12	266
Mr. Mak Shiu Chung, Godfrey	—	840	—	—	12	852
Independent non-executive directors						
Ms. Choy So Yuk	120	—	—	—	—	120
Mr. Lawrence Gonzaga	120	—	—	—	—	120
Mr. Wong Siu Hong	120	—	—	—	—	120
Total	360	2,456	—	—	24	2,840

For the year ended 30 September 2005

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Mr. Cai Zhenrong	—	450	—	—	—	450
Mr. Cai Zhenyao	—	304	—	—	—	304
Mr. Cai Zhenying	—	304	—	—	—	304
Mr. Cai Yangbo	—	304	—	—	—	304
Mr. Choi Wing Toon	—	240	—	—	12	252
Mr. Mak Shiu Chung, Godfrey	—	841	—	—	13	854
Independent non-executive directors						
Ms. Choy So Yuk	120	—	—	—	—	120
Mr. Lawrence Gonzaga	120	—	—	—	—	120
Mr. Wong Siu Hong	122	—	—	—	—	122
Total	362	2,443	—	—	25	2,830

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

During the year, no emoluments were paid or payable by the Group to the directors and five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: HK$Nil).

The five highest paid employees for the year ended 30 September 2006 included three (2005: five) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2005: Nil) highest paid employees for the year ended 30 September 2006, which fell within the "HK$Nil to HK$1,000,000" band, are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,246**	—
Employee share option benefits	**—**	—
Retirement benefits scheme contributions	**12**	—
	1,258	—

10. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank loans and overdraft	**13,274**	9,210
Bank charges	**221**	1,563
	13,495	10,773

For the year ended 30 September 2006

11. INCOME TAX EXPENSE

	2006	2005
	HK$'000	HK$'000
		(Restated)
PRC enterprise income tax		
— current	2,743	2,577
— deferred	(368)	(672)
Tax charge for the year	2,375	1,905

No provision for Hong Kong profits tax is required since the Group has no assessable profit arising in Hong Kong during the year (2005: HK$Nil).

Tax charge on profits assessable in the PRC 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 reconciliation between the income tax expense and the product of profit before tax multipled by the PRC enterprise income tax rate is as follows:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Profit before tax	87,438	67,425
Tax at PRC enterprise income tax rate of 33%	28,855	22,250
Tax effect of income that is not taxable	(36,861)	(32,128)
Tax effect of expenses that are not deductible	6,524	9,140
Tax effect of income tax on concessionary rates	717	1,068
Tax effect of unused tax losses not recognised	3,140	1,575
Income tax expense	2,375	1,905

12. DIVIDEND

		2006	2005
		HK$'000	HK$'000
Interim	— HK1 cent (2005: HK1.1 cents) per ordinary share paid	**8,805**	8,520
Proposed final	— HK0.5 cent (2005: HK$Nil) per ordinary share	**4,402**	—
		13,207	8,520

13. EARNINGS PER SHARE

The calculation of basic earnings per share are based on the following:

	2006	2005
	HK$'000	HK$'000 (Restated)
Earnings		
Profit attributable to equity holders of the Company, used in the basic earnings per share calculation	**87,266**	66,431
Number of shares		
Weighted average number of ordinary shares except bonus issue	**799,959,123**	774,483,452
Effect of bonus issue	**38,727,600**	38,727,600
Weighted average number of ordinary shares used in basis earnings per share calculation	**838,686,723**	813,211,052

There has been no diluted effect on the basic earnings per share for the years ended 30 September 2006 and 2005 as all the warrants were expired before 30 September 2005.

For the year ended 30 September 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000 (Restated)	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
Cost or valuation:					
At 1 October 2004					
— as previously reported	178,970	260,453	6,492	904	446,819
— effect of adopting HKAS 17	(35,849)	—	—	—	(35,849)
— as restated	143,121	260,453	6,492	904	410,970
Additions	23,357	42,222	1,156	4,592	71,327
Transfers	2,136	—	—	(2,136)	—
Exchange difference	4,169	5,958	178	26	10,331
Deficit on revaluation	(14,532)	—	—	—	(14,532)
At 30 September 2005, as restated and 1 October 2005	158,251	308,633	7,826	3,386	478,096
Additions	7,160	15,101	589	24,131	46,981
Transfers	2,428	10,172	—	(12,600)	—
Disposals	—	(2,970)	(859)	—	(3,829)
Surplus on revaluation	(5,803)	—	—	—	(5,803)
At 30 September 2006	162,036	330,936	7,556	14,917	515,445
Analysis of cost or valuation:					
At cost	—	308,633	7,826	3,386	319,845
At valuation	158,251	—	—	—	158,251
At 30 September 2005	158,251	308,633	7,826	3,386	478,096
At cost	—	330,936	7,556	14,917	353,409
At valuation	162,036	—	—	—	162,036
At 30 September 2006	162,036	330,936	7,556	14,917	515,445
Accumulated depreciation:					
At 1 October 2004	—	25,437	1,627	—	27,064
Charge for the year	7,994	23,223	1,172	—	32,389
Exchange difference	—	379	46	—	425
Reversal upon revaluation	(7,994)	—	—	—	(7,994)
At 30 September 2005, as restated and 1 October 2005	—	49,039	2,845	—	51,884
Charge for the year	8,612	26,725	1,266	—	36,603
Disposals	—	(1,047)	(688)	—	(1,735)
Reversal upon revaluation	(8,612)	—	—	—	(8,612)
At 30 September 2006	—	74,717	3,423	—	78,140
Impairment:					
At 1 October 2004, 30 September 2005, and 1 October 2005	—	—	—	—	—
Charge for the year	—	2,000	—	—	2,000
At 30 September 2006	—	2,000	—	—	2,000
Carrying amount:					
At 30 September 2006	162,036	254,219	4,133	14,917	435,305
At 30 September 2005, as restated	158,251	259,594	4,981	3,386	426,212

14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 30 September 2006, the Group's buildings, including certain buildings of approximately HK$146,893,000 (2005 as restated: HK$142,523,000) for which the Group are in the process of obtaining the relevant building ownership certificates, were revalued by BMI Appraisals Limited, an independent firm of professional valuers, at open market value of approximately HK$162,036,000 (2005 as restated: HK$158,251,000). The resulting revaluation surplus of approximately HK$1,968,000 (2005 as restated: deficit of HK$5,648,000) and of approximately HK$841,000 (2005 as restated: deficit of HK$890,000) has been credited/charged to the properties revaluation reserve and credited/debited to income statement respectively.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their carrying amounts as at 30 September 2006 would have been approximately HK$104,181,000 (2005 as restated: HK$106,510,000).

At 30 September 2006, the Group's buildings with carrying value of approximately HK$15,146,000 (2005 as restated: HK$15,728,000) and plant and machinery with an aggregate carrying amounts of approximately HK$67,102,000 (2005: HK$78,045,000) were pledged to secure certain banking facilities granted to the Group (note 24).

For the year ended 30 September 2006

15. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
At 1 October 2004	
— as previously reported	—
— effect of adopting HKAS 17	12,352
— as restated	12,352
Exchange difference	743
At 30 September 2005, as restated, 1 October 2005 and 30 September 2006	13,095
Accumulated amortisation	
At 1 October 2004	
— as previously reported	—
— effect of adopting HKAS 17	373
— as restated	373
Charge for the year	603
Exchange difference	11
At 30 September 2005, as restated and 1 October 2005	987
Charge for the year	309
At 30 September 2006	1,296
Carrying amount	
At 30 September 2006	11,799
At 30 September 2005	12,108

15. PREPAID LAND LEASE PAYMENTS (continued)

	2006	2005
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current assets	**11,490**	11,799
Current assets	**309**	309
	11,799	12,108

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium term leases.

At 30 September 2006 the Group's prepaid land lease payments, included certain leasehold lands of approximately HK$2,883,000 (2005: HK$4,754,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

At 30 September 2006 the Group's prepaid land lease payments, included certain leasehold lands with carrying amounts of approximately HK$8,533,000 (2005: HK$7,354,000) were pledged to secure certain banking facilities granted to the Group (note 24).

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16. INTANGIBLE ASSETS

	Technical know-how HK$'000	Goodwill HK$'000 (Restated) (Note)	Total HK$'000 (Restated)
Cost			
At 1 October 2004			
— as previously reported	—	12,907	12,907
— effect of adopting HKAS 17	—	13,159	13,159
At 1 October 2004, as restated	—	26,066	26,066
Additions	9,710	4,067	13,777
At 30 September 2005, as restated and 1 October 2005	9,710	30,133	39,843
Effect of adopting HKFRS 3	—	(6,027)	(6,027)
At 30 September 2006	9,710	24,106	33,816
Accumulated amortisation			
At 1 October 2004	—	—	—
Charge for the year	292	6,027	6,319
At 30 September 2005, as restated and 1 October 2005	292	6,027	6,319
Effect of adopting HKFRS 3	—	(6,027)	(6,027)
Charge for the year	971	—	971
At 30 September 2006	1,263	—	1,263
Carrying amount			
At 30 September 2006	8,447	24,106	32,553
At 30 September 2005, as restated	9,418	24,106	33,524

16. INTANGIBLE ASSETS (continued)

Note:

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to Lingfeng Dyeing & Weaving Co., Ltd., Shishi ("Lingfeng"), a fabrics processing services, manufacture and sale of fabrics unit.

The goodwill arising on acquisition of the subsidiary in 2004 represent the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition.

In 2004, the Group acquired 100% equity interest in Lingfeng and the directors assessed the goodwill arising on acquisition of Lingfeng based on the valuation reports in respect of property, plant and equipment prepared by an independent valuer as at 31 August 2004 and the management accounts of Lingfeng as at 30 September 2004.

During the year ended 30 September 2005, the directors identified additional liabilities of approximately HK$4,067,000 related to acquisition of 100% equity interest in Lingfeng. These additional liabilities were settled by the Group during the year which resulted in the corresponding increase of goodwill arising from the acquisition of Lingfeng.

The goodwill arising on the acquisition of Lingfeng is attributable to the anticipated profitability of the expansion of the production capacity and the business opportunities of the Group and the anticipated future operating synergies from the combination.

The recoverable amount of the goodwill arising on acquisition of the subsidiary has been determined based on a value in use calculation using cash flow projections based on the financial projections and the operational data of Lingfeng given by management of the Group and was determined with the assistance of independent valuers. The discount rate applied to cash flow projections is 14.431%. The recoverable amount of the goodwill arising on acquisition of the subsidiary was determined to be higher than its carrying amount and no impairment loss was recognised during the year.

17. INVESTMENT SECURITIES

	2006	2005
	HK$'000	HK$'000
Unlisted investment, at cost	—	1,461

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	RMB8,250,000	12%	Provision of sewage treatment services

For the year ended 30 September 2006

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	HK$'000	HK$'000
Unlisted equity securities, at cost	1,461	—

As mentioned in note 2(c) to the financial statements, from 1 October 2005 onwards, non-trading securities have been reclassified to available-for-sale financial assets in accordance with the requirements of HKAS 39. At 30 September 2005, non-trading securities amounted to HK$1,461,000.

Unlisted equity securities with carrying amount of HK$1,461,000 was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

19. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

	2006	2005
	HK$'000	HK$'000
Deposit paid for acquisition of companies (Note)	28,000	—
Deposits paid for the prepaid land lease payments	28,634	28,634
	56,634	28,634

Note: On 12 July 2006 the Group entered into a sale and purchase agreement with an independent third party to acquire the entire issued share capital of United Glory Development Limited, a company incorporated in the British Virgin Islands at a consideration of HK$85 million. At 30 September 2006, the Group paid HK$28,000,000 as a deposit.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Consumables	36,697	25,776
Raw materials	14,775	8,495
Work in progress	2,418	1,667
Finished goods	20,734	15,387
	74,624	51,325

21. 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:

	2006	2005
	HK$'000	HK$'000
0 — 30 days	**44,402**	35,182
31 — 60 days	**36,403**	27,859
61 — 90 days	**33,029**	17,921
Over 90 days	**11,019**	5,914
	124,853	86,876

22. CASH AND BANK BALANCES

At 30 September 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$56 million (2005: HK$83 million) were kept in the PRC. Conversion of RMB into foreign currencies is subject to PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. 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:

	2006	2005
	HK$'000	HK$'000
0 — 30 days	**12,799**	12,977
31 — 60 days	**9,148**	7,786
61 — 90 days	**2,717**	4,373
Over 90 days	**3,444**	2,872
	28,108	28,008

24. INTEREST-BEARING BORROWINGS

	2006	2005
	HK$'000	HK$'000
Bank loans are repayable as follows:		
On demand or within one year	**108,192**	111,300
In the second year	**46,875**	48,992
In the third to fifth years, inclusive	**124,160**	26,941
	279,227	187,233
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(108,192)**	(111,300)
Amount due for settlement after 12 months	**171,035**	75,933

(a) At 30 September 2006, the Group's banking facilities (other than the syndicated loan as disclosed below) were secured by the following:

(i) fixed charges on the Group's prepaid land lease payments and buildings with carrying amounts of approximately HK$23,679,000 (2005 as restated: HK$23,082,000) and plant and machinery with an aggregate carrying amounts of approximately HK$67,102,000 (2005: HK$78,045,000) (notes 14 and 15); and

(ii) maintained a deposit not less than HK$Nil (2005: HK$5,000,000) with a bank by the Company; and

(iii) corporate guarantees given by the Company for the year ended 30 September 2005 and two (2005: two) subsidiaries of the Company for the year ended 30 September 2006.

24. INTEREST-BEARING BORROWINGS (continued)

(b) Included in the bank borrowings was a syndicated loan facility approximately HK$250 million (2005: HK$70 million) entered by the Company of which HK$190 million was advanced during the year ended 30 September 2006.

The syndicated loan facility of HK$70 million as at 30 September 2005 was fully settled during the year. This syndicated loan was secured by the following:

(i) charge over the Company's shareholding in a subsidiary;

(ii) pledge over the paid-up shareholdings in a PRC subsidiary of the Company;

(iii) corporate guarantees given by two subsidiaries of the Company ("the Guarantors");

(iv) the controlling shareholder, Mr. Cai Zhenrong, is required to own in aggregate, either directly or indirectly, at least 35% of the total issued share capital of the Company during the term life of these facilities and placed for safe-custody with the agent of the banks which provided the syndicated loan;

(v) subordination of all loans and advances from the Guarantors and the members of the Group to the borrowers; and

(vi) comply with certain financial covenants throughout term life of the facilities.

The syndicated loan facility of HK$250 million as at 30 September 2006 was secured by the following:

(i) charge over the Company's shareholding in the subsidiaries;

(ii) pledge over the paid-up shareholdings in the PRC subsidiaries of the Company;

(iii) corporate guarantee given by one subsidiary of the Company;

(iv) the controlling shareholder, Mr. Cai Zhenrong, is required to own in aggregate, either directly or indirectly, at least 30% of the total issued share capital of the Company during the term life of these facilities and placed for safe-custody with the agent of the banks which provided the syndicated loan; and

(v) comply with certain financial covenants throughout term life of the facilities.

24. INTEREST-BEARING BORROWINGS (continued)

(c) The effective interest rates per annum at the balance sheet date are as follows:

	2006	2005
Syndicated loans	**HIBOR plus 1.7%**	HIBOR plus 1.375%
Other bank loans	**HIBOR plus 1.75% to 7.605%**	HIBOR plus 2% to 7.25%

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006	2005
	HK$'000	HK$'000
Bank loans		
Hong Kong dollars	**183,110**	95,000
RMB	**96,117**	92,233
	279,227	187,233

(c) Included in the other bank loans of HK$10,933,000 (2005: HK$Nil) being the finance lease facility obtained from a bank to finance the future acquisition of property, plant and equipment.

25. DEFERRED TAX

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

	Accelerated tax depreciation HK$'000 (Restated)	**Revaluation of buildings** HK$'000 (Restated)	**Total** HK$'000 (Restated)
At 1 October 2004			
— as previously reported	(751)	19,602	18,851
— effect of adopting HKAS 17	107	(3,798)	(3,691)
— as restated	(644)	15,804	15,160
Credit to equity for the year	—	(1,604)	(1,604)
Credit to income statement for the year	(431)	(241)	(672)
Exchange differences	(19)	462	443
At 30 September 2005, as restated and 1 October 2005	(1,094)	14,421	13,327
Charge to equity for the year	—	1,238	1,238
Credit to income statement for the year	(368)	—	(368)
At 30 September 2006	(1,462)	15,659	14,197

(b) At 30 September 2006 the Group had unused tax losses of approximately HK$28,551,000 (2005 as restated: HK$19,036,000) available for offset against future profits and such unused tax losses would expire within the next five years.

No deferred tax asset in relation to such tax losses has been recognised due to the unpredictability of future taxable profit streams.

For the year ended 30 September 2006

26. SHARE CAPITAL

	2006	2005
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
880,479,600 (2005: 774,552,000) ordinary shares of HK$0.01 each	**8,805**	7,746

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

	Note	**Number of shares issued** '000	**Nominal value of shares issued** HK$'000
At 1 October 2004		774,452	7,745
Shares issued on exercise of warrants	(a)	100	1
At 30 September 2005 and 1 October 2005		774,552	7,746
Shares issued on distribution of bonus shares	(b)	38,728	387
Shares issued on exercise of share options	(c)	67,200	672
At 30 September 2006		880,480	8,805

26. SHARE CAPITAL (continued)

Notes:

(a) 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 Zhenrong 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.

The trading of warrants on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ceased after 16 August 2005. The subscription rights attaching to 124,648,000 outstanding warrants not exercised expired after 21 August 2005. At 30 September 2005, the Company had no warrants outstanding.

A summary of the movements in warrants is as follows:

	Number of warrants	**Proceeds of warrants exercised**	**Credit to share premium**
	'000	HK$'000	HK$'000
At 1 October 2004	124,748		
Shares issued on exercise of warrants	(100)	65	64
Lapsed during the year	(124,648)		
At 30 September 2005	—		

(b) On 25 January 2006 the directors recommended a bonus issue of shares ("Bonus Issue") and approved in the Company's annual general meeting held on 24 February 2006. The Bonus Issue has been made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held.

(c) On 2 May 2006 the Company granted 67,200,000 share options at a subscription price of HK$0.395 per share to 10 employees of the Company and its subsidiaries or its invested entity according to the share option scheme operated by the Company, resulting in the issue of 67,200,000 shares of HK$0.01 each for a total cash consideration, before expenses, of approximately HK$26,544,000. The excess of the subscription consideration received over the nominal value of shares issued, amounted to approximately HK$25,872,000, was credited to the share premium account. All share options were exercised on 12 May 2006 and 17 May 2006.

27. SHARE-BASED PAYMENTS

Equity-settled 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 shareholders 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.

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.

Details of the specific category of options are as follows:

Date of grant	Vesting date	Exercise period	Exercise price
			HK$
2 May 2006	2 May 2006	2 May 2006 to 1 May 2009	0.395

27. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

Details of the share options outstanding during the year are as follows:

	2006		2005	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**—**	**—**	—	—
Granted during the year	**67,200,000**	**0.395**	—	—
Exercised during the year	**(67,200,000)**	**0.395**	—	—
Outstanding at the end of the year	**—**	**—**	—	—
Exercisable at the end of the year	**—**	**—**	—	—

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.45. In 2006, options were granted on 2 May 2006. The estimated fair value of the options is HK$4,164,000.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006	2005
Weighted average share price	**HK$0.395**	—
Weighted average exercise price	**HK$0.395**	—
Expected volatility	**40.01%**	—
Expected life	**1.5 years**	—
Risk free rate	**4.22%**	—
Expected dividend yield	**2.53%**	—

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1.5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

For the year ended 30 September 2006

28. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	HK$'000
Investments in subsidiaries	133,900	133,900
Due from subsidiaries	567,342	293,047
Other current assets	5,750	5,043
Due to subsidiaries	(131,744)	(75,416)
Interest-bearing borrowings	(183,110)	(70,000)
Other current liabilities	(2,087)	(1,797)
NET ASSETS	390,051	284,777
Share capital	8,805	7,746
Reserves	381,246	277,031
TOTAL EQUITY	390,051	284,777

29. RESERVES

Company

	Share premium HK$'000 (note (a))	Share-based payment reserve HK$'000 (note (b))	Retained profits HK$'000	Total HK$'000
At 1 October 2004	267,669	—	35,400	303,069
Shares issued on exercise of warrants (note 26(a))	64	—	—	64
Loss for the year	—	—	(9,837)	(9,837)
Dividends paid (note 12)	—	—	(16,265)	(16,265)
At 30 September 2005	267,733	—	9,298	277,031
Representing:				
At 30 September 2005				277,031
At 1 October 2005	267,733	—	9,298	277,031
Recognition of share-based payments	—	4,164	—	4,164
Issue of bonus shares (note 26(b))	(387)	—	—	(387)
Shares issued on exercise of share options (note 26(c))	30,036	(4,164)	—	25,872
Profit for the year	—	—	83,371	83,371
Dividends paid (note 12)	—	—	(8,805)	(8,805)
At 30 September 2006	297,382	—	83,864	381,246
Representing:				
At 30 September 2006 after proposed final dividend				376,844
Proposed final dividend (note 12)				4,402
				381,246

29. RESERVES (continued)

Notes:

(a) 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, 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.

(b) The share-based payment reserve of the Company and the Group arises on the grant of share options to employees under the Scheme. Further information about share-based payments to employees set out in note 27 to the financial statements. The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(o) to the financial statements.

30. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2006 are as follows:

Name	Place of incorporation/ establishment/ operation	Nominal value of issued and paid-up ordinary shares/ registered capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held				
Treasure Wealth Assets Limited	British Virgin Islands/ Hong Kong	US$600	100%	Investment holding
Indirectly held				
Huafeng Knitting Co., Ltd. Shishi City, Fujian * (note)	PRC	RMB105,000,000	99.24%	Provision of fabric processing services, manufacture and sale of fabrics

30. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ operation	Nominal value of issued and paid-up ordinary shares/ registered capital	Percentage of equity interests attributable to the Company	Principal activities
Indirectly held (continued)				
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$17,000,000	100%	Manufacture and sale of yarns
Shenyang Huafeng Dyeing & Printing Co., Ltd * ("Shenyang Huafeng")	PRC	US$2,800,000	53.6%	Provision of fabric processing services
Lingfeng #	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 and letting

The above list contains the particulars of subsidiaries, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

\# Wholly foreign owned enterprises established in the PRC.

Note:

Huafeng Knitting Co., Ltd. Shishi City, Fujian is a sino-foreign equity joint venture established under the law of the PRC. During the year ended 30 September 2006, the registered capital of this subsidiary was increased from RMB75,000,000 to RMB105,000,000. The increased capital was contributed by the Group, resulting in an increase in the percentage of equity interest attributable to the Company from 98.93% to 99.24%.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Certain property, plant and equipment amounted to approximately HK$3,001,000 acquired during the year ended 30 September 2005 were satisfied by way of utilising the deposit paid in previous year which amounted to approximately HK$971,000.

32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2006 (2005: HK$Nil).

33. COMMITMENTS

(a) Operating lease arrangements

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

	2006	2005
	HK$'000	HK$'000
Within one year	**712**	110
In the second to fifth years, inclusive	**28**	36
	740	146

(b) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	2006	2005
	HK$'000	HK$'000
Purchase of plant and machinery	**10,088**	—

34. RELATED PARTY TRANSACTIONS

(a) During the year ended 30 September 2006, the Group paid rentals of approximately HK$324,000 (2005: HK$777,100) to the minority shareholder of a subsidiary, Shenyang Huafeng, in respect of Shenyang Huafeng's factory premises.

(b) During the year ended 2006, the shareholder of the minority shareholder of a subsidiary, Shenyang Huafeng, advanced approximately HK$2,913,000 (2005 :HK$Nil) to Shenyang Huafeng. The advance is unsecured, interest-free and has no fixed term of repayment.

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.

35. EVENTS AFTER THE BALANCE SHEET DATE

On 12 July 2006 the Group entered into a sale and purchase agreement with an independent third party (the "Vendor") to acquire the entire issued share capital of United Glory Development Limited, a company incorporated in the British Virgin Islands at a consideration of HK$85 million. The unpaid balance of consideration was HK$57,000,000 at the balance sheet date. Subsequent to the balance sheet date, the Group paid further HK$27,000,000 to the Vendor and the remaining balance of HK$30,000,000 to be paid upon completion of the acquisition. Details please refer to the circular issued by the Company on 13 October 2006. The information of the acquiree's assets, liabilities and contingent liabilities are not disclosed as the consolidated financial statements of United Glory Development Limited is not yet available on the date of issue of these financial statements.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 January 2007.