Notes to the Financial Statements

31 December 2005

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal place of business of the Company is located at Units 1-9, 8/F, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Group is Exceed Standard Limited ("Exceed Standard"), which is incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of an outside shareholder in the results and net assets of a Company's subsidiary.

Notes to the Financial Statements

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 36, 37, 40, HKFRS 3 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

Notes to the Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land from property, plant and equipment to prepaid land lease payments.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derecognition of financial assets and liabilities

In prior years, the Group derecognised the discounted bills with recourse as financial assets and liabilities, and disclosed them as contingent liabilities. Upon the adoption of HKAS 39, a financial asset is derecognised when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The Group has applied the revised accounting policy prospectively for transfers of financial assets for annual periods beginning on or after 1 January 2005.

In accordance with HKAS 39, the Group's discounted bills with recourse are now accounted for as collateralised bank advances prospectively as at 31 December 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The comparative amounts as at 31 December 2004, which were previously treated as contingent liabilities of the Group prior to 1 January 2005, have not been restated in accordance with the transitional provisions of HKAS 39.

Notes to the Financial Statements

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium account were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) share options granted to employees on or before 7 November 2002; and (ii) share options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As all existing share options of the Company were granted on 6 October 2004 and had not yet vested as at 1 January 2005, HKFRS 2 had therefore been applied retrospectively. The Group has recognised the cost of share options retrospectively which were granted on 6 October 2004 in the current year's income statement and restated the comparative amounts accordingly, in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

Notes to the Financial Statements

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Notes to the Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKAS 17#**	**HKAS 39***	**HKFRS 2#**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Discounted bills with recourse**	**Equity-settled share option arrangements**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Property, plant and equipment	(19,982)	–	–	(19,982)
Prepaid land lease payments	19,533	–	–	19,533
Accounts and bills receivable	–	77,843	–	77,843
Prepayments, deposits and other receivables	449	–	–	449
				77,843
Liabilities/equity				
Bank advances for discounted bills	–	77,843	–	77,843
Share option reserve	–	–	1,000	1,000
Retained profits	–	–	(1,000)	(1,000)
				77,843

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Adjustments/presentation taken effect retrospectively*

Notes to the Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 December 2005	Effect of adopting			
	HKAS 17	**HKAS 39**	**HKFRS 2**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Discounted bills with recourse**	**Equity-settled share option arrangements**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Property, plant and equipment	(40,259)	–	–	(40,259)
Prepaid land lease payments	39,395	–	–	39,395
Accounts and bills receivable	–	104,894	–	104,894
Prepayments, deposits and other receivables	864	–	–	864
				104,894
Liabilities/equity				
Bank advances for discounted bills	–	104,894	–	104,894
Share option reserve	–	–	4,300	4,300
Retained profits	–	–	(4,300)	(4,300)
				104,894

(b) Effect on the balances of equity at 1 January 2005

	Effect of adopting
	HKFRS 2
Effect of new policy (Increase/(decrease))	**Equity-settled share option arrangements**
	HK$'000
1 January 2005	
Share option reserve	1,000
Retained profits	(1,000)
	–

The adoption of new and revised HKFRSs has had no impact on the Group's balances of equity as at 1 January 2004.

Notes to the Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policy	Effect of adopting HKFRS 2 Equity-settled share option arrangements *HK$'000*
Year ended 31 December 2005	
Increase in administrative expenses	**(4,300)**
Total decrease in profit	**(4,300)**
Decrease in basic earnings per share	**HK (0.7 cent)**
Decrease in diluted earnings per share	**N/A**
Year ended 31 December 2004	
Increase in administrative expenses	(1,000)
Total decrease in profit	(1,000)
Decrease in basic earnings per share	HK (0.2 cent)
Decrease in diluted earnings per share	HK (0.2 cent)

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Notes to the Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

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

(b) the party is a member of the key management personnel of the Company or its holding company;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) 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 (b) or (c); or

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

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any impairment losses. The cost of investment property comprises its purchase price, including transaction costs.

Depreciation is calculated on the straight-line basis to write off the cost of each of the investment properties to its residual value over its estimated useful lives at an annual rate of 5%.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating lease are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

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

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

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the rendering of services, when the relevant services are rendered;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets; and

(v) dividend income, when the shareholders' right to receive payment has been established.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 27 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A contingent liability is disclosed in respect of possible future by service payments to employees. As a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Notes to the Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between leasehold land element from leasehold land and buildings

The Group determines the carrying value of the land element of the leasehold land and buildings held in Hong Kong in relation to the value of the entire lease is insignificant and cannot be reliably allocated. Accordingly, the leasehold land and buildings held in Hong Kong was treated as a single unit and accounted for under HKAS 16 "Property, plant and equipment".

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation at the balance sheet date which may cause an adjustment to carrying amounts of assets and liabilities within the next financial year, are discussed below.

Share-based payment transactions

The cost of equity-settled transactions is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions as disclosed in note 27 to the financial statements. The Black-Scholes option pricing model is modified for the early exercise of share options in limited open exercise periods. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share options life and other relevant parameters of the share option pricing model be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve.

Notes to the Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Allowance for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of accounts and bills receivable. Allowances are applied to accounts and bills receivable 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 expectation is different from the original estimate, such difference will impact the carrying value of accounts and bills receivable and doubtful debt expenses in the year in which such estimate has been changed.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group's business segments as over 90% of the Group's revenue and assets are related to the manufacture and sale of finished knitted fabrics.

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) Singapore;

(b) Taiwan;

(c) Hong Kong;

(d) The People's Republic of China (other than Hong Kong and Macau) (the "PRC"); and

(e) Others

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers, and where segment revenue from external customers or segment assets are 10% or more of the Group's total amount. The Group's asset-based geographical segments are Singapore, Hong Kong, the PRC (other than Hong Kong and Macau) and Others.

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers

Group – 2005

	Singapore HK$'000	Taiwan HK$'000	Hong Kong HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
Segment revenue:						
Sales to external customers	769,444	181,027	173,587	149,731	225,614	1,499,403
Other income	1,052	9	3,022	96	95	4,274
Total	770,496	181,036	176,609	149,827	225,709	1,503,677
Segment results	124,275	32,974	33,794	27,362	41,112	259,517
Interest and other unallocated income						4,192
Unallocated expenses						(147,366)
Finance costs						(26,081)
Profit before tax						90,262
Tax						(11,312)
Profit for the year						78,950
Segment assets	134,164	42,255	47,998	81,718	6,495	312,630
Unallocated assets						1,350,758
Total assets						1,663,388
Segment liabilities	76,011	40,448	79,075	72,640	58,061	326,235
Unallocated liabilities						659,919
Total liabilities						986,154
Other segment information:						
Depreciation of property, plant and equipment – unallocated						55,860
Depreciation of investment properties – unallocated						376
Amortisation of prepaid land lease payments – unallocated						449
Capital expenditure – unallocated						294,187
Gain on disposal of items of property, plant and equipment – unallocated						(160)
Allowance for doubtful debts	12,109	–	854	–	67	13,030
Write back of allowance for doubtful debts	(131)	–	(16)	–	–	(147)

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers

Group – 2004

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000* (Restated)
Segment revenue:						
Sales to external customers	720,614	244,028	124,620	19,634	206,754	1,315,650
Other income	3,066	–	2,592	36	30	5,724
Total	723,680	244,028	127,212	19,670	206,784	1,321,374
Segment results	130,364	45,087	22,798	3,872	37,056	239,177
Interest and other unallocated income						905
Unallocated expenses						(99,229)
Finance costs						(15,870)
Profit before tax						124,983
Tax						(20,221)
Profit for the year						104,762
Segment assets	115,057	5,993	46,684	16,587	9,113	193,434
Unallocated assets						992,151
						1,185,585
Segment liabilities	3,569	516	69,836	44,052	58,904	176,877
Unallocated liabilities						404,598
						581,475
Other segment information:						
Depreciation of property, plant and equipment – unallocated						33,760
Amortisation of prepaid land lease payments – unallocated						1,069
Capital expenditure – unallocated						261,131
Gain on disposal of items of property, plant and equipment – unallocated						(3,165)
Bad debts written off	–	–	418	–	–	418
Provision for doubtful debts	800	–	18	–	926	1,744
Write back of provision for doubtful debts	(1,540)	–	–	–	–	(1,540)
Write back of provision for other receivables-unallocated	–	–	–	–	–	(200)

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments based on the location of assets

Group – 2005

	Singapore *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment assets	**1,066**	**402,286**	**1,259,271**	**765**	**1,663,388**
Capital expenditure	**33**	**6,077**	**288,077**	**–**	**294,187**

Group – 2004

	Singapore *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment assets	547	306,661	877,020	1,357	1,185,585
Capital expenditure	54	5,388	255,200	489	261,131

Notes to the Financial Statements

31 December 2005

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and fee income from knitting and dyeing services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the revenue and other income is as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Revenue		
Sale of goods	**1,499,209**	1,309,780
Fee income from knitting and dyeing services	**194**	5,870
	1,499,403	1,315,650
Other income		
Fee income from freight handling services	**4,274**	5,724
Bank interest income	**671**	253
Gross rental income	**1,347**	–
Others	**2,174**	652
	8,466	6,629
	1,507,869	1,322,279

6. FINANCE COSTS

	Group	
	2005 ***HK$'000***	2004 *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**22,379**	13,249
Interest on finance leases	**3,702**	2,621
	26,081	15,870

Notes to the Financial Statements

31 December 2005

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005 **HK$'000**	2004 HK$'000 (Restated)
Cost of inventories sold	**1,160,866**	998,248
Cost of services provided	**189**	3,467
Auditors' remuneration	**1,180**	1,030
Research and development costs	**5,006**	2,617
Depreciation of property, plant and equipment	**55,860**	33,760
Depreciation of investment properties	**376**	–
Amortisation of prepaid land lease payments	**449**	1,069
Employee benefits expense (excluding directors' remuneration – *note 8*):		
Wages and salaries	**73,829**	61,197
Equity-settled share option expenses	**3,010**	700
Pension scheme contributions	**3,962**	1,801
	80,801	63,698
Minimum lease payments under operating leases in respect of land and buildings	**2,049**	728
Gain on disposal of items of property, plant and equipment	**(160)**	(3,165)
Bad debts written off	**–**	418
Allowance/provision for doubtful debts	**13,030**	1,744
Write back of allowance/provision for doubtful debts	**(147)**	(1,540)
Write back of provision for other receivables	**–**	(200)
Foreign exchange differences, net	**481**	(4,594)

Cost of inventories sold includes HK$90,112,000 for the year ended 31 December 2005 (2004: HK$60,770,000) in respect of depreciation and staff costs, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK$3,172,000 for the year ended 31 December 2005 (2004: HK$796,000) in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

Notes to the Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Fees	**510**	180
Other emoluments:		
Salaries, allowances and benefits in kind	**4,198**	3,211
Discretionary bonuses *	**2,036**	2,225
Employee share option benefits	**1,290**	300
Pension scheme contributions	**79**	71
	7,603	5,807
	8,113	5,987

* *Certain executive directors of the Company are entitled to discretionary bonuses which are limited to 5% of the consolidated profit after tax of the Group.*

Certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company on 6 October 2004, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

Notes to the Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION *(continued)*

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005						
Executive directors:						
Tai Chin Chun	**–**	**1,342**	**1,121**	**553**	**12**	**3,028**
Tai Chin Wen	**–**	**1,068**	**665**	**369**	**12**	**2,114**
Cheung So Wan	**–**	**504**	**110**	**184**	**12**	**810**
Wong Siu Yuk	**–**	**504**	**110**	**184**	**12**	**810**
Chong Chau Lam	**–**	**780**	**30**	**–**	**6**	**816**
Independent non-executive directors:						
Chong Chau Lam	**90**	**–**	**–**	**–**	**4**	**94**
Chu Hak Ha, Mimi	**180**	**–**	**–**	**–**	**9**	**189**
Chan Yuk Tong, Jimmy	**180**	**–**	**–**	**–**	**9**	**189**
Ku Shiu Kuen, Anthony	**60**	**–**	**–**	**–**	**3**	**63**
Total	**510**	**4,198**	**2,036**	**1,290**	**79**	**8,113**
2004						
Executive directors:						
Tai Chin Chun	–	1,379	1,104	128	20	2,631
Tai Chin Wen	–	957	772	86	20	1,835
Cheung So Wan	–	457	155	43	12	667
Wong Siu Yuk	–	418	194	43	10	665
Independent non-executive directors:						
Chong Chau Lam	60	–	–	–	3	63
Chu Hak Ha, Mimi	60	–	–	–	3	63
Chan Yuk Tong, Jimmy	60	–	–	–	3	63
Total	180	3,211	2,225	300	71	5,987

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to the Financial Statements

31 December 2005

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: three) non-director, highest paid employees during the year are set out below:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Salaries, allowances and benefits in kind	**1,768**	3,035
Discretionary bonuses	**75**	379
Employee share option benefits	**268**	62
Pension scheme contributions	**14**	32
	2,125	3,508

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
	2	3

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Certain employees were granted share options in respect of their services to the Group under the share option scheme of the Company on 6 October 2004, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-directors, highest paid employees' remuneration disclosures.

Notes to the Financial Statements

31 December 2005

10. TAX

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**6,014**	15,072
Underprovision/(overprovision) in respect of prior years	**(1,178)**	272
Current tax – Elsewhere		
Charge for the year	**8,439**	5,914
Underprovision/(overprovision) in respect of prior years	**121**	(967)
Deferred tax credit *(note 25)*	**(2,084)**	(70)
Total tax charge for the year	**11,312**	20,221

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2004: 17.5%). Taxes 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.

Panyu Kam Hing Textile Dyeing Co. Ltd. ("Panyu KH Textile"), a wholly-owned PRC subsidiary of the Company, is entitled to be exempted from enterprise income tax in the PRC for the first two profit-making years followed by a 50% reduction in the enterprise income tax for the succeeding three years.

According to a confirmation obtained by Panyu KH Textile from the PRC tax bureau, 2001 was the first profit-making year of Panyu KH Textile for PRC corporate income tax purpose. For each of the years ended 31 December 2004 and 2005, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

Notes to the Financial Statements

31 December 2005

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2005

	Hong Kong		Singapore		PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	21,389		(544)		69,417		90,262	
Tax at the statutory tax rate	3,743	17.5	(120)	22.0	22,907	33.0	26,530	29.4
Lower tax rate for specific provinces or local authority	–	–	–	–	(6,247)	(9.0)	(6,247)	(6.9)
Adjustments in respect of current tax of previous years	(1,178)	(5.5)	–	–	121	0.2	(1,057)	(1.2)
Lower tax rate due to tax holiday	–	–	–	–	(8,255)	(12.0)	(8,255)	(9.1)
Income not subject to tax	(275)	(1.3)	–	–	(173)	(0.2)	(448)	(0.5)
Expenses not deductible for tax	479	2.2	98	(18.0)	207	0.3	784	0.8
Tax losses not recognised	5	–	–	–	–	–	5	–
Tax charge/(credit) at the Group's effective rate	2,774	12.9	(22)	4.0	8,560	12.3	11,312	12.5

Group – 2004

	Hong Kong		Singapore		PRC		Total	
	HK$'000 (Restated)	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Restated)	*%*
Profit before tax	81,443		12		43,528		124,983	
Tax at the statutory tax rate	14,252	17.5	3	22.0	14,364	33.0	28,619	22.9
Lower tax rate for specific provinces or local authority	–	–	–	–	(3,918)	(9.0)	(3,918)	(3.1)
Adjustments in respect of current tax of previous years	272	0.3	–	–	(967)	(2.2)	(695)	(0.6)
Lower tax rate due to tax holiday	–	–	–	–	(3,974)	(9.1)	(3,974)	(3.2)
Income not subject to tax	(224)	(0.3)	(1)	(8.3)	(600)	(1.4)	(825)	(0.6)
Expenses not deductible for tax	967	1.2	5	41.7	20	–	992	0.8
Tax losses not recognised	–	–	–	–	22	–	22	–
Tax charge at the Group's effective rate	15,267	18.7	7	58.3	4,947	11.3	20,221	16.2

Notes to the Financial Statements

31 December 2005

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$19,586,000 (2004 (restated): HK$10,538,000) (note 28(b)).

12. DIVIDEND

	2005	2004
	HK$'000	*HK$'000*
Proposed final – HK3.1 cents per ordinary share (2004: 1.6 cents)	**19,840**	10,240

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$78,959,000 (2004 (restated): HK$104,762,000) and the weighted average of 640,000,000 (2004: 523,716,000) ordinary shares deemed to have been in issue during the year.

Diluted earnings per share for the year ended 31 December 2005 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share during the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 was based on the profit for the year attributable to ordinary equity holders of the Company of HK$104,762,000 (restated). The weighted average number of ordinary shares used in the calculation was the 523,716,000 ordinary shares deemed to have been in issue during that year as used in the basic earnings per share calculation, and the weighted average of 543,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during that year.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005						
Cost:						
At 1 January 2005	**123,880**	**403,354**	**20,481**	**12,698**	**140,667**	**701,080**
Additions	**–**	**73,288**	**6,925**	**2,703**	**190,545**	**273,461**
Disposals	**–**	**–**	**–**	**(1,638)**	**–**	**(1,638)**
Transfers	**31,014**	**111,272**	**13,538**	**–**	**(155,824)**	**–**
Transfer to investment properties *(note 15)*	**(7,536)**	**–**	**–**	**–**	**–**	**(7,536)**
At 31 December 2005	**147,358**	**587,914**	**40,944**	**13,763**	**175,388**	**965,367**
Accumulated depreciation:						
At 1 January 2005	**11,816**	**140,426**	**10,654**	**6,541**	**–**	**169,437**
Charge for the year	**5,589**	**43,804**	**4,636**	**1,831**	**–**	**55,860**
Disposals	**–**	**–**	**(34)**	**(1,528)**	**–**	**(1,562)**
Transfer to investment properties *(note 15)*	**(64)**	**–**	**–**	**–**	**–**	**(64)**
At 31 December 2005	**17,341**	**184,230**	**15,256**	**6,844**	**–**	**223,671**
Net book value:						
At 31 December 2005	**130,017**	**403,684**	**25,688**	**6,919**	**175,388**	**741,696**
31 December 2004						
Cost:						
At 1 January 2004 (as restated)	39,780	288,801	12,372	8,297	99,109	448,359
Additions (as restated)	829	98,155	5,332	4,401	151,115	259,832
Disposals	–	(7,072)	(39)	–	–	(7,111)
Transfers	83,271	23,470	2,816	–	(109,557)	–
At 31 December 2004 (as restated)	123,880	403,354	20,481	12,698	140,667	701,080
Accumulated depreciation:						
At 1 January 2004 (as restated)	9,113	119,852	8,384	5,274	–	142,623
Charge for the year (as restated)	2,703	27,490	2,300	1,267	–	33,760
Disposals	–	(6,916)	(30)	–	–	(6,946)
At 31 December 2004 (as restated)	11,816	140,426	10,654	6,541	–	169,437
Net book value:						
At 31 December 2004 (as restated)	112,064	262,928	9,827	6,157	140,667	531,643

Notes to the Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's buildings were held under the following lease terms:

	2005	2004
	HK$'000	*HK$'000*
Medium term leases		
– in Hong Kong	**2,167**	2,308
– outside Hong Kong	**127,850**	109,756
	130,017	112,064

The net book value of the Group's items of property, plant and equipment held under finance leases included in the total amount of plant and machinery and motor vehicles were as follows:

	2005	2004
	HK$'000	*HK$'000*
Plant and machinery	**189,972**	146,391
Motor vehicles	**1,136**	2,165
	191,108	148,556

Title certificates in respect of three factory buildings with net book value of approximately HK$0.7 million as at 31 December 2005 as included in the buildings have not been obtained by the Group. Since the relevant documents required by the relevant government authority for the reissuance of the title certificates cannot be located by the Group and it is expected that it will take a significant amount of time and effort for the application process, the directors consider that the title certificates will not be granted by the relevant government authority in the sooner foreseeable future.

In addition, the Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction works permit in respect of a six-storey factory building under construction currently, with net book value of approximately HK$3 million as at 31 December 2005.

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31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures is considered illegal or unauthorised, the relevant government authorities may order rectification steps by remodeling the structures of the buildings, or for more severe measures, order demolition or forfeiture of such buildings/structures and payment of fines. The aforesaid buildings and structures accounted for less than 1% of the Group's total property, plant and equipment as at 31 December 2005 and are used for/intended to be used for warehousing purposes. Accordingly, the directors consider that the above buildings are not crucial to the operation of the Group and the potential impact as a result of any action taken by the government as aforesaid on the business or production of the Group is expected to be minimal. In addition, each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures (note 33(c)).

During the year ended 31 December 2005, staff quarters of a net book value amounting to HK$5.4 million and a newly constructed factory building of HK$21 million, as included in the buildings were transferred from the construction in progress upon completion. Applications for the Building Ownership Certificates in respect of these staff quarters and the newly constructed factory building are still in progress and have not been obtained by the Group as at the date of these financial statements. Having consulted with the Company's legal adviser in Mainland China, the directors do not expect any legal obstacle in obtaining the Building Ownership Certificates.

15. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**–**	–
Transfer from owner-occupied property *(note 14)*	**7,472**	–
Charge for the year	**(376)**	–
Net book value as at 31 December	**7,096**	–

The Group considers the fair values of investment properties are not reliably determinable on a continuing basis, investment properties are therefore measured at cost less accumulated depreciation and any impairment losses.

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.4(a))*	**19,982**	19,752
As restated	**19,982**	19,752
Prepaid during the year	**20,726**	1,299
Amortised during the year	**(449)**	(1,069)
Carrying amount at 31 December	**40,259**	19,982
Current portion included in prepayments, deposits and other receivables	**(864)**	(449)
Non-current portion	**39,395**	19,533

The leasehold land are held under medium term leases and are situated in Mainland China.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments, at cost	**402,207**	402,207

The amount due from and to subsidiaries included in the Company's current assets and current liabilities of HK$212,011,000 (2004: HK$197,560,000) and HK$612,000 (2004: Nil), respectively, are unsecured, interest-free and have no fixed terms of repayments. The carrying amounts of these amounts due from/to subsidiaries approximate their fair values.

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Joint Result Holdings Limited ("Joint Result")	BVI/Hong Kong	US$10,000	100	Investment holding
Indirectly held:				
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$1,000,010 *(Note (a))*	100	Trading of finished fabrics
Kam Hing International Shipping Limited	Hong Kong	HK$100,000	100	Provision of air and ocean freight services
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000,000 *(Note (a))*	100	Investment holding
Kam Hing Enterprise Limited	BVI/Hong Kong	US$1,000	100	Investment holding
Kam Hing Piece Works (S) Pte Limited*	Singapore	S$100,000	100	Provision of customer Services
Panyu KH Textile*	PRC/ Mainland China	US$70,553,000 *(Note (b))*	100	Manufacture and trading of knitted and dyed fabrics

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: *(Continued)*				
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	100	Provision of knitting and dyeing services and trading of finished fabrics
Guangzhou Kam Sing Textile and Dyeing Company Limited ("Kam Sing")*	PRC/ Mainland China	HK$6,000,000 *(Note (c))*	100	Manufacture and trading of knitted and dyed fabrics
恩平錦興紡織漂染有限公司（"恩平錦興"）*	PRC/ Mainland China	US$6,000,000 *(Note (d))*	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited	Hong Kong	HK$380,000	70	Provision of air and ocean freight services

Notes:

(a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Piece Works and KH Textile. The holders of the non-voting deferred shares are not entitled to any dividends of KH Piece Works and KH Textile. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Piece Works and KH Textile, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Piece Works and KH Textile.

(b) Panyu KH Textile is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992. The registered capital of Panyu KH Textile amounted to US$90,000,000. The remaining balance of US$19,447,000 (approximately HK$152,126,000) is required to be paid up prior to 29 November 2007 (note 32).

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes: (Continued)

(c) Kam Sing is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004. The registered capital of Kam Sing amounted to HK$6,000,000, which has been fully paid up in last year.

(d) 恩平錦興 is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 20 years commencing from 27 April 2005. The registered capital of 恩平錦興 amounted to US$12,000,000. The remaining unpaid capital contribution of US$6,000,000 is required to be paid up prior to 27 April 2008 (note 32).

Subsequent to the balance sheet date, the registered capital of 恩平錦興 has been increased to US$30,000,000. The remaining unpaid capital contribution of US$24,000,000 is required to be paid up prior to 27 April 2008 (note 35).

* *Ernst & Young Hong Kong or other Ernst & Young International member firms are not the statutory auditors of these subsidiaries.*

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**275,039**	241,286
Work in progress	**69,046**	37,065
Finished goods	**37,017**	26,510
	381,102	304,861

No inventories were carried at net realisable value at 31 December 2005 (2004: Nil).

Notes to the Financial Statements

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19. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading term with its customers generally have credit terms of up to 60 days and non-interest bearing (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days). Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's accounts and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**100,747**	74,741
31 to 60 days	**83,392**	45,969
61 to 90 days	**51,530**	26,617
Over 90 days	**76,961**	46,107
	312,630	193,434

The carrying amounts of the Group's accounts and bills receivable approximate to their fair values.

Included in the above accounts and bills receivable as at 31 December 2005, HK$104,894,000 was discounted to banks in exchange for cash and included as bank advances for discounted bills on the face of the consolidated balance sheet, as a result of the adoption of HKAS 39, as detailed in note 2.4(a) to the financial statements.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity investments listed outside Hong Kong, at market value	**497**	–

The above equity investments were classified as held for trading at 31 December 2005.

Notes to the Financial Statements

31 December 2005

21. CASH AND CASH EQUIVALENTS

		Group		Company	
	Note	**2005**	2004	**2005**	2004
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**158,757**	103,870	**286**	344
Time deposits		**13,414**	13,009	**–**	–
Cash and cash equivalents		**172,171**	116,879	**286**	344

As at 31 December 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$15,763,000 (2004: HK$5,964,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at the balance sheet dates, based on invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**174,573**	152,608
91 to 180 days	**29,861**	16,702
181 to 365 days	**16,565**	2,522
Over 365 days	**342**	–
	221,341	171,832

The accounts and bills payable are non-interest bearing and are normally settled on 60-day terms. The carrying amounts of the Group's accounts and bills payable approximate to their fair values.

Notes to the Financial Statements

31 December 2005

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 24)*	3.5–10.9	2006	**42,731**	36,552
Bank overdrafts – unsecured	6.5	On demand	**480**	237
Bank loans – secured	Hong Kong dollar prime rate – HIBOR/ LIBOR + 0.125	2005	**–**	44,998
Bank loans – unsecured	Weighted average of HIBOR/ LIBOR + 0.9 to 1.25	2006	**210,245**	181,577
			253,456	263,364
Non-current				
Finance lease payables *(note 24)*	3.5-10.9	2007-2010	**48,872**	42,007
Bank loans - unsecured	4.9-5.1	2007-2008	**311,892**	53,467
			360,764	95,474
			614,220	358,838

Notes to the Financial Statements

31 December 2005

23. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	Group	
	2005	2004
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**210,725**	226,812
In the second year	**160,192**	14,004
In the third to fifth years, inclusive	**151,700**	39,463
	522,617	280,279
Finance lease payables:		
Within one year or on demand	**42,731**	36,552
In the second year	**26,171**	28,664
In the third to fifth years, inclusive	**22,701**	13,343
	91,603	78,559
	614,220	358,838

As at 31 December 2005, the Group's banking facilities were secured by the carrying amounts of the Group's pledged bank deposits of approximately HK$2,146,000 which is approximate to their fair values, and supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

Notes to the Financial Statements

31 December 2005

23. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**915**	**90,688**	1,258	77,301
Bank overdrafts – unsecured	**480**	**–**	237	–
Bank loans – secured	**–**	**–**	–	44,998
Bank loans – unsecured	**–**	**522,137**	28,571	206,473

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease payables	**48,872**	42,007	**48,872**	42,007
Fixed rate bank loans – unsecured	**–**	28,571	**–**	28,426
Floating rate bank loans				
– unsecured	**311,892**	24,896	**333,280**	35,819
	360,764	95,474	**382,152**	106,252

Notes to the Financial Statements

31 December 2005

24. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and office equipment and motor vehicles for its business operation. These leases are classified as finance leases and have remaining lease terms ranging from two to five years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**46,536**	37,396	**42,731**	36,552
In the second year	**28,073**	30,244	**26,171**	28,664
In the third to fifth years, inclusive	**23,610**	14,419	**22,701**	13,343
Total minimum finance lease payments	**98,219**	82,059	**91,603**	78,559
Future finance charges	**(6,616)**	(3,500)		
Total net finance lease payables	**91,603**	78,559		
Portion classified as current liabilities *(note 23)*	**(42,731)**	(36,552)		
Non-current portion *(note 23)*	**48,872**	42,007		

At 31 December 2005, the finance lease payables were secured by corporate guarantees executed by the Company and/or certain subsidiaries of the Company.

Notes to the Financial Statements

31 December 2005

25. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year were as follows:

Deferred tax assets

	Allowance/provision for doubtful debts	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**76**	–
Deferred tax credited to the income statement during the year *(note 10)*	**2,061**	76
At 31 December	**2,137**	76

Deferred tax liabilities

	Accelerated depreciation allowances	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**23**	17
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**(23)**	6
At 31 December	**–**	23
Net deferred tax assets at 31 December	**2,137**	53

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to the Financial Statements

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26. SHARE CAPITAL

	Company	
	2005	2004
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
640,000,000 (2004: 640,000,000) ordinary shares of HK$0.1 each	**64,000**	64,000

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 25 August 2004 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 grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Notes to the Financial Statements

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27. SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 28 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 ten years from the date of the offer 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 nominal value of the Company's share; (ii) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to the Financial Statements

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27. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares at grant date of options*** HK$
Directors								
Tai Chin Chun	3,000,000	–	–	**3,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Tai Chin Wen	2,000,000	–	–	**2,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Cheung So Wan	1,000,000	–	–	**1,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Wong Siu Yuk	1,000,000	–	–	**1,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Subtotal	7,000,000	–	–	**7,000,000**				
Non-director employees								
In aggregate	18,606,000	–	(2,860,000)	**15,746,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Others								
In aggregate	1,260,000	–	–	**1,260,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Total	26,866,000	–	(2,860,000)	**24,006,000**				

Notes to the Financial Statements

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27. SHARE OPTION SCHEME *(continued)*

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

During the year, no share options were granted by the Company. The fair value of the share options granted was HK$5,300,000.

The fair value of equity-settled share options was estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield *(%)*	1.29
Expected volatility *(%)*	29.16
Historical volatility *(%)*	29.16
Risk-free interest rate *(%)*	2.23
Expected life of share options *(year)*	3.00
Weighted average share price at grant date *(HK$)*	1.24

The expected life of the share options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 24,006,000 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 24,006,000 additional ordinary shares of the Company and additional share capital of HK$2,400,600 and share premium of HK$28,327,080 (before issue expenses).

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28. RESERVES

(a) Group

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statements of changes in equity of the financial statements.

The capital reserve of the Group represents (i) the premium arising from the issue of shares by Joint Result for settlement of the amounts due to directors, of HK$93,378,000; and (ii) the excess of the nominal value of the share capitals of the subsidiaries acquired pursuant to the group reorganisation taken place on 24 August 2004, for the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"), over the nominal value of the 1,000,000 shares of HK$0.1 each of the Company issued in exchange therefore and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par.

In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserves, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiary.

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28. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004	–	–	–	–	–
Arising on Group Reorganisation	–	–	402,007	–	402,007
Issue of shares for cash consideration	185,600	–	–	–	185,600
Share issue expenses	(15,371)	–	–	–	(15,371)
Capitalisation issue	(47,800)	–	–	–	(47,800)
Equity-settled share option arrangements (as restated)	–	1,000	–	–	1,000
Net profit during the year (as restated)	–	–	–	10,538	10,538
Proposed final dividend	–	–	–	(10,240)	(10,240)
At 31 December 2004 (as restated)	122,429	1,000	402,007	298	525,734
Equity-settled share option arrangements	–	4,300	–	–	4,300
Net profit during the year	–	–	–	19,586	19,586
Proposed final dividend	–	–	–	(19,840)	(19,840)
At 31 December 2005	**122,429**	**5,300**	**402,007**	**44**	**529,780**

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as disclosed in the annual report of the Company for the year ended 31 December 2004, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be 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.

Notes to the Financial Statements

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group has the following major non-cash transactions during the year:

(a) During the year, the Group entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of approximately HK$55,206,000 (2004: HK$55,431,000).

(b) In last year, the Group Reorganisation involved the acquisition of the entire issued share capital of Joint Result by the issue of shares of the Company, further details of which are set out in the annual report of the Company for the year ended 31 December 2004.

30. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

		Group		Company	
		2005	2004	**2005**	2004
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Discounted bills with recourse supported by letters of credit		**30,597**	28,531	**–**	–
Discounted bills with recourse not supported by letters of credit	*2.4(a)*	**–**	77,843	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries		**–**	–	**678,447**	428,705
		30,597	106,374	**678,447**	428,705

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,416,000 as at 31 December 2005, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Notes to the Financial Statements

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31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from two to four years.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,200**	–
In the second to fifth years, inclusive	**3,409**	–
	4,609	–

(b) As lessee

The Group leases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to nineteen years.

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

	2005	2004
	HK$'000	*HK$'000*
Within one year	**809**	558
In the second to fifth years, inclusive	**1,967**	233
After five years	**5,688**	–
	8,464	791

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32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchases of machinery	**27,702**	12,488
Construction in progress	**4,605**	23,205
	32,307	35,693
Authorised, but not contracted for:		
Purchases of machinery	**–**	61,000
	32,307	96,693

At 31 December 2005, the Group had commitments in respect of capital contributions to Panyu KH Textile and 恩平錦興, of approximately US$19,447,000 (approximately HK$152,126,000) due on 29 November 2007 and US$6,000,000 (approximately HK$46,538,000) due on 27 April 2008 (note 17), respectively.

At the balance sheet date, the Company had no significant commitments.

Notes to the Financial Statements

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33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2005** **HK$'000**	2004 HK$'000
Rental expenses on directors' quarters paid to Goldwille Investments Limited, a company controlled by Mr. Tai Chin Chun	*(i)*	**–**	369
Rental expenses on office premises paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	*(ii)*	**240**	180

Notes:

(i) The tenancy agreement had been terminated with effect from 1 January 2005.

(ii) The Group entered into a tenancy agreement with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of office premises at a monthly rental charge of HK$20,000 for a term of one year, based on the prevailing market rentals.

(b) The Group had outstanding advances from its minority shareholder of HK$114,000 (2004: Nil), as at balance sheet date. The advances are unsecured, interest-free and have no fixed terms of repayment.

(c) Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of certain buildings/structures of the Group as detailed in note 14 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2005 **HK$'000**	2004 HK$'000
Short-term employee benefits	**6,744**	5,616
Share-based payments	**1,290**	300
Post-employment benefits	**79**	71
	8,113	5,987

Further details of directors' emoluments are included in note 8 to the financial statements.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise overdrafts, interest-bearing bank borrowings, finance lease, and cash and short term deposits. The Group has various other financial assets and liabilities such as accounts and bills receivables and accounts and bills payables, which arise directly from its operation.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The interest rate of the interest-bearing bank and other borrowings of the Group are disclosed in note 23 to the financial statements. The Group believes its exposure to cash flow interest rate risk is minimal.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arise from substantial portion of sales or purchases by operating units in US dollars and RMB. The Group is exposed to foreign exchange risk arising from the exposure of US dollars and RMB. Considering that there is insignificant fluctuation in the exchange rates of US dollars and RMB against Hong Kong dollars, the Group believes its exposure to exchange rate risk is minimal.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

The Group maintains a balance between continuity of funding and flexibility through the use of bills payables and interest-bearing bank and other borrowings. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis.

Since the Group trades only with recognised and creditworthy third parties, there is generally no requirement for collateral.

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35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the registered capital of a subsidiary of the Group, 恩平錦興, has been increased to US$30,000,000, the remaining unpaid capital contribution of US$24,000,000 is required to be paid up prior to 27 April 2008 (note 17).

36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2006.