HUAFENG TEXTILE INTERNATIONAL GROUP LIMITED

華豐紡織國際集團有限公司

Stock Code 股份代號：364

Annual Report 2007 年報

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon

Independent Non-Executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

AUDIT COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

REMUNERATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Li Mow Ming, Sonny *SB St. John, FCPA, CPA (Aust)*

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2107, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
36C Bermuda House, 3rd Floor
P.O. Box 513 GT
Dr. Roy's Drive, George Town
Grand Cayman
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Rooms 1901-02, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

LEGAL ADVISERS

As to Cayman Islands laws

Conyers Dill & Pearman

As to Hong Kong laws

D. S. Cheung & Co.

PRINCIPAL BANKERS

Bangkok Bank Public Co. Ltd. HK Branch
Citic Ka Wah Bank Limited
Hang Seng Bank Ltd
DBS Bank Guangzhou Branch
UOB Asia Limited

WEBSITES

www.huafeng.com.hk

STOCK CODE

364

Five-Year Financial Summary

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for the last five financial years:

RESULTS

	Year ended 30 September				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(as restated)		(as restated)
TURNOVER	**747,063**	586,335	518,047	380,409	338,471
PROFIT FROM OPERATIONS	**126,358**	100,933	78,198	73,401	110,525
Finance costs	**(23,516)**	(13,495)	(10,773)	(5,207)	(1,217)
PROFIT BEFORE TAX	**102,842**	87,438	67,425	68,194	109,308
Income tax expense	**(3,899)**	(2,375)	(1,905)	(1,616)	(18,213)
PROFIT BEFORE MINORITY INTERESTS	**98,943**	85,063	65,520	66,578	91,095
Minority interests	**6,418**	2,203	911	319	(30)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**105,361**	87,266	66,431	66,897	91,065

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 30 September				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(as restated)		(as restated)
NON-CURRENT ASSETS	**745,710**	537,443	501,630	456,371	281,945
CURRENT ASSETS	**564,357**	429,484	250,918	205,094	231,997
TOTAL ASSETS	**1,310,067**	966,927	752,548	661,465	513,942
CURRENT LIABILITIES	**381,345**	187,555	176,846	171,144	134,137
NON-CURRENT LIABILITIES	**201,764**	185,232	89,260	54,601	7,062
MINORITY INTERESTS	**1,747**	8,160	10,363	11,662	1,818
TOTAL LIABILITIES	**583,109**	372,787	266,106	237,407	143,017
NET ASSETS	**726,958**	594,140	486,442	424,058	370,925

Note 1: The summary of the results, assets, liabilities and minority interests of the Group for the years ended 30 September 2004 and 2003 are extracted from the Company's annual report 2004 prepared in accordance with Hong Kong Financial Reporting Standards.

Note 2: The summary of the results, assets, liabilities and minority interests of the Group for the years ended 30 September 2006 and 2005 are extracted from the Company's annual report 2006 prepared in accordance with Hong Kong Financial Reporting Standards.

Note 3: The summary of the results, assets, liabilities and minority interests of the Group for the year ended 30 September 2007 are extracted from the Company's annual report 2007 prepared in accordance with International Financial Reporting Standards.

Chairman's Statement

FINAL RESULTS

On behalf of the board of directors (the "Board") of Huafeng Textile International Group Limited (the "Company") and its subsidiaries (the "Group"), I take pleasure in presenting the Group's audited consolidated results for the year ended 30 September 2007. The Group's consolidated revenue for the year grew 27% to HK$747 million as compared to the corresponding last year. Profit after tax attributable to equity shareholders amounted to HK$105 million or HK11.97 cents per share, representing a year-on-year increase of 21% and 15% respectively.

BUSINESS REVIEW

As the leader in the fabrics processing industry in Shishi City, Fujian Province, PRC, the Group continued to perform satisfactory and achieved healthy growth in revenue and profit. Despite the industry generally facing upward wage pressure and labour shortage, the Group has made substantial investment in the state-of-the-art dyeing machinery and upgrading of existing equipment. Such capital investment has enhanced the overall production efficiency which not only offset the negative effect of labour shortage but also provides the Group with additional profit growth.

The Group has further strengthened its dyeing market leadership in Shishi through the acquisition of Shishi Huarun Knitting & Dyeing Co., Ltd. in November 2006. Huarun Knitting provides a steady growth of sales volume and revenue to the Group. Huarun Knitting focuses on mass market fabrics whereas Huafeng Knitting and Lingfeng Dyeing covers the middle and high end markets.

The Group's another milestone was to seek a secondary listing via Korea Depository Receipts ("KDR") programme in Seoul, Korea. The KDR was successfully listed on the Korea Exchange on 26 November 2007. Through the issuance of 300 million new ordinary shares (equivalent to 6 million KDRs), the Group raised a total sum of about HK$288 million (before expenses).

PROSPECTS

In line with the Group's long-term strategy, the Group will continue upgrading production facilities in all fabrics processing plants. The Group plans to construct a new yarn manufacturing plant in Jiangxi Province, PRC. Jiangxi Province is a strategic location for yarn spinning production with plenty supply of labour and with raw materials such as cotton in close proximity.

APPRECIATION

I would like to take this opportunity to express my sincere thanks and gratitude to the Group's management and staff for their dedicated loyalty and devoted service and to our shareholders, suppliers, customers and bankers for their continuing support.

Cai Zhenrong
Chairman

Hong Kong, 23 January 2008

Management Discussion and Analysis

FINANCIAL PERFORMANCE

The Group's revenue for the year ended 30 September 2007 amounted to approximately HK$747 million, representing an increase of 27% over last year. Profit attributable to shareholders for the year was approximately HK$105 million, representing an increase of approximately 21% over last year. The increase in revenue was mainly due to additional contribution from Huarun Knitting and higher utilisation at all dyeing plants. Provision of fabric processing services amounted to approximately HK$601 million during the year. Manufacture and sale of yarns remained stable during the year under review.

The gross profit margin of the Group increased from 25.8% in 2006 to 26.3% in 2007, which was mainly attributable to the system enhancement and a steady work force. Profit from operations has increased by HK$25 million over 2006.

On finance costs, there was an increase of approximately HK$10 million due to utilization of syndicated loan banking facilities throughout the year. Profit before tax has been a significant increase of 18% and profit after tax showed an increase of 16% over the previous year.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the Greater China region remained stable at 55% of total sales in 2007. The Philippines market continued to be a strong base of customers of the Group, accounted for approximately 36% of the Group's total sales. The remaining 9% of sales were generated from customers located in Africa, Australia and North America.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2007, the Group had current assets of approximately HK$564 million (2006: HK$429 million) and current liabilities of approximately HK$381 million (2006: HK$188 million). The current ratio (calculated as current assets to current liabilities) decreased from 2.28 as at 30 September 2006 to 1.48 as at 30 September 2007. The gearing ratio (calculated as the total bank borrowings to total shareholders' equity) had risen slightly from 0.47 as at 30 September 2006 to 0.49 as at 30 September 2007. These ratios were at reasonably adequate levels as at 30 September 2007 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the year under review, the Group principally met its funding requirements by cash flows from operations and bank borrowings. The net cash inflow from operating activities and financing activities were approximately HK$234 million and HK$22 million respectively.

Total bank borrowings increased by around 28% to approximately HK$357 million. The Group successfully raised HK$250 million loan facility through a syndication of six banks led by Citic Ka Wah Bank Limited and UOB Asia Limited in September 2006. Out of the utilised amount of HK$250 million, HK$140 million was used to repay existing bank debts, HK$85 million was to pay for the acquisition of United Glory Development Limited which owns Shishi Huarun Knitting & Dyeing Co., Ltd. in Shishi and the remaining funds were kept for working capital and other capital expenses.

At 30 September 2007, the Group had total bank borrowings of approximately HK$357 million, of which approximately HK$170 million was repayable within one year and approximately HK$187 million was repayable more than one year. Approximately 26% of the total bank borrowings was subject to fixed interest rates while approximately 74% was subject to floating interest rates. The Group's bank borrowings were primarily denominated in Renminbi and Hong Kong dollars. For the Group's total bank borrowings as at 30 September 2007, 26% of the balance was denominated in Renminbi and 74% of the balance was denominated in Hong Kong dollars. There are no seasonal adjustments with respect to the Group's borrowings.

At 30 September 2007, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain prepaid land lease payments and buildings of the Group; (iii) corporate guarantees given by its subsidiaries; and (iv) charges over the equity of its subsidiaries.

CAPITAL STRUCTURE

During the year ended 30 September 2007, there was no changes in capital structure and the total number of issued share capital of the Company as at 30 September 2007 was 880,479,600. Subsequent to the year end, the Company has issued 300 million ordinary new shares in the form of 6 million KDRs to investors in Seoul, Korea, the total issued capital has then been increased to 1,180,479,600.

Management Discussion and Analysis

CAPITAL EXPENDITURE AND MATERIAL ACQUISITION

During the year under review, the total capital expenditure and material acquisition of the Group was approximately HK$184 million, which was incurred as follows:

— approximately HK$99 million for the expansion of various plants and erection of new buildings;

— approximately HK$85 million for the acquisition of United Glory Development Limited, to cope with the increase in production and sales volume.

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in Renminbi ("RMB"), except overseas sales which are denominated in United States dollars ("USD") and Hong Kong dollars ("HKD"). In view of the currency peg between HKD and USD and a relatively strong RMB at HKD1.00 equal to RMB0.97 (as at 30 September 2007) the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

The Group has entered into an interest rate swap contract with Deutsche Bank to hedge significant future transactions and cash flows. At the balance sheet date, the total notional amount of outstanding interest rate swap contract to the Group is USD80,000,000. These arrangements are designed to address exposures of change in future interest rate. The fair value of the interest rate swap contract is immaterial at the balance sheet date. Before entering into the contract, the management has studied the structured product well and has sought professional advice. The management considered the financial risks arising from the structured product would be under proper control and would not create substantial adverse effect on the Group's financial position.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2007 (2006: HK$Nil).

PLEDGE OF ASSETS

The Group's bank borrowings are secured by prepaid land lease payments, buildings and plant and machinery of certain subsidiaries of the Group with a total carrying value of approximately HK$151 million at 30 September 2007 (2006: HK$91 million), corporate guarantees given by subsidiaries of the Company and charges over the equity of the subsidiaries of the Company.

EMPLOYMENT INFORMATION

At 30 September 2007, the Group had a total of 2,398 (2006: 2,017) employees in Hong Kong, Macau and the PRC. The Group's emoluments policies are based on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the year ended 30 September 2007, the total staff costs (including directors' emoluments) amounted to approximately HK$60 million (2006: HK$46 million).

The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

Management Discussion and Analysis

BUSINESS DEVELOPMENT AND OUTLOOK

All plants and recent business expansions have contributed greatly to the Group's turnover. The management expects to see further growth with future acquisition and expansion of plant facilities.

Existing plants include:

— Huafeng Knitting (99.24% owned subsidiary of the Company): specializes in fabric manufacturing and processing with an annual production capacity of 56,000 tonnes.

— Fenghua Textile (wholly-owned subsidiary of the Company): principally engages in yarn spinning (66,000 spindles) with an annual production capacity of approximately 15,000 tonnes.

— Lingfeng (wholly-owned subsidiary of the Company): principally engages in fabric processing with an annual processing capacity of approximately 39,000 tonnes.

— Huarun Dyeing (wholly-owned subsidiary of the Company): principally engages in fabric processing with an annual processing capacity of about 36,000 tonnes.

— Shenyang Huafeng (53.7% owned subsidiary of the Company): originally engaged in fabric processing of corduroy and fabric processing and printing of muslin. Due to Chinese partner's intention to re-develop the site of the production plant, production has ceased.

— Lianyungang Huafeng (wholly-owned subsidiary of the Company): the factory has been leased out to a third party at an annual rental of HK$2.3 million.

The Group reported improved turnover in 2007. As a result of expanded production capacity and improved efficiencies of all dyeing plants, the Group continues to seek aggressive growth and aim to further consolidate its leadership position in the industry.

The future sees the Group continuing to deliver strong and consistent profitable growth through expansion of its presence in PRC and globally. We intend to invest substantially in capacity expansion of existing operations and our ambitions are to diversify into new vertically integrated businesses that compliment and enhance our fabric processing capabilities and create synergies.

Report of the Corporate Governance

The Company has adopted most of the code provisions as stated in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Board is committed to complying with the CG Code to the extent that the directors considers it to be applicable to the Company and practical.

The corporate governance principles of the Group emphasize an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to all shareholders of the Company. The Company had complied with the CG Code throughout the year ended 30 September 2007 with the following deviations:

CODE PROVISION A.2.1

Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The role of the chief executive officer has been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies.

CODE PROVISION A.4.1

Non-executive directors are not appointed for a specific term. They are, however, subject to retirement rotation and re-election at the annual general meetings of the Company pursuant to the Company's articles of association. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies may meet the general rules and standards required by the shareholders of the Company.

The key corporate governance principles and practices of the Company are summarized as follows:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all directors have confirmed their compliance with the required standard set out in the Model Code during the year ended 30 September 2007.

BOARD

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The directors are responsible for leadership and control of the Group.

Report of the Corporate Governance

A) Board Composition

The Board currently comprises five executive directors and three independent non-executive directors, serving the important function of guiding the management.

The Board members during the year end up to the date of this report were:

Executive directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon
Mr. Mak Shiu Chung, Godfrey (resigned on 2 October 2007)

Independent non-executive directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

The biographical details of all directors and the relationships among them are set out in "Directors' Biographies" on pages 23 to 24 of the annual report. Save as disclosed in the section of "Directors' Biographies", none of the directors of the Company has any financial, business, family or other material or relevant relationships among members of the Board.

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the senior management to discharge its responsibilities.

Appropriate insurance cover for the directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group is being arranged by the Company.

Report of the Corporate Governance

C) Meeting Records

There were 11 Board meetings held for the year ended 30 September 2007. The following was an attendance record of the Board meetings held by the Board:

Board Members	Attendance at meetings held for the year ended 30 September 2007
Executive directors	
Mr. Cai Zhenrong *(Chairman)*	7/11
Mr. Cai Zhenyao	6/11
Mr. Cai Zhenying	5/11
Mr. Cai Yangbo	11/11
Mr. Choi Wing Toon	11/11
Mr. Mak Shiu Chung, Godfrey	8/11
Independent non-executive directors	
Mr. Lawrence Gonzaga	2/11
Ms. Choy So Yuk	1/11
Mr. Wong Siu Hong	1/11

D) Independent Non-executive Directors

During the year ended 30 September 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive directors are independent.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Report of the Corporate Governance

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman is Mr. Cai Zhenrong while the Company does not at present have any officer with the title of "chief executive officer".

The chairman's responsibility is to manage the Board and the role of the chief executive officer has been performed collectively by all the executive directors, including the chairman, of the Company.

The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company does not have a Nomination Committee as the role and function of such a committee are performed by the Board. The Board is responsible for the formulation of nomination policies, making recommendations to shareholders on directors of the Company standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating directors to fill casual vacancies.

The chairman may in conjunction with the other directors from time to time review the composition of the Board with particular regard to ensuring there is an appropriate number of directors on the Board independent of management. The Board also may identify and nominate qualified individuals for appointment as new directors of the Company. During the year under review, no meeting was held by the Board for nomination of new director.

The independent non-executive directors are not appointed for specific term. Under the articles of association of the Company, all directors (including directors and independent non-executive directors) are subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:—

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

Report of the Corporate Governance

A) Audit Committee

The Company has established an Audit Committee. It currently consists of three independent non-executive directors.

Composition of Audit Committee Members

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

Role and function

The Audit Committee is mainly responsible for:

i. discussing with the external auditors before the audit commences and the nature and scope of audit;

ii. reviewing the draft Company's annual and interim accounts before submission to, and providing advice and comments to the Board;

iii. reviewing the external auditors' management letter and considering the appointment of external auditors, their audit fees and questions of resignation or dismissal;

iv. discussing problems and reservations arising from the annual and interim accounts and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

v. assessing the risk environment and reviewing internal control report of the Group.

Meeting Record

The Audit Committee met twice during the year, particular in reviewing the interim and annual results, and the internal control of the Group. The following was an attendance record of the of the Audit Committee meetings for the year ended 30 September 2007:

Audit Committee Members	**Attendance at meetings held for the year ended 30 September 2007**
Mr. Lawrence Gonzaga *(Chairman)*	2/2
Ms. Choy So Yuk	2/2
Mr. Wong Siu Hong	2/2

During the year ended 30 September 2007, the Audit Committee has discussed the auditing and financial reporting matters, the internal control and risk management systems; and the annual and interim accounts.

Report of the Corporate Governance

B) Remuneration Committee

The Company has established a Remuneration Committee. It currently consists of three independent non-executive directors.

Composition of Remuneration Committee Members

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk
Mr. Wong Siu Hong

Role and function

The Remuneration Committee is mainly responsible for:

i. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

ii. making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

iii. determining the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;

iv. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

v. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

vi. reviewing and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

vii. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

viii. ensuring that no director or any of his associates is involved in deciding his own remuneration; and

ix. advising the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Report of the Corporate Governance

Meeting Record

The Remuneration Committee met once during the year. The following was an attendance record of the of the remuneration committee meeting for the year ended 30 September 2007:

Remuneration Committee Members	**Attendance at meetings held for the year ended 30 September 2007**
Mr. Lawrence Gonzaga *(Chairman)*	1/1
Ms. Choy So Yuk	1/1
Mr. Wong Siu Hong	1/1

During the year ended 30 September 2007, the Remuneration Committee has reviewed the remuneration package of the Board members and the senior management of the Company.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on going dialogue with shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings by sending the notice of meeting, circular and proxy form.

Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:—

Hotline no.: 2549 0669

By post: Room 2107, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

AUDITORS' REMUNERATION

During the year ended 30 September 2007, the remuneration paid and payable to the auditors of the Company, RSM Nelson Wheeler, for the provision of the Group's audit services, interim review services and taxation services were HK$1,720,000, HK$650,000 and HK$5,000 respectively.

Report of the Corporate Governance

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 30 September 2007, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and on a going concern basis.

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the shareholders of the Company, as a body, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

The Group's investors relation firm in Hong Kong is Financial PR HK Ltd while handling corporate relations in Korea is Value C&I in Seoul.

Report of the Directors

The directors of the Company are pleased to present their report and the audited financial statements of the Group for the year ended 30 September 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the principal subsidiaries are set out in note 30 to the financial statements. There was no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 30 September 2007 are set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 30 September 2007 and the state of affairs of the Group as at that date are set out in the financial statements on pages 27 to 80.

During the year under review, the Board has declared and paid an interim dividend of HK2 cents per share.

The Board recommend the payment of a final dividend of HK1.1 cents per ordinary share in respect of the year ended 30 September 2007 to the shareholders whose names appear on the register of members of the Company on 18 March 2008. The proposed final dividend is subject to the shareholders' approval at the forthcoming annual general meeting of the Company and will be paid on or around 27 March 2008.

BONUS ISSUE OF SHARES

The Board has resolved to recommend a bonus issue of shares, which will be made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held. Through the issuance of bonus shares, the Group intended to encourage and offer its shareholders the opportunity to share the prosperous growth of the Group in the long run and it will provide the Company with a wider capital base and therefore increase the marketability of the shares.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 30 September 2007, are set out in note 26 to the financial statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and the consolidated statement of changes in equity on pages 29 and 30 of the annual report.

DISTRIBUTABLE RESERVES

At 30 September 2007, the Company had distributable reserves of approximately HK$428,645,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK$297,382,000 as at 30 September 2007, 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 September 2007, the percentage of sales or purchases attributable to the Group's five largest customers or suppliers was less than 30%.

Neither the directors of the Company, any of their associates nor any shareholders (which to the best knowledge of the directors who owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo
Mr. Choi Wing Toon
Mr. Mak Shiu Chung, Godfrey (resigned on 2 October 2007)

Independent non-executive directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk
Mr. Wong Siu Hong

In accordance with Article 108 of the Company's articles of association, Mr. Cai Zhenyao, Ms. Choy So Yuk and Mr. Wong Siu Hong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 23 to 24 of the annual report.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive directors, has entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Each of the independent non-executive directors has entered into a letter of appointment with the Company without specific terms of office and is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

Report of the Directors

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

CONNECTED TRANSACTIONS

There were no transactions which should be disclosed in the annual report as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2007, the interests of the directors or chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Cai Zhenrong	Beneficial owner	Personal	429,640,000 (Long position)	48.80%

Save as disclosed above, as at 30 September 2007, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executives' interests in shares or short positions in shares and underlying shares" and "Share option scheme", at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "Scheme") and the details of the movements in share options which were granted under the scheme are set out in note 27 to the financial statements.

To enhance the transparency of the status in relation to the granting of share options of the Company, on 19 August 2003, the Company made an announcement to the public that it would make announcements to inform the shareholders promptly every time when the directors approve granting of any further share options.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2007, to the best knowledge of the directors of the Company, the following person (other than a director of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO:

Long positions

Ordinary Shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Ms. Su Liyuan	Interest of spouse (Note)	429,640,000 (Long position)	48.80%

Note: These 429,640,000 shares are held and beneficially owned by Mr. Cai Zhenrong, an executive director of the Company. Under the SFO, Ms. Su Liyuan is deemed to be interested in these 429,640,000 shares.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no directors of the Company or their respective associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

Report of the Directors

POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in note 35 to the financial statements.

PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

AUDITORS

The accompanying financial statements for the years ended 30 September 2005, 2006 and 2007 were audited by RSM Nelson Wheeler who retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Cai Zhenrong
Chairman

Hong Kong, 23 January 2008

Directors' Biographies

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 60, is the founder, the chairman and an executive director of the Group. Mr. Cai is responsible for the overall strategic planning, business developments and strategic investments of the Group. Mr. Cai has over 19 years of experience in the textile industry. He established East South Asia Trading Co. Ltd. in 1988 as an investment vehicle for the investment and establishment of Huafeng Knitting. Since the establishment of Huafeng Knitting, Mr. Cai has devoted a significant amount of time in the Philippines for the Group's business management and development. Mr. Cai Zhenrong is the brother of Mr. Cai Zhenyao and Mr. Cai Zhenying; the father of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Zhenyao, aged 53, is an executive director and the finance director of the Group. Mr. Cai was the factory and operations manager in Fujian Province Shishi City Hanjiang Liantang Plastic and Metal Manufactory during the period from 1985 to 1988, and was the deputy general manager of Fujian Province Shishi City Hanjiang Liantang Xinda Knitting Manufactory during the period from 1988 to 1992. Mr. Cai has been responsible for the Group's overall organisational and finance systems management since joining the Group in 1993, including the establishment of employees benefits system, production management system, accounting and treasury system and internal control system. Mr. Cai Zhenyao is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenying; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Zhenying, aged 51, is an executive director and the marketing director of the Group. Mr. Cai was the sales manager of Fujian Province Shishi City Huangguanba Textile Company Limited during the period from 1988 to 1992. Mr. Cai has been responsible for the Group's sales, marketing and promotion functions since joining the Group in 1993. Mr. Cai is principally responsible for the formulation and administration of the marketing and promotion activities of the Group as well as customers' liaison for the Group. He has accumulated in-depth knowledge in relation to the fabric processing industry, the credit standing and the needs and preferences of the Group's customers. Mr. Cai Zhenying is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenyao; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Yangbo, aged 33, is an executive director and the operation director of the Group. Mr. Cai was the deputy general manager of Fujian Province Shishi City Yongningzi Yingmingfeng Knitting Factory during the period from 1993 to 1996 and was principally responsible for production and business management. Mr. Cai has been responsible for the overall production factory management and human resources of the Group since joining the Group in 1996. Mr. Cai Yangbo is the son of Mr. Cai Zhenrong; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

Mr. Choi Wing Toon, aged 57, is an executive director and the marketing and promotion manager of the Group. Mr. Choi was a proprietor engaged in fabrics trading and processing agency services prior to joining the Group. Mr. Choi has been responsible for the overseas sales and marketing activities of the Group since joining the Group in 1997. Mr. Choi is the cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying.

Directors' Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 34, was appointed as independent non-executive director in August 2002. Mr. Gonzaga graduated from De La Salle University in the Philippines in 1993 with a bachelor of science degree in Commerce majoring in Business Management. Mr. Gonzaga has worked in a securities company in the Philippines for over 13 years. Mr. Gonzaga is a member of the Market Technician Association and holds the Chartered Market Technician ("CMT") designation.

Ms. Choy So Yuk, aged 57, was appointed as independent non-executive director in August 2002. Ms. Choy obtained her bachelor's degree in science and her master's degree in philosophy from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was one of the founding management members of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a variety of political, social and academic committee memberships, such as the chairman of The Hong Kong Special Administrative Region Legislative Council Panel on Home Affairs, panel member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference, member of the Court of the University of Hong Kong and director of the Fujian Middle School. Ms. Choy has also become a member of the Legislative Council in Hong Kong since 1998.

Mr. Wong Siu Hong, aged 40, was appointed as independent non-executive director in September 2004. Mr. Wong obtained a bachelor of business degree, majoring in accounting and commercial law in Australia. Mr. Wong is currently the Chief Financial Officer and Company Secretary of Heng Tai Consumables Group Limited ("Heng Tai"), a company listed on the Main Board of the Stock Exchange, who is responsible for Heng Tai's financial planning and management, and corporate governance. Prior to joining Heng Tai, Mr. Wong had worked in a multinational accounting firm and has over 11 years of experience in accounting and auditing. Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia.

Independent Auditor's Report

RSM! Nelson Wheeler
羅申美會計師行
Certified Public Accountants

TO THE SHAREHOLDERS OF
HUAFENG TEXTILE INTERNATIONAL GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huafeng Textile International Group Limited (the "Company") set out on pages 27 to 80, which comprise the consolidated balance sheet as at 30 September 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 September 2007 and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
23 January 2008

Consolidated Income Statement

For the year ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
TURNOVER	6	**747,063**	586,335
Cost of services provided and cost of sales		**(550,633)**	(434,946)
Gross profit		**196,430**	151,389
Other income	7	**11,484**	4,780
Selling and distribution expenses		**(22,316)**	(19,296)
Administrative expenses		**(46,009)**	(32,987)
Other operating expenses		**(13,231)**	(2,953)
PROFIT FROM OPERATIONS		**126,358**	100,933
Finance costs	10	**(23,516)**	(13,495)
PROFIT BEFORE TAX		**102,842**	87,438
Income tax expense	11	**(3,899)**	(2,375)
PROFIT FOR THE YEAR	12	**98,943**	85,063
Attributable to:			
Equity holders of the Company		**105,361**	87,266
Minority interests		**(6,418)**	(2,203)
		98,943	85,063
DIVIDENDS	13	**30,595**	13,207
EARNINGS PER SHARE	14		
Basic		**HK11.97 cents**	HK10.41 cents
Diluted		**HK11.81 cents**	N/A

Consolidated Balance Sheet

At 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**578,521**	435,305
Prepaid land lease payments	16	**56,975**	11,490
Intangible assets	17	**40,964**	38,580
Available-for-sale financial assets	18	**3,257**	1,461
Deposits paid for acquisition of long-term assets	19	**65,993**	56,634
		745,710	543,470
CURRENT ASSETS			
Inventories	20	**106,247**	74,624
Trade receivables	21	**182,070**	124,853
Prepayments, deposits and other receivables		**45,457**	37,901
Prepaid land lease payments	16	**1,263**	309
Bank and cash balances	22	**229,320**	191,797
		564,357	429,484
CURRENT LIABILITIES			
Trade payables	23	**51,463**	28,108
Other payables and accruals		**151,419**	46,095
Due to a related company	34	**3,097**	2,913
Interest-bearing borrowings	24	**169,832**	108,192
Current tax liabilities		**5,534**	2,247
		381,345	187,555
NET CURRENT ASSETS		**183,012**	241,929
TOTAL ASSETS LESS CURRENT LIABILITIES		**928,722**	785,399
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	24	**187,067**	171,035
Deferred tax liabilities	25	**14,697**	14,197
		201,764	185,232
NET ASSETS		**726,958**	600,167
CAPITAL AND RESERVES			
Share capital	26	**8,805**	8,805
Reserves		**716,406**	583,202
Equity attributable to equity holders of the Company		**725,211**	592,007
Minority interests		**1,747**	8,160
TOTAL EQUITY		**726,958**	600,167

Approved by the Board of Directors

Cai Yangbo
Director

Choi Wing Toon
Director

Consolidated Statement of Changes in Equity

For the year ended 30 September 2007

		Attributable to equity holders of the Company								
			Reserves							
	Note	Share capital HK$'000	Share premium HK$'000	Properties revaluation reserve HK$'000	Share-based payment reserve HK$'000 (note 29(b))	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 October 2005		7,746	135,186	21,398	—	12,466	305,310	482,106	10,363	492,469
Surplus on revaluation of buildings	15	—	—	1,968	—	—	—	1,968	—	1,968
Surplus on revaluation of buildings shared by minority shareholders		—	—	(4)	—	—	—	(4)	4	—
Effect on deferred tax	25(a)	—	—	(1,238)	—	—	—	(1,238)	—	(1,238)
Effect on deferred tax shared by minority shareholders		—	—	4	—	—	—	4	(4)	—
Exchange differences on translation of foreign operations		—	—	—	—	2	—	2	—	2
Net income recognised directly in equity		—	—	730	—	2	—	732	—	732
Profit for the year		—	—	—	—	—	87,266	87,266	(2,203)	85,063
Total recognised income and expense for the year		—	—	730	—	2	87,266	87,998	(2,203)	85,795
Recognition of share-based payments		—	—	—	4,164	—	—	4,164	—	4,164
Issue of bonus shares	26(a)	387	(387)	—	—	—	—	—	—	—
Shares issued on exercise of share options	26(b)	672	30,036	—	(4,164)	—	—	26,544	—	26,544
Dividends paid		—	—	—	—	—	(8,805)	(8,805)	—	(8,805)
At 30 September 2006		8,805	164,835	22,128	—	12,468	383,771	592,007	8,160	600,167
Representing:										
At 30 September 2006 after proposed final dividend								587,605		
Proposed final dividend	13							4,402		
Equity attributable to equity holders of the Company								592,007		

Consolidated Statement of Changes in Equity

For the year ended 30 September 2007

	Note	Share capital HK$'000	Share premium HK$'000	Properties revaluation reserve HK$'000	Share-based payment reserve HK$'000 (note 29(b))	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the Company								
			Reserves							
At 1 October 2006		8,805	164,835	22,128	—	12,468	383,771	592,007	8,160	600,167
Surplus on revaluation of buildings	15	—	—	6,247	—	—	—	6,247	—	6,247
Surplus on revaluation of buildings shared by minority shareholders		—	—	(6)	—	—	—	(6)	6	—
Effect on deferred tax	25(a)	—	—	(237)	—	—	—	(237)	—	(237)
Effect on deferred tax shared by minority shareholders		—	—	1	—	—	—	1	(1)	—
Exchange differences on translation of foreign operations		—	—	—	—	38,447	—	38,447	—	38,447
Net income recognised directly in equity		—	—	6,005	—	38,447	—	44,452	5	44,457
Profit for the year		—	—	—	—	—	105,361	105,361	(6,418)	98,943
Total recognised income and expense for the year		—	—	6,005	—	38,447	105,361	149,813	(6,413)	143,400
Recognition of share-based payments		—	—	—	5,403	—	—	5,403	—	5,403
Dividends paid		—	—	—	—	—	(22,012)	(22,012)	—	(22,012)
At 30 September 2007		8,805	164,835	28,133	5,403	50,915	467,120	725,211	1,747	726,958
Representing:										
At 30 September 2007 after proposed final dividend								712,226		
Proposed final dividend	13							12,985		
Equity attributable to equity holders of the Company								725,211		

Note: The share premium account of the Group includes:

(i) the premium arising from the issue of new shares; and

(ii) the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 August 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in Appendix III "Statutory and General Information" in the Company's prospectus dated 20 August 2002.

Consolidated Cash Flow Statement

For the year ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**102,842**	87,438
Adjustments for:			
Bank interest income		**(6,154)**	(482)
Finance costs		**23,516**	13,495
Depreciation		**46,923**	36,603
Amortisation of prepaid land lease payments		**606**	309
Loss on disposal of property, plant and equipment		**338**	1,016
Deficit/(reversal) on revaluation of buildings		**138**	(841)
Amortisation of technical know-how		**1,035**	971
Impairment loss on property, plant and equipment		**8,545**	2,000
Allowance for inventories		**1,895**	—
Allowance for trade receivables		**98**	—
Allowance for other receivables		**1,628**	—
Equity-settled share-based payments		**5,403**	4,164
Operating profit before working capital changes		**186,813**	144,673
Change in inventories		**(27,788)**	(23,299)
Change in trade receivables		**(36,896)**	(37,977)
Change in prepayments, deposits and other receivables		**(453)**	(13,860)
Change in trade payables		**15,681**	100
Change in other payables and accruals		**99,720**	9,964
Change in due to a related company		**184**	2,913
Cash generated from operations		**237,261**	82,514
Tax paid		**(2,907)**	(1,903)
Net cash generated from operating activities		**234,354**	80,611
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(98,575)**	(46,981)
Acquisition of interests in available-for-sale financial assets		**(1,359)**	—
Proceeds from disposal of property, plant and equipment		**608**	1,078
Acquisition of a subsidiary	31	**(56,807)**	—
Deposits paid for acquisition of long-term assets		**(65,993)**	(28,000)
Purchases of prepaid land lease payments		**(9,610)**	—
Interest received		**6,154**	482
Net cash used in investing activities		**(225,582)**	(73,421)

Consolidated Cash Flow Statement

For the year ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of new bank loans		**207,451**	282,050
Repayment of bank loans		**(139,981)**	(190,056)
Proceeds from issue of shares		**—**	26,544
Finance costs paid		**(23,516)**	(13,495)
Dividends paid		**(22,012)**	(8,805)
Net cash generated from financing activities		**21,942**	96,238
NET INCREASE IN CASH AND CASH EQUIVALENTS		**30,714**	103,428
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**191,797**	88,367
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**6,809**	2
CASH AND CASH EQUIVALENTS AT END OF YEAR		**229,320**	191,797
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**229,320**	191,797

Notes to the Financial Statements

For the year ended 30 September 2007

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 and Korea Exchange under the Korea Depository Receipts Programme .

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Group has adopted Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for accounting periods beginning on or after 1 October 2006. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years. The effect on adoption of the IFRSs in current year compared with financial statements prepared in accordance with the HKFRSs is stated below.

Business combinations

The Group ceased amortisation of goodwill since its first adoption of IFRSs from 1 October 2003.

The adoption of IFRS 3 "Business Combinations" resulted in changes in the amounts reported in the financial statements as follows:

	2007	2006
	HK$'000	HK$'000
Increase in goodwill	—	6,027
Increase in retained profits	—	6,027

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs 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 IFRSs requires the use of certain key assumptions and estimates. It also requires directors 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.

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 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

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.

(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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 translation reserve.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the 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 period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the properties revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost 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, office equipment and 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 (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(f) Technical know-how

Technical know-how acquired by the Group is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of technical know-how unless such lives are indefinite. Technical know-how with an indefinite useful life is systematically tested for impairment at each balance sheet date. Technical know-how are amortised from the date they are available for use and the estimated useful lives 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(j) 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments (continued)

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.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, or 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.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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.

(m) 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 IFRSs. 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 manufactured goods 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 services are rendered.

(o) 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) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) Borrowing costs

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

(r) 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.

(s) 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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

(t) 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 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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, goodwill, other intangible assets, 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.

(v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables 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.

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.

Notes to the Financial Statements

For the year ended 30 September 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of assets (continued)

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.

(w) 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.

(x) 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.

Notes to the Financial Statements

For the year ended 30 September 2007

4. 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; technical know-how 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 technical know-how. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and technical know-how of similar nature and functions. The Group 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 the present value. The carrying amount of goodwill at the balance sheet date was HK$33,015,000 after an impairment loss of HK$Nil.

(c) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) *Allowance for slow-moving inventories*

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

Notes to the Financial Statements

For the year ended 30 September 2007

4. KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(e) Share-based payment expenses

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

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 ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. 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.

Notes to the Financial Statements

For the year ended 30 September 2007

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

At 30 September 2007 the Group's bank and cash balances included fixed deposits denominated in United States dollars amounting to approximately HK$136 million (2006: HK$Nil) and at fixed interest rate of 1.38% per annum (2006: Nil) and therefore are subject to fair value interest rate risk.

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

The Group's entered a contract of interest rate swap for five years to hedge significant future transactions and cash flows. At the balance sheet date, the total notional amount of outstanding interest rate swap contract to the Group is US$80,000,000. These arrangements are designed to address exposures of change in future interest rate. The fair value of the interest rate swap contract is immaterial at the balance sheet date.

(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. TURNOVER

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

	2007	2006
	HK$'000	HK$'000
Provision of fabric processing services	**601,319**	444,810
Sale of goods	**145,744**	141,525
	747,063	586,335

7. OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Bank interest income	**6,154**	482
Subcontracting income	**2,318**	2,186
Government grants	**93**	358
Net foreign exchange gains	**1,872**	—
Others	**1,047**	1,754
	11,484	4,780

Notes to the Financial Statements

For the year ended 30 September 2007

8. 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.

(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.

Notes to the Financial Statements

For the year ended 30 September 2007

8. SEGMENT INFORMATION (continued)

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

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Revenue	**268,859**	217,760	**408,678**	309,152	**69,526**	59,423	**747,063**	586,335
Segment results	**114,403**	87,894	**5,320**	7,178	**18,024**	14,924	**137,747**	109,996
Other income							**11,484**	4,780
Unallocated expenses							**(22,873)**	(13,843)
Profit from operations							**126,358**	100,933
Finance costs							**(23,516)**	(13,495)
Profit before tax							**102,842**	87,438
Income tax expense							**(3,899)**	(2,375)
Profit for the year							**98,943**	85,063
Segment assets	**170,513**	153,519	**839,192**	541,537	**44,094**	41,893	**1,053,799**	736,949
Unallocated assets							**256,268**	236,005
Total assets							**1,310,067**	972,954
Segment liabilities	**32,756**	16,487	**96,219**	51,686	**8,470**	4,499	**137,445**	72,672
Unallocated liabilities							**445,664**	300,115
Total liabilities							**583,109**	372,787
Other segment information:								
Capital expenditure	**5,750**	4,715	**91,338**	40,979	**1,487**	1,287	**98,575**	46,981
Impairment loss on property, plant and equipment	**—**	—	**8,545**	2,000	**—**	—	**8,545**	2,000
Depreciation and amortisation	**8,237**	7,041	**37,591**	28,612	**2,130**	1,921	**47,958**	37,574
Allowance for trade receivables and other receivables	**—**	—	**1,726**	—	**—**	—	**1,726**	—
Allowance for inventories	**—**	—	**1,895**	—	**—**	—	**1,895**	—

Notes to the Financial Statements

For the year ended 30 September 2007

8. SEGMENT INFORMATION (continued)

(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.

(c) Business segments

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

	Provision of fabric processing services, manufacture and sale of fabrics		Manufacture and sale of yarns		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue	**631,653**	481,951	**115,410**	104,384	**747,063**	586,335
Segment assets	**693,623**	530,115	**384,074**	222,328	**1,077,697**	752,443
Unallocated assets					**232,370**	220,511
					1,310,067	972,954
Capital expenditure	**58,131**	41,586	**40,444**	5,395	**98,575**	46,981

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For the year ended 30 September 2007

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 2007

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments 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	—	264	—	12	276
Mr. Mak Shiu Chung, Godfrey (Note)	—	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	2,466	—	24	2,850

Note: Mr. Mak Shiu Chung, Godfrey resigned on 2 October 2007.

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For the year ended 30 September 2007

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

For the year ended 30 September 2006

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments 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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: HK$Nil).

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For the year ended 30 September 2007

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

The five highest paid individuals in the Group for the year ended 30 September 2007 included three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2006: two) individuals which fell within the "HK$Nil to HK$1,000,000" band, are set out below:

	2007	2006
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,315**	1,246
Retirement benefits scheme contributions	**12**	12
	1,327	1,258

During the year, no emoluments were paid or payable by the Group to any of the directors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: HK$Nil).

10. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**22,517**	13,274
Bank charges	**999**	221
	23,516	13,495

11. INCOME TAX EXPENSE

	2007	2006
	HK$'000	HK$'000
Current tax — PRC enterprise income tax	**4,535**	2,743
Deferred tax (note 25)	**(636)**	(368)
	3,899	2,375

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2006: HK$Nil).

Notes to the Financial Statements

For the year ended 30 September 2007

11. INCOME TAX EXPENSE (continued)

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries 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 multiplied by the People's Republic of China ("PRC") enterprise income tax rate is as follows:

	2007	2006
	HK$'000	HK$'000
Profit before tax	**102,842**	87,438
Tax at PRC enterprise income tax rate of 33% (2006: 33%)	**33,938**	28,855
Tax effect of income that is not taxable	**(37,102)**	(36,861)
Tax effect of expenses that are not deductible	**6,925**	6,524
Tax effect of income tax on concessionary rates	**62**	717
Tax effect of unused tax losses not recognised	**544**	3,140
Effect of different tax rates of subsidiaries	**(468)**	—
Income tax expense	**3,899**	2,375

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements is not material.

Notes to the Financial Statements

For the year ended 30 September 2007

12. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging/(crediting):

	2007	2006
	HK$'000	HK$'000
Cost of inventories sold	**146,686**	136,766
Depreciation	**46,923**	36,603
Allowance for inventories (included in other operating expenses)	**1,895**	—
Operating lease charges on leasehold land and buildings	**1,692**	1,390
Staff costs (excluding directors' remuneration (note 9)):		
Wages and salaries	**49,850**	37,648
Retirement benefits scheme contributions	**1,590**	1,391
Equity-settled share-based payments	**5,403**	4,164
	56,843	43,203
Research and development expenditure	**—**	10,097
Auditors' remuneration	**1,720**	1,491
Impairment loss on property, plant and equipment (included in other operating expenses)	**8,545**	2,000
Amortisation of technical know-how (included in cost of services provided and costs of sales)	**1,035**	971
Deficit/(reversal) on revaluation of buildings	**138**	(841)
Loss on disposal of property, plant and equipment	**338**	1,016
Allowance/(Recovery) for trade receivables	**98**	(282)
Allowance for other receivables	**1,628**	—

Cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$20,492,000 (2006: HK$20,077,000) which are included in the amounts disclosed separately above.

13. DIVIDENDS

	2007	2006
	HK$'000	HK$'000
Interim of HK2 cents (2006: HK1 cent) per ordinary share paid	**17,610**	8,805
Proposed final of HK1.1 cents (2006: HK0.5 cent) per ordinary share	**12,985**	4,402
	30,595	13,207

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For the year ended 30 September 2007

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	2007	2006
	HK$'000	HK$'000
Earnings		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	**105,361**	87,266
Number of shares		
Weighted average number of ordinary shares except for bonus issue	**880,479,600**	799,959,123
Effect of bonus issue	**—**	38,727,600
Weighted average number of ordinary shares used in basic earnings per share calculation	**880,479,600**	838,686,723
Effect of dilutive potential ordinary shares arising from share options	**11,644,284**	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	**892,123,884**	838,686,723

Notes to the Financial Statements

For the year ended 30 September 2007

15. PROPERTY, PLANT AND EQUIPMENT

	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 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)
Deficit on revaluation	(5,803)	—	—	—	(5,803)
At 30 September 2006 and 1 October 2006	162,036	330,936	7,556	14,917	515,445
Additions	5,275	36,137	422	56,741	98,575
Acquisition of a subsidiary (note 31)	24,099	33,419	823	7,513	65,854
Transfers	27,185	—	—	(27,185)	—
Disposals	—	(1,392)	—	—	(1,392)
Exchange differences	11,720	18,836	519	1,719	32,794
Deficit on revaluation	(4,760)	—	—	—	(4,760)
At 30 September 2007	225,555	417,936	9,320	53,705	706,516
Accumulated depreciation					
At 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)
Write back on revaluation	(8,612)	—	—	—	(8,612)
At 30 September 2006 and 1 October 2006	—	74,717	3,423	—	78,140
Charge for the year	10,869	34,432	1,622	—	46,923
Disposals	—	(446)	—	—	(446)
Exchange differences	—	3,089	204	—	3,293
Write back on revaluation	(10,869)	—	—	—	(10,869)
At 30 September 2007	—	111,792	5,249	—	117,041

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For the year ended 30 September 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Impairment:					
At 1 October 2005	—	—	—	—	—
Charge for the year	—	2,000	—	—	2,000
At 30 September 2006 and 1 October 2006	—	2,000	—	—	2,000
Charge for the year	—	7,672	—	873	8,545
Exchange differences	—	409	—	—	409
At 30 September 2007	—	10,081	—	873	10,954
Carrying amount					
At 30 September 2007	225,555	296,063	4,071	52,832	578,521
At 30 September 2006	162,036	254,219	4,133	14,917	435,305

Notes to the Financial Statements

For the year ended 30 September 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The analysis of the cost or valuation of the above assets is as follows:

	Buildings	Plant and machinery	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At cost	—	417,936	9,320	53,705	480,961
At valuation	225,555	—	—	—	225,555
At 30 September 2007	225,555	417,936	9,320	53,705	706,516
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

At 30 September 2007, the Group's buildings with carrying amount of approximately HK$45,522,000 (2006: HK$15,146,000) and plant and machinery with an aggregate carrying amounts of approximately HK$52,936,000 (2006: HK$67,102,000) were pledged to secure certain banking facilities granted to the Group (note 24).

At 30 September 2007, the Group's buildings, including certain buildings of approximately HK$180,033,000 (2006: HK$146,893,000) 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$225,555,000 (2006: HK$162,036,000). The resulting revaluation surplus of approximately HK$6,247,000 (2006: HK$1,968,000) and deficit of approximately HK$138,000 (2006: Revaluation surplus of HK$841,000) has been credited to the properties revaluation reserve and charged to income statement respectively.

Had the Group's buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts as at 30 September 2007 would have been approximately HK$191,937,000 (2006: HK$133,505,000).

The Group carried out a review of the recoverable amount of its plant and machinery in 2007 of a dormant subsidiary under the Group's fabric processing segment. The Group considered that such plant and machinery will not generate any future cash flows to the Group and therefore the carrying amount of such plant and machinery is fully written off. This led to the recognition of an impairment loss of HK$8,545,000.

Notes to the Financial Statements

For the year ended 30 September 2007

16. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
At 1 October 2005, 30 September 2006 and 1 October 2006	13,095
Acquisition of a subsidiary (note 31)	5,893
Additions	9,610
Transfers from deposits paid for acquisition of long-term assets (note 19 (b))	28,634
Exchange differences	2,987
At 30 September 2007	60,219
Accumulated amortisation	
At 1 October 2005	987
Charge for the year	309
At 30 September 2006 and 1 October 2006	1,296
Charge for the year	606
Exchange differences	79
At 30 September 2007	1,981
Carrying amount	
At 30 September 2007	58,238
At 30 September 2006	11,799

	2007 **HK$'000**	2006 HK$'000
Analysed for reporting purposes as:		
Non-current assets	**56,975**	11,490
Current assets	**1,263**	309
	58,238	11,799

The Group's prepaid land lease payments represent payments for land use rights in the PRC and Hong Kong.

Notes to the Financial Statements

For the year ended 30 September 2007

16. PREPAID LAND LEASE PAYMENTS (continued)

The Group's prepaid land lease payments are analysed as follows:

	2007	2006
	HK$'000	HK$'000
In Hong Kong - Long leases	**4,142**	—
Outside Hong Kong - Medium-term leases	**54,096**	11,799
	58,238	11,799

At 30 September 2007 the Group's prepaid land lease payments, included certain leasehold lands of approximately HK$2,528,000 (2006: HK$2,883,000) for which the Group were in the process of obtaining the relevant land use rights certificates.

At 30 September 2007 the Group's prepaid land lease payments with carrying amounts of approximately HK$52,089,000 (2006: HK$8,533,000) were pledged to secure certain banking facilities granted to the Group (note 24).

17. INTANGIBLE ASSETS

	Technical know-how	**Goodwill**	**Total**
	HK$'000	HK$'000 (Note)	HK$'000
Cost			
At 1 October 2005, 30 September 2006 and 1 October 2006	9,710	30,133	39,843
Acquisition of a subsidiary (note 31)	—	2,882	2,882
Exchange differences	613	—	613
At 30 September 2007	10,323	33,015	43,338
Accumulated amortisation			
At 1 October 2005	292	—	292
Charge for the year	971	—	971
At 30 September 2006 and 1 October 2006	1,263	—	1,263
Charge for the year	1,035	—	1,035
Exchange differences	76	—	76
At 30 September 2007	2,374	—	2,374
Carrying amount			
At 30 September 2007	7,949	33,015	40,964
At 30 September 2006	8,447	30,133	38,580

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For the year ended 30 September 2007

17. INTANGIBLE ASSETS (continued)

Note:

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2007	2006
	HK$'000	HK$'000
Provision of fabric processing services:		
Lingfeng Dyeing & Weaving Co., Ltd., Shishi ("Lingfeng")	**30,133**	30,133
United Glory Development Limited ("United Glory")	**2,882**	—
	33,015	30,133

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 10.8%.

The rate used to discount the forecast cash flows from the Group's provision of fabric processing services is 13.95%.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	2006
	HK$'000	HK$'000
Unlisted equity securities, at cost	**3,257**	1,461

Unlisted equity securities with carrying amount of HK$3,257,000 (2006: 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.

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For the year ended 30 September 2007

19. DEPOSITS PAID FOR ACQUISITION OF LONG-TERM ASSETS

	2007 HK$'000	2006 HK$'000
Deposit paid for acquisition of companies (Note (a))	—	28,000
Deposits paid for the prepaid land lease payments (Note (b))	65,993	28,634
	65,993	56,634

Note: (a) 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, a company incorporated in the British Virgin Islands at a consideration of HK$85 million. At 30 September 2006, the Group paid HK$28 million as a deposit.

(b) Deposits paid for the prepaid land lease payments of HK$28,634,000 at 30 September 2006 were transferred to prepaid land lease payments in current year (note 16).

20. INVENTORIES

	2007 HK$'000	2006 HK$'000
Consumables	39,465	36,697
Raw materials	44,378	14,775
Work in progress	1,095	2,418
Finished goods	21,309	20,734
	106,247	74,624

21. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2007 HK$'000	2006 HK$'000
0 — 30 days	64,234	44,402
31 — 60 days	60,974	36,403
61 — 90 days	40,888	33,029
Over 90 days	15,974	11,019
	182,070	124,853

Notes to the Financial Statements

For the year ended 30 September 2007

21. TRADE RECEIVABLES (continued)

The carrying amounts of the trade receivables are denominated in the following currencies:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**99,732**	79,569
RMB	**82,338**	45,284
	182,070	124,853

22. BANK AND CASH BALANCES

At 30 September 2007 the Group's bank and cash balances included fixed deposits denominated in United States dollars amounting to approximately HK$136 million (2006: HK$Nil) and at fixed interest rate of 1.38% per annum (2006: Nil) and therefore are subject to foreign currency risk and fair value interest rate risk.

At 30 September 2007, the bank and cash balances of the Group denominated in RMB amounting to approximately HK$93 million (2006: HK$56 million). Conversion of RMB into foreign currencies is subject to the 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.

The 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:

	2007	2006
	HK$'000	HK$'000
0 — 30 days	**20,115**	12,799
31 — 60 days	**20,153**	9,148
61 — 90 days	**6,323**	2,717
Over 90 days	**4,872**	3,444
	51,463	28,108

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For the year ended 30 September 2007

23. TRADE PAYABLES (continued)

The carrying amounts of the trade payables are denominated in the following currencies:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**32,450**	13,995
RMB	**19,013**	14,113
	51,463	28,108

24. INTEREST-BEARING BORROWINGS

	2007	2006
	HK$'000	HK$'000
Trust receipt loans	**29,957**	—
Bank loans	**326,942**	279,227
	356,899	279,227
Trust receipt loans repayable within one year	**29,957**	—
Bank loans are repayable as follows:		
On demand or within one year	**139,875**	108,192
In the second year	**63,206**	46,875
In the third to fifth years, inclusive	**121,375**	124,160
After five years	**2,486**	—
	326,942	279,227
	356,899	279,227
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(169,832)**	(108,192)
Amount due for settlement after 12 months	**187,067**	171,035

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For the year ended 30 September 2007

24. INTEREST-BEARING BORROWINGS (continued)

(a) At 30 September 2007, 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$97,611,000 (2006: HK$23,679,000) and plant and machinery with an aggregate carrying amounts of approximately HK$52,936,000 (2006: HK$67,102,000) (notes 15 and 16); and

(ii) corporate guarantees given by the Company for the year ended 30 September 2007 and two (2006: two) subsidiaries of the Company for the year ended 30 September 2007.

(b) Included in the bank loans was a syndicated loan facility approximately HK$250 million (2006: HK$250 million) entered by the Company of which HK$60 million (2006: HK$190 million) was advanced during the year ended 30 September 2007. The syndicated loan facility of HK$250 million (2006: HK$250 million) as at 30 September 2007 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 ("the Guarantor");

(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.

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24. INTEREST-BEARING BORROWINGS (continued)

(c) The average interest rates at the balance sheet date were as follows:

	2007	2006
Trust receipt loans	**6% to 6.375%**	—
Syndicated loans	**HIBOR plus1.7%**	HIBOR plus 1.7%
Other bank loans	**Prime rate minus 2.9% to 7.956%**	HIBOR plus 1.75% to 7.605%

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

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	**263,992**	183,110
RMB	**92,907**	96,117
	356,899	279,227

(e) Included in the other bank loans of HK$6,833,000 (2006: HK$10,933,000) being the finance lease facility obtained from a bank to finance the future acquisition of property, plant and equipment.

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For the year ended 30 September 2007

25. DEFERRED TAX

(a) The following are the major deferred tax liabilities and (assets) recognised by the Group:

	Accelerated tax depreciation HK$'000	**Revaluation of buildings** HK$'000	**Total** HK$'000
At 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 (note 11)	(368)	—	(368)
At 30 September 2006 and 1 October 2006	(1,462)	15,659	14,197
Charge to equity for the year	—	237	237
Credit to income statement for the year (note 11)	(636)	—	(636)
Exchange differences	(91)	990	899
At 30 September 2007	(2,189)	16,886	14,697

(b) At 30 September 2007 the Group has unused tax losses of approximately HK$30,199,000 (2006: HK$28,551,000) available for offset against future profits and such unused tax losses would expire within the next five years. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK$2,664,000 (2006: HK$1,002,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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26. SHARE CAPITAL

Shares

	2007 **HK$'000**	2006 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
880,479,600 ordinary shares of HK$0.01 each	**8,805**	8,805

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 2005		774,552	7,746
Shares issued on distribution of bonus shares	(a)	38,728	387
Shares issued on exercise of share options	(b)	67,200	672
At 30 September 2006, 1 October 2006 and 30 September 2007		880,480	8,805

Notes:

(a) 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.

(b) 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, amounting 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.

Notes to the Financial Statements

For the year ended 30 September 2007

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 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 period, 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 price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, 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 period 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 on the date of the offer of the grant.

Notes to the Financial Statements

For the year ended 30 September 2007

27. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

Details of the specific category of options are as follows:

Date of grant	Vesting date	Exercise period	Exercise price HK$
23 March 2007	23 March 2007	23 March 2007 to 22 March 2010	0.522

If the options remain unexercised after a period of 3 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

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

	2007		2006	
	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	**88,000,000**	**0.522**	67,200,000	0.395
Exercised during the year	**—**	**—**	(67,200,000)	0.395
Outstanding at the end of the year	**88,000,000**	**0.522**	—	—
Exercisable at the end of the year	**88,000,000**	**0.522**	—	—

During the year, no share options were exercised. The weighted average share price at the date of exercise for share options exercised during the year ended 30 September 2006 was HK$0.45. The options outstanding at the end of the year have a weighted average remaining contractual life 2.47 years (2006: Nil) and the exercise price of HK$0.522. In 2007, options were granted on 23 March 2007. In 2006, options were granted on 2 May 2006. The estimated fair value of the options granted on those dates are approximately HK$5,403,000 and HK$4,164,000 respectively.

Notes to the Financial Statements

For the year ended 30 September 2007

27. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

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

	2007	2006
Weighted average share price	**HK$0.52**	HK$0.395
Weighted average exercise price	**HK$0.522**	HK$0.395
Expected volatility	**47.89%**	40.01%
Expected life	**0.5 year**	1.5 years
Risk free rate	**3.66%**	4.22%
Expected dividend yield	**4%**	2.53%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 0.5 year (2006: 1.5 years). The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

28. BALANCE SHEET OF THE COMPANY

	2007 **HK$'000**	2006 HK$'000
Investments in subsidiaries	**133,900**	133,900
Due from subsidiaries	**811,188**	567,342
Other current assets	**3,313**	5,750
Due to subsidiaries	**(184,607)**	(131,744)
Interest-bearing borrowings	**(260,992)**	(183,110)
Other current liabilities	**(65,352)**	(2,087)
NET ASSETS	**437,450**	390,051
Capital and reserves		
Share capital	**8,805**	8,805
Reserves	**428,645**	381,246
	437,450	390,051

Notes to the Financial Statements

For the year ended 30 September 2007

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 2005	267,733	—	9,298	277,031
Issue of bonus shares (note 26(a))	(387)	—	—	(387)
Recognition of share-based payments	—	4,164	—	4,164
Shares issued on exercise of share options (note 26(b))	30,036	(4,164)	—	25,872
Profit for the year	—	—	83,371	83,371
Dividends paid	—	—	(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 13)				4,402
				381,246
At 1 October 2006	**297,382**	**—**	**83,864**	**381,246**
Recognition of share-based payments	**—**	**5,403**	**—**	**5,403**
Profit for the year	**—**	**—**	**64,008**	**64,008**
Dividends paid	**—**	**—**	**(22,012)**	**(22,012)**
At 30 September 2007	**297,382**	**5,403**	**125,860**	**428,645**
Representing:				
At 30 September 2007 after proposed final dividend				**415,660**
Proposed final dividend (note 13)				**12,985**
				428,645

Notes to the Financial Statements

For the year ended 30 September 2007

29. RESERVES (continued)

Company (continued)

Notes:

(a) The share premium account of the Company and the Group 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 arise on the grant of share options to employees under the Scheme. Further information about share-based payments to employees was 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(p) to the financial statements.

30. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 30 September 2007 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	US$600	100%	Investment holding

Notes to the Financial Statements

For the year ended 30 September 2007

30. PRINCIPAL SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 30 September 2007 are as follows: (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				
Huafeng Knitting Co., Ltd. Shishi City, Fujian *	PRC	RMB105,000,000	99.24%	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$17,000,000	100%	Manufacture and sale of yarns
Shenyang Huafeng Dyeing & Printing Co., Ltd * ("Shenyang Huafeng")	PRC	US$2,800,000	53.7%	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
Shishi Huarun Knitting & Dyeing Co., Ltd #	PRC	HK$50,000,000	100%	Provision of fabric processing services
Jiangxi Fenghua Textile Co., Ltd. #	PRC	US$10,000,000	100%	Manufacture and sale of yarns

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.

Notes to the Financial Statements

For the year ended 30 September 2007

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

On 30 November 2006, the Group acquired 100% of the issued share capital of United Glory for a cash consideration of HK$85 million. United Glory was engaged in investment holding during the year.

The fair value of the identifiable assets and liabilities of United Glory acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	65,854
Prepaid land lease payments	5,893
Available-for-sale financial assets	437
Inventories	5,730
Trade receivables	20,419
Prepayments, deposits and other receivables	8,731
Bank and cash balances	193
Trade payables	(7,674)
Other payables and accruals	(5,604)
Interest-bearing borrowings	(10,202)
Current tax liabilities	(1,659)
	82,118
Goodwill (note 17)	2,882
Satisfied by:	
Cash	85,000
Net cash outflow arising on acquisition:	
Cash consideration paid	85,000
Deposit paid for acquisition of a subsidiary	(28,000)
Cash and cash equivalents acquired	(193)
	56,807

Notes to the Financial Statements

For the year ended 30 September 2007

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

Acquisition of a subsidiary (continued)

The goodwill arising on the acquisition of United Glory is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

United Glory contributed approximately HK$60,283,000 to the Group's turnover and approximately HK$4,674,000 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

The proforma information related to the Group's turnover and profit for the period if the acquisition has been completed on 1 October 2006 is not disclosed as the Group is unable to obtain the relevant information from the former management of United Glory.

32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2007 (2006: HK$ Nil).

33. COMMITMENTS

(a) Operating lease commitments

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:

	2007 **HK$'000**	2006 HK$'000
Within one year	**129**	712
In the second to fifth years, inclusive	**402**	28
	531	740

Notes to the Financial Statements

For the year ended 30 September 2007

33. COMMITMENTS (continued)

(b) Other commitments

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

	2007	2006
	HK$'000	HK$'000
Contracted but not provided for		
Construction of buildings	**31,521**	—
Purchase of plant and machinery	**22,752**	10,088
Purchase of a parcel of land	**12,462**	—
	66,735	10,088

34. RELATED PARTY TRANSACTIONS

During the year ended 30 September 2007, the Group paid rentals of approximately HK$59,000 (2006: HK$324,000) to the minority shareholder of a subsidiary, Shenyang Huafeng, in respect of Shenyang Huafeng's factory premises.

The directors of the Company are of the opinion that the above transaction with this related party was conducted on normal commercial terms in the ordinary course of the Group's business.

The amount due to this related company is unsecured, interest free and has no fixed term of repayment.

35. EVENTS AFTER THE BALANCE SHEET DATE

On 26 November 2007, the Company issued 6,000,000 units which represents 300,000,000 ordinary new shares at a subscription price of Korean Won 5,600 (approximately HK$0.96 per share) per unit under the Korea Depository Receipts Programme on the Korea Exchange for a total cash consideration of approximately HK$288 million.

On 23 January 2008, the Board recommended a bonus issue of shares ("Bonus Issue"). The Bonus Issue will be made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held and subject to the fulfillment of (i) the passing of the ordinary resolution to approve the Bonus Issue at the forthcoming annual general meeting; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 January 2008.