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If you are in doubt as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, company secretary, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kam Hing International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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KAM HING INTERNATIONAL HOLDINGS LIMITED

錦 興 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2307)

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION
ESTABLISHMENT OF A JOINT VENTURE COMPANY

MENLO CAPITAL LIMITED

23 January 2007

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Announcement"	the announcement dated 29 December 2006 and made by the Company in relation to the JV Agreement
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Chung Lap Dyeing"	Chung Lap Dyeing and Finishing Company Limited, a company incorporated in Hong Kong with limited liability and held by Mr. Chin and his family members
"Company"	Kam Hing International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deposits"	the deposits paid by Highkeen and Special Skill on or before the signing of the JV Agreement
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries
"Highkeen"	Highkeen Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
"Highkeen Assets"	the assets (being production machinery and equipment) free from encumbrance as set out in the JV Agreement (and/or other assets to be mutually agreed to by Highkeen and Special Skill in writing) and of a value of approximately HK$1,720,000 as at the date of the JV Agreement as agreed by Highkeen and Special Skill with reference to the then current market rate
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Shareholders"	Shareholders who are not involved in or interested in the JV Agreement
"Independent Third Party"	independent third party not being connected person(s) (as defined in the Listing Rules) of the Company or the Directors, chief executives, substantial shareholders of the Company and any of its subsidiaries or respective associates
"JV Agreement"	the agreement entered into between Highkeen, the Company, Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong on 27 December 2006, details of which are set out in the section headed "The JV Agreement" of this circular
"JV Company"	a joint venture to be incorporated in Hong Kong with limited liability by Highkeen and Special Skill pursuant to the terms of the JV Agreement
"JV Group"	the JV Company and its subsidiaries, including the PRC Company
"Latest Practicable Date"	18 January 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Lease"	the lease in respect of the Production Facilities and Staff Quarter to be granted by Highkeen or its subsidiary or its fellow subsidiary to the PRC Company, details of which are set out in the paragraph headed "Lease" of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Machinery and Equipment"	means the machinery and equipment free from any encumbrance as set out in the JV Agreement (and/or other machinery and equipment to be mutually agreed to by Highkeen and Special Skill in writing) of a value (as shown in the valuation report of a qualified independent valuer in Hong Kong appointed by Highkeen) of approximately HK$20,829,000 as at 30 September 2006
"Mr. Chin"	Mr. Chin Tai Wing, an Independent Third Party

"Other Assets"	the assets (being vehicles, production trolley and electronic scale for production) free from encumbrance as set out in the JV Agreement (and/or other assets to be mutually agreed to by Highkeen and Special Skill in writing) and of a value of approximately HK$750,000 as at the date of the JV Agreement as agreed by Highkeen and Special Skill with reference to the then current market rate
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
"PRC Company"	a wholly foreign-owned enterprise to be established in the PRC and held as to 100% by the JV Company
"Production Facilities"	the production facilities (excluding the machinery and equipment) located in An Tang Zhou Section, Enping Shi, Guangdong Province, the PRC with an expected total gross floor area of approximately 40,000 square metres and an expected site area of approximately 20,000 square metres
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	holders of the Shares
"Shares"	the ordinary shares of HK$0.10 each in the capital of the Company
"Sing Pong"	Sing Pong (China) Limited, a company incorporated in Hong Kong with limited liability and held by Mr. Fong Kin Pong, an Independent Third Party, and his associates
"Special Skill"	Special Skill Piece Works (International) Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is held by Mr. Chin, Chung Lap Dyeing and Sing Pong as to 25%, 50% and 25% respectively
"Staff Quarter"	a staff quarter located on the Production Facilities site of approximately 5,000 square metres

"Stock Exchange"	The Stock Exchange of Hong Kong Limited or, as the case maybe, the main board operated by the Stock Exchange
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

For the purpose of this circular, unless otherwise indicated, the exchange rate at US$1.00 = HK$7.8 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.

KAM HING INTERNATIONAL HOLDINGS LIMITED
錦 興 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2307)

Executive Directors:
Mr. TAI Chin Chun *(Chairman)*
Mr. TAI Chin Wen *(Chief Executive Officer)*
Ms. CHEUNG So Wan
Ms. WONG Siu Yuk
Mr. CHONG Chau Lam

Independent Non-Executive Directors:
Mr. CHAN Yuk Tong, Jimmy
Ms. CHU Hak Ha, Mimi
Mr. KU Shiu Kuen, Anthony

Registered Office:
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P.O. Box 2681
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Units 1-9, 8th Floor
Lucida Industrial Building
43-47 Wang Lung Street
Tsuen Wan
New Territories
Hong Kong

23 January 2007

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION ESTABLISHMENT OF A JOINT VENTURE COMPANY

1. INTRODUCTION

It was announced in the Announcement that on 27 December 2006, Highkeen, an indirect wholly-owned subsidiary of the Company, the Company, Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong entered into the JV Agreement to establish the JV Company. Pursuant to the JV Agreement, Highkeen agreed to contribute a sum of approximately HK$64,500,000 in cash and assets to the JV Company and Special Skill agreed to contribute a sum of approximately HK$43,000,000 in cash and assets to the JV Company.

The purpose of this circular is to provide further information of the JV Agreement. This circular also contains information in compliance with the Listing Rules.

2. THE JV AGREEMENT

Date

27 December 2006

Parties

(a) Highkeen, an indirect wholly-owned subsidiary of the Company;

(b) the Company;

(c) Special Skill. To the best knowledge of the Directors, Special Skill and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates;

(d) Mr. Chin;

(e) Chung Lap Dyeing. To the best knowledge of the Directors, Chung Lap Dyeing and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates; and

(f) Sing Pong. To the best knowledge of the Directors, Sing Pong and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates.

Each of Special Skill, Mr. Chin, Chung Lap Dyeing and Sing Pong has represented, warranted and undertaken to Highkeen that, among others, Special Skill is duly incorporated and has the power to enter into the JV Agreement and the Machinery and Equipment and the Other Assets are free from encumbrances and can be freely transferred.

Conditions precedents

The JV Agreement is conditional upon:

(a) in accordance with the relevant provisions of the Listing Rules, (i) a press announcement has been made by the Company, (ii) the JV Agreement and the transactions contemplated hereunder have been approved by the Shareholders and all other applicable regulations have been fully complied with; and

(b) all other consents, authorisations or approvals (or, as the case may be, the relevant waiver) of any kind in connection with the JV Agreement and the transactions contemplated thereunder have been obtained.

In the event that any of the above conditions is not fulfilled and/or waived (other than paragraph (a)) by Highkeen on or before three months from the date of the JV Agreement (or such later date as the parties may mutually agree) (the "**Long-Stop Date**"), the rights and obligations of the parties under the JV Agreement shall lapse and be of no further effect, in which event the parties hereto to the JV Agreement shall be released from such obligations without any liability save as to any antecedent breach and provided that any right or remedies which shall have accrued shall not be prejudiced or affected. The Deposits paid before the Long-Stop Date shall be refunded to the relevant party without interests within 7 business days after such termination.

Payment of Deposits

On 27 December 2006, Highkeen has delivered to the Company a cashier order or a cheque drawn in favour of "Kam Hing International Holdings Limited" in the sum of HK$4,500,000; and Special Skill has delivered to the Company a cashier order or a cheque drawn in favour of "Kam Hing International Holdings Limited" in the sum of HK$3,000,000, as deposits.

The Deposits will be applied as the partial payment for the first contribution of Highkeen and Special Skill to the JV Company. The Company agrees to hold the Deposits as the escrow agent for Highkeen and Special Skill and apply the Deposits in accordance with the terms and conditions of the JV Agreement. Highkeen shall have the right to forfeit the HK$3,000,000 deposit paid by Special Skill if the JV Agreement is terminated before the first contribution is made to the JV Company.

Establishment of the JV Company

The JV Company shall be established and shall be beneficially held by Highkeen and Special Skill in the proportion of 60% and 40% respectively. The principal business of the JV Company will be investment holding and trading of finished fabrics. The authorised share capital of the JV Company will be HK$200,000,000 divided into 200,000 shares of HK$1,000 each. The issued share capital of the JV Company upon completion of the contributions made by Highkeen and Special Skill under the paragraph headed "Capital contribution" below will be HK$107,500,000 divided into 107,500 shares of HK$1,000 each.

Capital contribution

Highkeen and Special Skill shall contribute a total of approximately HK$107,500,000 to the JV Company in the following manner:

(a) approximately HK$64,500,000 to be made by Highkeen with:

   (i) approximately HK$62,780,000 to be made in cash; and

   (ii) approximately HK$1,720,000 to be made by the provision of the Highkeen Assets;

(b) approximately HK$43,000,000 to be made by Special Skill with:

(i) approximately HK$22,810,000 to be made in cash;

(ii) approximately HK$19,440,000 to be made by the provision of the Machinery and Equipment; and

(iii) approximately HK$750,000 to be made by the provision of the Other Assets.

The contribution will be made in 5 instalments with the first contribution to be made on or before 31 March 2007 (but in any event not later than 3 months from 31 March 2007) and the last contribution to be made on or before 31 March 2008 (but in any event not later than 3 months from 31 March 2008). The JV Company will become an indirect subsidiary of the Company and its accounts will be consolidated into the Group's.

The Machinery and Equipment, the Highkeen Assets and the Other Assets are free from any encumbrances. The Machinery and Equipment and the Other Assets are owned by Special Skill and the Highkeen Assets are owned by the Group.

According to a valuation report of RHL Appraisal Limited, a qualified independent valuer appointed by Highkeen, the value of the Machinery and Equipment as at 30 September 2006 was approximately HK$20,829,000. Highkeen and Special Skill agreed that the value of the Machinery and Equipment as at the date of its contribution to the JV Group will be approximately HK$19,440,000. Highkeen and Special Skill agreed that the value of the Highkeen Assets and the Other Assets was approximately HK$1,720,000 and HK$750,000 respectively as at the date of the JV Agreement, with references to the their then market rate.

The issued share capital of the JV Company shall be beneficially held by Highkeen and Special Skill in the proportion of 60% and 40% respectively. During the term of the JV Agreement, issue of new shares other than those pursuant to the contribution to be made to the JV Company as stated in the JV Agreement shall be consented to by Highkeen and Special Skill.

Further funding

Highkeen and Special Skill will contribute additional funding to the JV Group by means of subscription of new shares, loans or other financing means in the proportion to their shareholding in the JV Company unless otherwise agreed to. Subject to all applicable laws, rules and regulations, Highkeen may use reasonable endeavour (but under no obligation) to obtain or procure banking facilities and/or provide shareholder's loan in an aggregate sum of not more than HK$61,000,000 to the JV Group, and such loan is intended to be procured and/or provided in proportion to shareholding of Highkeen and Special Skill in the JV Company. Should future funding to the JV Company is not made proportional to the shareholding in the JV Company, the Company will comply with the requirements of the Listing Rules in raising such funding.

Composition of the board of directors

The board of directors of the JV Company shall consist of 5 directors. Highkeen shall be entitled to nominate 3 directors and Special Skill shall be entitled to nominate 2 directors. The chairman of the board of directors of the JV Company will be nominated by Highkeen and the chairman will have a second or casting vote in the event of an equality of votes.

Dividend policy and performance bonus

Highkeen and Special Skill agree that subject to the appropriation of prudent and proper reserves and the retention out of profits of funds to meet its reasonable working capital needs and any requirements as to solvency or otherwise applicable to the JV Company (whether under any statute, regulation or ruling), the JV Company will distribute to and among its shareholders the amount of dividends as determined by the board of directors of the JV Company. It is the present intention of the parties that, subject to the decision of the board of directors of the JV Company, the JV Company will declare, for each year, dividends to its shareholders in an amount not less than 25% of the audited consolidated profit after tax of the JV Group.

Subject to the decision of the board of directors of the JV Company, it is the present intention of the parties that not less than 5% of the audited consolidated profit after tax of the JV Group will be used and paid to the management staff of the JV Group as performance bonus in such manner as to be determined by the board of the directors of the JV Company.

Lease

Under the JV Agreement, Highkeen undertakes that, subject to the Listing Rules and all other applicable laws, rules and regulations, it will procure its subsidiary or fellow subsidiary to lease to the PRC Company the Production Facilities and the Staff Quarter on terms at market rate with reference to the valuation prepared by a qualified valuer in Hong Kong and separate lease agreement(s) is/are to be entered into by the PRC Company and Highkeen or its subsidiary or fellow subsidiary. Both Highkeen and Special Skill acknowledge that the Production Facilities and the Staff Quarter will be constructed and the actual gross floor area and site area to be leased will be subject to the finalization of the construction plans of the Production Facilities and the Staff Quarter. The initial term of the lease agreement(s) is three years from the date of the relevant lease agreement(s), which is expected to be the date upon which the PRC Company first commences its testing production and the expected annual rental for the Production Facilities will be approximately HK$3,089,000 and the expected annual rental for the Staff Quarter will be approximately HK$432,000. The rentals are reached by Highkeen and Special Skill with reference to the market rental of approximately HK$3,521,000 made by RHL Appraisal Limited as at 30 November 2006. Upon expiry of the initial term of three years of the leases, the parties to the leases may renew the relevant leases on a rental of market rate. It is expected that the PRC Company will commence production in early 2008. The Company will make an appropriate announcement and comply with the requirements of the Listing Rules at the time the relevant lease agreement(s) is/are entered into.

3. INFORMATION ON THE JV COMPANY AND THE PRC COMPANY

The JV Company will be a company incorporated in Hong Kong with limited liability. The JV Company will be the holding company of the PRC Company. The principal business activity of the JV Company will be investment holding and trading of finished fabrics. Upon establishment of the PRC Company, the PRC Company will be a wholly foreign-owned enterprise wholly owned by the JV Company.

The PRC Company will be located in An Tang Zhou Section, Enping Shi, Guangdong Province, the PRC. The PRC Company will be principally engaged in the manufacture and trading of knitted and dyed fabrics. The proposed total investment amount of the PRC Company upon establishment is US$20,000,000 (equivalent to approximately HK$156,000,000) and the proposed registered capital of the PRC Company upon establishment is US$12,000,000 (equivalent to approximately HK$93,600,000). The initial term of operation of the PRC Company is 20 years from its establishment. The funding of the PRC Company will be from its shareholder, namely, the JV Company, loans and other means of financing. Each of Highkeen and Special Skill undertook to procure that all contributions made by it to the JV Company will be invested and contributed to the PRC Company. Subject to the applicable laws, rules and regulations and the articles of association of the PRC Company, the parties intend that the dividend policy and bonus policy of the PRC Company will be consistent with those of the JV Company.

4. INFORMATION OF SPECIAL SKILL

Special Skill is a company with limited liability incorporated in Hong Kong and is owned by Mr. Chin, Chung Lap Dyeing and Sing Pong as to 25%, 50% and 25% respectively. The principal business of Special Skill is dyeing and finishing of knitted fabrics. Chung Lap Dyeing is a company with limited liability incorporated in Hong Kong and is wholly-owned by Mr. Chin and his family members. The principal business of Chung Lap Dyeing is dyeing and finishing of knitted fabrics. Sing Pong is a company with limited liability incorporated in Hong Kong and owned by Mr. Fong Kin Pong, an Independent Third Party, as to 55% and the remaining 45% by his associates. The principal business of Sing Pong is investment holding.

To the best knowledge of the Directors, Special Skill and its ultimate owners are third parties independent of, and not connected with, the Company, the connected persons of the Company and their respective associates.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT

The principle activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of finished knitted fabrics. Upon establishment of the JV Company, the Company will be indirectly interested in the registered capital of the PRC Company.

The Directors consider that the establishment of the JV Company represents an opportunity for the Group to increase its production capacity. Given that Chung Lap Dyeing and its shareholders have more than 20 years of experience in the industry of dyeing and finishing of knitted fabrics and is a major sub-contractor of the Group and the shareholders of Sing Pong have more than 15 years of experience in the industry of finishing knitted fabrics, the Directors believe that the establishment of the JV Company will enable the Group to syndicate Highkeen and Special Skill's expertise in the knitted and dyed fabrics industry. The Directors, including the independent non-executive Directors, consider that the terms of the JV Agreement were entered into on normal commercial terms after arm's length negotiations and that the terms of the JV Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

6. FINANCIAL EFFECTS OF THE JV AGREEMENT

For the financial year ended 31 December 2005, the Group recorded a profit attributable to equity holders of approximately HK$78,959,000 based on the audited consolidated financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong. For the six months ended 30 June 2006, the Group recorded a profit attributable to shareholders of approximately HK$57,236,000 based on the unaudited consolidated financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong. The Directors believe that establishment of the JV Company will lead to an enhancement of the earnings of the Company. Upon establishment of the JV Company, the Company will be indirectly interested in the registered capital of the PRC Company through the Company's 60% interests in the JV Company.

As mentioned above, Highkeen may use reasonable endeavour (but under no obligation) to obtain or procure banking facilities and/or provide shareholder's loan in an aggregate sum of not more than HK$61,000,000 to the JV Group, and such loan is intended to be procured and/or provided in proportion to shareholding of Highkeen and Special Skill in the JV Company. Should future funding to the JV Group be made by Highkeen, it would be not more than HK$36,600,000, in proportion to the shareholding of Highkeen in the JV Company. The Directors are of the view that such future funding, if made, will have no material impact on the liability of the Group.

Based on the unaudited consolidated results of the Company as at 30 June 2006, the working capital of the Group amounted to approximately HK$128,864,000. Therefore, the payment of the cash consideration of approximately HK$62,780,000 would not exert considerable pressure on the working capital of the Group.

7. LISTING RULES

Since a percentage ratio under Chapter 14 of the Listing Rules for the transactions under the JV Agreement exceeds 25% or more but less than 100%, the JV Agreement constitutes a major transaction of the Company under the Listing Rules and hence subject to an announcement and approval of the Shareholders. No Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the JV Agreement. A closely allied group of Shareholders, namely, Exceed Standard Limited and Power Strategy Limited, in aggregate hold 480,000,000 Shares or 75% of the total issued share capital of the Company and have the right to attend and vote at a general meeting of the Company to approve the JV Agreement, had on 27 December 2006 provided to the Company their written approvals to the JV Agreement pursuant to rule 14.44 of the Listing Rules. Details of the closely allied group of Shareholders are set out below:

Shareholder	Relationship	Number of Shares held	Percentage of shareholding in the Company
Exceed Standard Limited	*(Note 1)*	384,000,000	60%
Power Strategy Limited	*(Note 2)*	96,000,000	15%
		480,000,000	75%

Notes:

1. Exceed Standard Limited is a company incorporated in the British Virgin Islands. The entire issued share capital of which is owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company and founder of the Group. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen.

2. Power Strategy Limited is a company incorporated in the British Virgin Islands. The entire issued share capital of which is owned by Mr. Tai Chin Wen, the chief executive officer and an executive director of the Company and founder of the Group. Mr. Tai Chin Wen is the older brother of Mr. Tai Chin Chun.

As the JV Company will be a connected persons of the Company, the Lease will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Since each of the percentage ratios (other than the profits ratio) of the annual rental of the Lease is less than 2.5%, the Lease is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under rule 14A.34 of the Listing Rules.

The initial term of the proposed Lease is three years from the date of the relevant lease agreement(s), which is expected to be the date upon which the PRC Company first commences its testing production. The expected maximum annual rental for the Production Facilities will be approximately HK$3,089,000 and the expected maximum annual rental for the Staff Quarter will be approximately HK$432,000. Thus, the maximum aggregate annual value of the Lease is approximately HK$3,521,000 (the "**Caps**") for each of the three years during the initial term of the Lease. The Caps are reached by Highkeen and Special Skill with reference to the market rental of approximately HK$3,521,000 made by RHL Appraisal Limited as at 30 November 2006. Upon expiry of the initial term of three years of the leases, the parties to the leases may renew the relevant leases on a rental of market rate. It is expected that the PRC Company will commence production in early 2008.

The Company will make an appropriate announcement and comply with the requirements of the Listing Rules at the time the relevant lease agreement(s) is/are entered into. If the maximum annual rental of the Lease shall exceed the Caps or upon the expiry of the Caps or where there is a material change to the terms of the Lease, the Company will comply with all applicable requirements under the Listing Rules.

8. WORKING CAPITAL

The Directors (including the independent non-executive Directors) are of the opinion that taking into account of cash balances of the Group, its expected internally generated funds and the present available banking facilities of the Group, the Group has sufficient working capital for its present requirements (for at least the next twelve months from the date of this Circular).

9. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group recorded unaudited revenue of approximately HK$895.6 million for the six months ended 30 June 2006 comprising fabrics and dyed yarn, representing an overall growth of approximately 17.8% for the six months ended 30 June 2005. The growth in revenue was attributable to the expansion of sales network by obtaining new customers and growth of order from the existing customers as well as expansion of the yarn dye operation. The gross profit for the six months ended 30 June 2006 was approximately HK$181.8 million, representing a decrease of approximately 4.1% compared with the six months ended 30 June 2005.

The Directors considered that the Group is having a positive financial and trading prospects in the current financial year. In order to sustain the competitive edges for the Group's future development and to maximize the return on capital investment, production optimization project was implemented, which includes construction of two production complexes, relocation of production facilities, expansion of the power and steam generating plant to ensure stable energy and water supply, and the installation of new production facilities including knitting, yarn dyeing, fabric dyeing and setting machines. The project was completed in June 2006, and the production capacity has increased by approximately 20%.

10. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Business review

Manufacture and sale of finished knitted fabrics and dyed yarn

The principal operation of the Group is the manufacture and sale of finished knitted fabrics and dyed yarn. The Group's monthly capacity of knitting, fabric dyeing and yarn dyeing was increased by approximately 20% to approximately 8 million pound, 11 million pound, and 3 million pound, respectively in the first half of 2006 upon completion of the expansion of the production capacity.

Geographical analysis of the Group's revenue

During the six months ended 30 June 2006, customers from Singapore, Hong Kong, Taiwan, the PRC and other areas accounted for about 53.3%, 17%, 11.9%, 7.6% and 10.2% of the Group's total revenue respectively. Sales to Singapore, Hong Kong and Taiwan increased by about 30.8%, 59% and 4% respectively as a result of enhancement of customer services in the regions.

Business outlook

The Group continued to diversify into different markets by supplying fabrics to new labels and develop new European and PRC markets to sustain the growth. As a further strategic step, the Group decided to diversify into garment manufacturing which shall be one of the growth drivers of the Group in the future.

Financial review

Liquidity, financial resources and capital structure

The Group maintained a healthy financial and liquidity position. As at 30 June 2006, the total current assets and current ratio of the Group were approximately HK$1,074.6 million (2005: HK$873.1 million) and approximately 1.1 (2005: 1.4) respectively. The total cash and bank deposits balance of the Group as at 30 June 2006 was approximately HK$90.1 million (2005: HK$174.3 million). The reduction in current ratio and cash and bank deposits balance were mainly attributable to the seasonal factors during peak production period from March to August.

As at 30 June 2006, total bank borrowings for the Group, including bank advances for discounted bills of HK$107.2 million (2005: HK$104.9 million), amounted to approximately HK$717.3 million (2005: HK$719.1 million), of which 61% (2005: 49.8%) was repayable within one year and 39% (2005: 50.2%) was repayable within two to five years. For the total bank borrowings as at 30 June 2006, 12.7% of the balance (2005: 12.7%) was secured under finance lease. Besides, 64% (2005: 72.6%) and 36% (2005: 27.4%) of the balance was denominated in HK$ and US$ respectively.

The net debt gearing ratio of the Group as at 30 June 2006 (bank borrowings net of cash on hand and bank deposits to equity) was approximately 87.8% (2005: 80.4%). Increase in net debt gearing ratio was mainly due to the increase in working capital for growth of revenue during the six months ended 30 June 2006 and the seasonal effect in the peak production period.

As at 30 June 2006, the Group had net tangible assets of approximately HK$714.6 million (2005: HK$677.2 million), comprising non-current assets of approximately HK$865.3 million (2005: HK$790.3 million), net current assets of approximately HK$128.8 million (2005: HK$247.7 million) and non-current liabilities of approximately HK$279.5 million (2005: HK$360.8 million).

Exposure to fluctuation in foreign exchange

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in HK$, US$ and RMB. Exchange rates between these currencies with HK$ were relatively stable during the six months ended 30 June 2006. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

Charge on the Group's assets

As at 30 June 2006, certain plant and machinery and motor vehicles of the Group with an aggregate net book value of approximately HK$194.9 million (2005: HK$191.1 million) were under finance lease.

Capital expenditure

During the six months ended 30 June 2006, the Group invested approximately HK$111.6 million (2005 June: HK$154.7 million) in property, plant and equipments as well as prepaid land lease payments, of which approximately 38.5% (2005 June: 64.6%) for the purchase of plant and machinery, approximately 26.5% (2005 June: 26.8%) for the construction of new factory premises, approximately 6.6% (2005 June: Nil) for the acquisition of a piece of land in Enping the PRC, approximately 23.9% (2005 June: Nil) for the establishment of a garment factory in Africa and the remaining for the purchase of other fixed assets.

As at 30 June 2006, the Group had capital commitments of approximately HK$17.8 million (2005: HK$27.7 million) and HK$7.2 million (2005: HK$4.6 million) in respect of plant and equipment and construction in progress respectively. As mentioned before, the Group will be able to fulfill its capital commitments when they fall due.

Material acquisition and disposal of subsidiaries and associated companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2006.

11. MATERIAL ADVERSE CHANGE SINCE 31 DECEMBER 2005

The Directors confirm that, as at the Latest Practicable Date, there are no material adverse changes in the financial or trading position or prospect of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

12. RECOMMENDATION

The Directors are of the view that due to the reasons and benefits as stated in the section headed "Reasons for and benefits of entering into the JV Agreement" in this circular, the JV Agreement is in the interests of the Company and the Shareholders as whole.

13. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in appendices to this circular.

Yours faithfully,
By Order of the Board
KAM HING INTERNATIONAL HOLDINGS LIMITED
Tai Chin Chun
Chairman

1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated income statement and consolidated balance sheet of the Group for each of the three years ended 31 December 2005, extracted from the relevant annual reports of the Company for the years presented.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	2005	**2004**	**2003**
	HK$'000	*HK$'000* (Restated)	*HK$'000*
REVENUE	1,499,403	1,315,650	1,101,581
Cost of sales	(1,161,055)	(1,001,715)	(822,925)
Gross profit	338,348	313,935	278,656
Other income	8,466	6,629	3,193
Selling and distribution costs	(93,850)	(83,115)	(62,856)
Administrative expenses	(123,203)	(102,862)	(92,370)
Other operating income/(expenses), net	(13,418)	6,266	(1,132)
Finance costs	(26,081)	(15,870)	(10,357)
PROFIT BEFORE TAX	90,262	124,983	115,134
Tax	(11,312)	(20,221)	(18,778)
PROFIT FOR THE YEAR	78,950	104,762	96,356
Attributable to:			
Equity holders of the Company	78,959	104,762	96,356
Minority interests	(9)	–	–
	78,950	104,762	96,356
DIVIDEND – Proposed final	19,840	10,240	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	12.3 cents	20.0 cents	20.1 cents
Diluted	N/A	20.0 cents	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	2005 HK$'000	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	741,696	531,643	306,089
Investment properties	7,096	–	–
Prepaid land lease payments	39,395	19,533	18,984
Deferred tax assets	2,137	76	–
Total non-current assets	790,324	551,252	325,073
CURRENT ASSETS			
Inventories	381,102	304,861	236,298
Accounts and bills receivable	312,630	193,434	166,789
Prepayments, deposits and other receivables	4,518	11,211	24,877
Equity investments at fair value through profit or loss	497	–	–
Tax recoverable	–	–	127
Pledged deposits	2,146	7,948	30,651
Cash and cash equivalents	172,171	116,879	27,061
Total current assets	873,064	634,333	485,803
CURRENT LIABILITIES			
Accounts and bills payable	221,341	171,832	166,117
Accrued liabilities and other payables	38,095	32,304	45,360
Due to a minority shareholder	114	–	–
Tax payable	7,490	18,478	16,644
Bank advances for discounted bills	104,894	–	–
Interest-bearing bank and other borrowings	253,456	263,364	133,841
Total current liabilities	625,390	485,978	361,962
NET CURRENT ASSETS	247,674	148,355	123,841
TOTAL ASSETS LESS CURRENT LIABILITIES	1,037,998	699,607	448,914
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	360,764	95,474	136,778
Deferred tax liabilities	–	23	17
Total non-current liabilities	360,764	95,497	136,795
Net assets	677,234	604,110	312,119
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	64,000	64,000	200
Reserves	593,289	529,870	311,919
Proposed final dividend	19,840	10,240	–
	677,129	604,110	312,119
Minority interests	105	–	–
Total equity	677,234	604,110	312,119

2. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The following is the unaudited consolidated financial statements of the Group for the six months ended 30 June 2006 together with notes thereto as extracted from the interim report of the Company for the six months ended 30 June 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2006

	Notes	Six months ended 30 June 2006 HK$'000 (Unaudited)	Six months ended 30 June 2005 HK$'000 (Unaudited)
REVENUE	3	895,632	760,005
Cost of sales		(713,840)	(570,406)
Gross profit		181,792	189,599
Other income	3	3,771	3,838
Selling and distribution costs		(45,467)	(44,300)
Administrative expenses		(64,736)	(60,913)
Other operating income (net)		8,604	1,186
Finance costs	4	(19,010)	(9,107)
PROFIT BEFORE TAX	5	64,954	80,303
Tax	6	(7,718)	(10,370)
PROFIT FOR THE PERIOD		57,236	69,933
Attributable to:			
Equity holders of the Company		57,236	69,933
Minority interests		–	–
		57,236	69,933
Interim dividend	7	Nil	Nil
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	8.94 cents	10.93 cents
Diluted		Nil	10.90 cents

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2006

	Notes	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	809,132	741,696
Investment properties		6,908	7,096
Prepaid land lease payments		47,329	39,395
Deferred tax assets		1,941	2,137
Total non-current assets		865,310	790,324
CURRENT ASSETS			
Inventories		513,931	381,102
Accounts and bills receivable	10	462,288	312,630
Prepayments, deposits and other receivables		7,158	4,518
Equity investments at fair value through profit or loss		1,135	497
Pledged deposits		–	2,146
Cash and cash equivalents		90,124	172,171
Total current assets		1,074,636	873,064
CURRENT LIABILITIES			
Accounts and bills payable	11	436,309	221,341
Accrued liabilities and other payables		59,740	38,095
Due to a minority shareholder	15(b)	114	114
Tax payable		11,893	7,490
Bank advances for discounted bills	10	107,153	104,894
Interest-bearing bank and other borrowings		330,563	253,456
Total current liabilities		945,772	625,390
NET CURRENT ASSETS		128,864	247,674
TOTAL ASSETS LESS CURRENT LIABILITIES		994,174	1,037,998
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		279,544	360,764
Total non-current liabilities		279,544	360,764
Net assets		714,630	677,234
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		64,000	64,000
Reserves		650,525	593,289
Proposed final dividend		–	19,840
		714,525	677,129
Minority interests		105	105
Total equity		714,630	677,234

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2006

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Share Option reserve	Capital reserve	Statutory surplus reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005 (Audited)	64,000	122,429	1,000	104,804	16,400	285,237	10,240	604,110	–	604,110
2004 final dividend	–	–	–	–	–	–	(10,240)	(10,240)	–	(10,240)
Profit for the period	–	–	–	–	–	69,933	–	69,933	–	69,933
Equity-settled share option arrangements	–	–	2,000	–	–	–	–	2,000	–	2,000
Transfer to reserve	–	–	–	–	2,300	(2,300)	–	–	–	–
At 30 June 2005 (Unaudited)	64,000	122,429	3,000	104,804	18,700	352,870	–	665,804	–	665,804
At 1 January 2006 (Audited)	64,000	122,429	5,300	104,804	19,729	341,027	19,840	677,129	105	677,234
2005 final dividend	–	–	–	–	–	–	(19,840)	(19,840)	–	(19,840)
Profit for the period	–	–	–	–	–	57,236	–	57,236	–	57,236
Transfer to reserve	–	–	–	–	1,581	(1,581)	–	–	–	–
At 30 June 2006 (Unaudited)	64,000	122,429	5,300	104,804	21,310	396,682	–	714,525	105	714,630

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2006

	Notes	Six months ended 30 June 2006 HK$'000 (Unaudited)	Six months ended 30 June 2005 HK$'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	*1*	30,754	(40,782)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	*1, 2*	(71,836)	(101,747)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	*2*	(40,485)	83,111
NET DECREASE IN CASH AND CASH EQUIVALENTS		(81,567)	(59,418)
Cash and cash equivalents at beginning of period		171,691	116,643
CASH AND CASH EQUIVALENTS AT END OF PERIOD		90,124	57,225
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		90,124	57,225

Major non-cash transactions

Notes:

1. During the period ended 30 June 2006, the Group acquired property, plant and equipment and prepaid land lease payments with an aggregate cost of HK$111.6 million (2005 June: HK$154.7 million) of which HK$21.6 million (2005 June: Nil) was acquired by settlement of debts from a customer located in Singapore.

2. During the period ended 30 June 2006, the Group acquired property, plant and equipment with an aggregate cost of HK$103.1 million (2005 June: HK$154.7 million) of which HK$17 million (2005 June: HK$45 million) was acquired by mean of finance leases.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except for the adoption of the following amendment mandatory for periods beginning on or after 1 January 2006:

HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the above revised HKFRS has no material impact of the Group's interim financial statements.

The Group has not early applied the following new and revised HKFRSs relevant to the Group's financial statements, that have been issued but not yet effective in the period covered by these interim financial statements which are effective for periods beginning on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

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

2. 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 production and sale of knitted fabric and dyed yarn and provision of related subcontracting services.

A geographical segment analysis of the Group's financial results for the period ended 30 June 2006, with comparative figures for the period ended 30 June 2005, is summarized below:

(i) Geographical segments based on the location of customers

	Singapore	Hong Kong	Taiwan	PRC	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2006 (Unaudited)						
Segment revenue:						
Sales to external customers	476,972	152,385	106,911	68,214	91,150	895,632
Other income	240	1,107	1	167	43	1,558
Total	477,212	153,492	106,912	68,381	91,193	897,190
Segment results	92,366	28,151	18,583	12,022	16,043	167,165
Interest and other unallocated income						2,213
Unallocated expenses						(85,414)
Finance costs						(19,010)
Profit before tax						64,954
Tax						(7,718)
Profit for the period						57,236
Six months ended 30 June 2005 (Unaudited)						
Segment revenue:						
Sales to external customers	364,776	95,854	102,770	91,042	105,563	760,005
Other income	1,347	354	379	336	390	2,806
Total	366,123	96,208	103,149	91,378	105,953	762,811
Segment results	77,565	21,299	22,817	20,213	23,188	165,082
Interest and other unallocated income						1,032
Unallocated expenses						(76,704)
Finance costs						(9,107)
Profit before tax						80,303
Tax						(10,370)
Profit for the period						69,933

(ii) Geographical segments based on the location of assets

	Singapore	Hong Kong	PRC	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets					
As at 30 June 2006 (Unaudited)	363	463,419	1,448,869	27,295	1,939,946
As at 31 December 2005 (Audited)	1,066	402,286	1,259,271	765	1,663,388
Capital expenditure					
Six months ended 30 June 2006 (Unaudited)	–	981	83,944	26,695	111,620
Six months ended 30 June 2005 (Unaudited)	33	3,729	150,947	–	154,709

3. 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 services provided by the Group. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June 2006	Six months ended 30 June 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	895,632	760,005
Other income		
Fee income from freight handling services	1,558	2,806
Bank interest income	549	166
Gross rental income	742	665
Others	922	201
	3,771	3,838
	899,403	763,843

4. FINANCE COSTS

	Six months ended 30 June 2006 *HK$'000* (Unaudited)	Six months ended 30 June 2005 *HK$'000* (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	16,337	7,675
Interest on finance leases	2,673	1,432
	19,010	9,107

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2006 *HK$'000* (Unaudited)	Six months ended 30 June 2005 *HK$'000* (Unaudited)
Cost of inventories sold	713,756	571,012
Cost of services provided	1,502	2,688
Auditors' remuneration	721	470
Research and development costs	1,900	1,528
Depreciation of property, plant and equipment	34,640	25,626
Depreciation of investment properties	188	188
Amortisation of prepaid land lease payments	444	224
Employee benefits expense (including directors' remuneration):		
Wages and salaries	51,462	42,565
Equity-settled share option expenses	–	2,000
Pension scheme contributions	1,811	1,421
	53,273	45,986
Minimum lease payments under operating leases in respect of land and buildings	653	445
Loss on disposal of items of property, plant and equipment	474	–
Loss on equity investment at fair value	31	–
Allowance/provision for doubtful debts	129	–
Write back of allowance/provision for doubtful debts	(12,771)	(147)
Foreign exchange difference, net	2,912	(1,078)

6. TAX

	Six months ended 30 June 2006 *HK$'000* (Unaudited)	Six months ended 30 June 2005 *HK$'000* (Unaudited)
Current tax – Hong Kong		
Charge for the period	3,108	4,760
Overprovision in respect of prior periods	(31)	(660)
Current tax – Elsewhere		
Charge for the period	4,445	6,149
Underprovision in respect of prior periods	–	121
Deferred tax charged	196	–
Total tax charge for the period	7,718	10,370

Profits tax in Hong Kong is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Tax in elsewhere is calculated at tax rates prevailing in the respective jurisdictions.

7. DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (2005 June: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK$57,236,000 (2005 June: HK$69,933,000) and the weighted average of 640,000,000 (2005 June: 640,000,000) ordinary shares in issue during the Period.

Diluted earnings per share for the period ended 30 June 2006 has not been disclosed, as the share options outstanding during the Period had an anti-dilutive effect on the basic earnings per share during the Period.

The calculation of diluted earnings per share for the period ended 30 June 2005 was based on the profit for the period attributable to ordinary equity holders of the Company of HK$69,933,000. The weighted average of 641,324,000 ordinary shares in issue during that period, comprising 640,000,000 ordinary shares used in the basic earnings per share calculation, and the weighted average of 1,324,000 ordinary shares assumed to have been issued on the deemed exercise of all share options outstanding during that period.

9. PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the six months ended 30 June 2006 are analysed as follows:

	HK$'000 (Unaudited)
At 1 January 2006	741,696
Additions/Transfers	103,095
Disposals	(1,019)
Depreciation	(34,640)
At 30 June 2006	809,132

As at 30 June 2006, the Group did not obtain title certificates in respect of four factory buildings with net book value of approximately HK$3.5 million (2005: HK$3.7 million). The aforesaid buildings and structures accounted for less than 1% of the Group's total property, plant and equipment. 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 15(c)).

10. 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:

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	243,491	100,747
31 to 60 days	121,965	83,392
61 to 90 days	59,604	51,530
Over 90 days	37,228	76,961
	462,288	312,630

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 30 June 2006, HK$107,153,000 (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.

11. ACCOUNTS AND BILLS PAYABLE

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

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 90 days	391,073	174,573
91 to 180 days	41,729	29,861
181 to 365 days	3,507	16,565
Over 365 days	–	342
	436,309	221,341

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

12. CONTINGENT LIABILITIES

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

	30 June 2006 *HK$'000* (Unaudited)	31 December 2005 *HK$'000* (Audited)
Discounted bills with recourse supported by letters of credit	94,981	30,597

(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$1,470,000 (2005: HK$1,416,000) as at 30 June 2006. 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.

13. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006 *HK$'000* (Unaudited)	31 December 2005 *HK$'000* (Audited)
Within one year	1,258	1,200
In the second to fifth years, inclusive	2,809	3,409
	4,067	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:

	30 June 2006 *HK$'000* (Unaudited)	**31 December 2005** *HK$'000* (Audited)
Within one year	1,436	809
In the second to fifth years, inclusive	3,208	1,967
After five years	6,814	5,688
	11,458	8,464

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	30 June 2006 *HK$'000* (Unaudited)	**31 December 2005** *HK$'000* (Audited)
Contracted but not provided for:		
Purchases of machinery	17,799	27,702
Construction in progress	7,230	4,605
	25,029	32,307

At 30 June 2006, the Group had commitment in respect of capital contributions to wholly-owned subsidiaries established in the PRC, Panyu Kam Hing Textile Dyeing Co., Limited and 恩平錦興紡織漂染有限公司 of US$19,447,000 (approximately HK$152,126,000) due on 29 November 2007 and US$23,000,000 (approximately HK$179,920,000) due on 27 April 2008, respectively.

15. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

	Six months ended 30 June 2006 *HK$'000* (Unaudited)	**Six months ended 30 June 2005** *HK$'000* (Unaudited)
Rental expenses on office premises paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	90	120

The Group entered into tenancy agreement with Mr. Tai Chin Chun and Mr. Tai Chin Wen, Directors of the Company, for the rental of office premises, at monthly rental charge of HK$15,000 for a term of two years based on the prevailing market rentals.

(b) The Group had outstanding advances from its minority shareholder of HK$114,000 (2005: HK$114,000) as at 30 June 2006. 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, Director 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 9 of the financial statements.

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

	Six months ended 30 June 2006 *HK$'000* (Unaudited)	**Six months ended 30 June 2005** *HK$'000* (Unaudited)
Short-term employee benefits	3,447	2,748
Share-based payments	–	531
Post-employment benefits	42	38
	3,489	3,317

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current period.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 21 September 2006.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below are the audited financial statements and notes thereto for the year ended 31 December 2005, which are the reproduction of pages 32-98 of the 2005 annual report of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE	5	1,499,403	1,315,650
Cost of sales		(1,161,055)	(1,001,715)
Gross profit		338,348	313,935
Other income	5	8,466	6,629
Selling and distribution costs		(93,850)	(83,115)
Administrative expenses		(123,203)	(102,862)
Other operating income/(expenses), net		(13,418)	6,266
Finance costs	6	(26,081)	(15,870)
PROFIT BEFORE TAX	7	90,262	124,983
Tax	10	(11,312)	(20,221)
PROFIT FOR THE YEAR		78,950	104,762
Attributable to:			
Equity holders of the Company	11	78,959	104,762
Minority interests		(9)	–
		78,950	104,762
DIVIDEND – Proposed final	12	19,840	10,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		12.3 cents	20.0 cents
Diluted		N/A	20.0 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	741,696	531,643
Investment properties	*15*	7,096	–
Prepaid land lease payments	*16*	39,395	19,533
Deferred tax assets	*25*	2,137	76
Total non-current assets		790,324	551,252
CURRENT ASSETS			
Inventories	*18*	381,102	304,861
Accounts and bills receivable	*19*	312,630	193,434
Prepayments, deposits and other receivables		4,518	11,211
Equity investments at fair value through profit or loss	*20*	497	–
Pledged deposits	*23*	2,146	7,948
Cash and cash equivalents	*21*	172,171	116,879
Total current assets		873,064	634,333
CURRENT LIABILITIES			
Accounts and bills payable	*22*	221,341	171,832
Accrued liabilities and other payables		38,095	32,304
Due to a minority shareholder	*33(b)*	114	–
Tax payable		7,490	18,478
Bank advances for discounted bills	*19*	104,894	–
Interest-bearing bank and other borrowings	*23*	253,456	263,364
Total current liabilities		625,390	485,978
NET CURRENT ASSETS		247,674	148,355
TOTAL ASSETS LESS CURRENT LIABILITIES		1,037,998	699,607
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*23*	360,764	95,474
Deferred tax liabilities	*25*	–	23
Total non-current liabilities		360,764	95,497
Net assets		677,234	604,110
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*26*	64,000	64,000
Reserves	*28(a)*	593,289	529,870
Proposed final dividend	*12*	19,840	10,240
		677,129	604,110
Minority interests		105	–
Total equity		677,234	604,110

Tai Chin Chun
Director

Tai Chin Wen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

		Attributable to equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005											
As previously reported		64,000	122,429	–	104,804	16,400	286,237	10,240	604,110	–	604,110
Prior year adjustments	2.4(b)	–	–	1,000	–	–	(1,000)	–	–	–	–
As restated		64,000	122,429	1,000	104,804	16,400	285,237	10,240	604,110	–	604,110
Final 2004 dividend declared		–	–	–	–	–	–	(10,240)	(10,240)	–	(10,240)
Contribution from a minority shareholder		–	–	–	–	–	–	–	–	114	114
Net profit for the year		–	–	–	–	–	78,959	–	78,959	(9)	78,950
Equity-settled share option arrangements	2.4(a)	–	–	4,300	–	–	–	–	4,300	–	4,300
Proposed 2005 final dividend	12	–	–	–	–	–	(19,840)	19,840	–	–	–
Transfer to reserve		–	–	–	–	3,329	(3,329)	–	–	–	–
At 31 December 2005		64,000	122,429*	5,300*	104,804*	19,729*	341,027*	19,840	677,129	105	677,234

* *These reserve accounts comprise the consolidated reserves of HK$593,289,000 in the consolidated balance sheet of the Group as at 31 December 2005.*

		Attributable to equity holders of the Company							
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
At 1 January 2004		200	–	–	104,804	13,200	193,915	–	312,119
Capitalisation issue		47,800	(47,800)	–	–	–	–	–	–
Issue of shares for cash consideration		16,000	185,600	–	–	–	–	–	201,600
Share issue expenses		–	(15,371)	–	–	–	–	–	(15,371)
Net profit for the year (as restated)		–	–	–	–	–	104,762	–	104,762
Equity-settled share option arrangements (as retstated)	2.4(b)	–	–	1,000	–	–	–	–	1,000
Proposed 2004 final dividend		–	–	–	–	–	(10,240)	10,240	–
Transfer to reserve		–	–	–	–	3,200	(3,200)	–	–
At 31 December 2004		64,000	122,429*	1,000*	104,804*	16,400*	285,237*	10,240	604,110

* *These reserve accounts comprise the consolidated reserves of HK$529,870,000 in the consolidated balance sheet of the Group as at 31 December 2004.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		90,262	124,983
Adjustments for:			
Bank interest income	*5*	(671)	(253)
Finance costs	*6*	26,081	15,870
Depreciation of property, plant and equipment	*7*	55,860	33,760
Depreciation of investment properties	*7*	376	–
Amortisation of prepaid land lease payments	*7*	449	1,069
Gain on disposal of items of property, plant and equipment	*7*	(160)	(3,165)
Bad debts written off	*7*	–	418
Allowance/provision for doubtful debts	*7*	13,030	1,744
Write back of allowance/provision for doubtful debts	*7*	(147)	(1,540)
Write back of provision for other receivables	*7*	–	(200)
Equity-settled share option expenses		4,300	1,000
Operating profit before working capital changes		189,380	173,686
Increase in inventories		(76,241)	(68,563)
Increase in accounts and bills receivable		(132,079)	(27,267)
Decrease in prepayments, deposits and other receivables		7,108	16,200
Increase in accounts and bills payable		49,509	5,715
Increase/(decrease) in accrued liabilities and other payables		5,791	(13,056)
Increase in amount due to a minority shareholder		114	–
Increase in bank advances for discounted bills		104,894	–
Cash generated from operations		148,476	86,715
Interest received		671	253
Interest paid		(22,379)	(13,249)
Interest element of finance lease rental payments		(3,702)	(2,621)
Hong Kong profits tax paid		(14,307)	(10,932)
Overseas taxes paid		(10,077)	(7,398)
Net cash inflow from operating activities		98,682	52,768

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash inflow from operating activities		98,682	52,768
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(218,255)	(204,401)
Prepayment of land leases		(20,726)	(1,299)
Purchase of equity investments at fair value through profit or loss		(497)	–
Proceeds from disposal of items of property, plant and equipment		236	1,030
Decrease in pledged time deposits		5,802	22,703
Decrease/(increase) in non-pledged time deposits with original maturity of over three months when acquired		5,000	(5,000)
Contribution from a minority shareholder		114	–
Net cash outflow from investing activities		(228,326)	(186,967)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	201,600
Share issue expenses		–	(15,371)
Capital element of finance lease rental payments		(42,162)	(28,304)
Drawdown of bank loans		1,352,396	704,597
Repayment of bank loans		(1,110,301)	(643,742)
Dividend paid		(10,240)	–
Net cash inflow from financing activities		189,693	218,780
NET INCREASE IN CASH AND CASH EQUIVALENTS		60,049	84,581
Cash and cash equivalents at beginning of year		111,642	27,061
CASH AND CASH EQUIVALENTS AT END OF YEAR		171,691	111,642
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*21*	158,757	103,870
Non-pledged time deposits with original maturity of less than three months when acquired	*21*	13,414	8,009
Bank overdrafts	*23*	(480)	(237)
		171,691	111,642

BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*17*	402,207	402,207
CURRENT ASSETS			
Due from subsidiaries	*17*	212,011	197,560
Prepayments, deposits and other receivables		40	163
Cash and cash equivalents	*21*	286	344
Total current assets		212,337	198,067
CURRENT LIABILITIES			
Accruals and other payables		312	300
Due to a subsidiary	*17*	612	–
Total current liabilities		924	300
NET CURRENT ASSETS		211,413	197,767
Net assets		613,620	599,974
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*26*	64,000	64,000
Reserves	*28(b)*	529,780	525,734
Proposed final dividend	*12*	19,840	10,240
Total equity		613,620	599,974

Tai Chin Chun
Director

Tai Chin Wen
Director

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

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.

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.

(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.

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.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land lease payments *HK$'000*	HKAS 39* Discounted bills with recourse *HK$'000*	HKFRS 2# Equity-settled share option arrangements *HK$'000*	Total *HK$'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*

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments *HK$'000*	HKAS 39 Discounted bills with recourse *HK$'000*	HKFRS 2 Equity-settled share option arrangements *HK$'000*	Total *HK$'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 new policy (Increase/(decrease))	**Effect of adopting HKFRS 2 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.

(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)

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.

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 Groups, 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%

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.

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.

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.

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.

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 recognized 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.

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.

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.

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.

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.

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.

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 behavior, 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.

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 judgment and estimates. Where the expectation is different from the original estimate, such difference will impact 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.

(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)

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)

(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

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* (Restated)
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$'000	Group 2004 HK$'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

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).

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 the grant and was included in the above directors' remuneration disclosures.

	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.

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 the grant and was included in the above non-directors, highest paid employees' remuneration disclosures.

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%.

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$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
	(Restated)						(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

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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
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

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.

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures are 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. Application 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 HK$'000	2004 HK$'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.

16. PREPAID LAND LEASE PAYMENTS

	Group 2005 HK$'000	2004 HK$'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 HK$'000	2004 HK$'000 (Restated)
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.

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
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

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
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).

(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).

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 advanced 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.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	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 payables 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.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate *(%)*	Maturity	Group 2005 *HK$'000*	2004 *HK$'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

	Group 2005 *HK$'000*	2004 *HK$'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.

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

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.

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.

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.

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.

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				

* *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).

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.

(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 therefore 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 reserves 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.

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.

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

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.

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 director' emoluments are included in note 8 to the financial statements.

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.

Cashflow 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.

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.

4. STATEMENT OF INDEBTEDNESS

As at 30 November 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total bank borrowings of approximately HK$712,454,000, including bank advances for discounted bills of approximately HK$27,117,000, bank loans of approximately HK$611,312,000 and finance lease payables of approximately HK$74,025,000. These bank borrowings were secured by corporate guarantees of approximately HK$693,027,000 from the Company and certain subsidiaries of the Company. The Group also had bills discounted with recourse of approximately HK$10,562,000 and contingent liability in respect of possible future long service payments to employees under the Employment Ordinance (Cap. 57 Laws of Hong Kong) with a maximum possible amount of HK$1,447,000.

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at 30 November 2006, have any outstanding debt securities, whether issued and outstanding, authorised or otherwise created but unissued, term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the issuer or by third parties) or unsecured, other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured borrowings or debt, mortgages, charges, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 November 2006.

Set out below is the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2006 which gives effect to the formation of the JV Company as if it had been consummated on 30 June 2006.

The unaudited pro forma financial information of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2006, extracted from its unaudited interim report for the six months ended 30 June 2006, after making appropriate pro forma adjustment that is considered necessary.

The unaudited pro forma financial information of the Enlarged Group was prepared for the purpose of illustrating how the formation of the JV Company might have affected the assets and liabilities position of the Group. As it is prepared for illustrative purpose only, and because of its nature, it may not purport to represent the assets and liabilities position of the Group on the completion of the formation of the JV Company or at any future date.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS IF THE FORMATION OF THE JV COMPANY HAD BEEN COMPLETED ON 30 JUNE 2006

	Unaudited consolidated balance sheet of the Group as at 30 June 2006	**Unaudited pro forma adjustments**		**Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2006**
	HK$'000	*Notes*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	809,132	*(b)*	19,440	829,322
		(b)	750	
Investment properties	6,908			6,908
Prepaid land lease payments	47,329			47,329
Deferred tax assets	1,941			1,941
Total non-current assets	865,310			885,500
CURRENT ASSETS				
Inventories	513,931			513,931
Accounts and bills receivable	462,288			462,288
Prepayments, deposits and other receivables	7,158			7,158
Equity investments at fair value through profit or loss	1,135			1,135
Pledged deposits	–			–
Cash and cash equivalents	90,124	*(b)*	22,810	112,934
Total current assets	1,074,636			1,097,446

	Unaudited consolidated balance sheet of the Group as at 30 June 2006 *HK$'000*	Unaudited pro forma adjustments *Notes*	*HK$'000*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2006 *HK$'000*
CURRENT LIABILITIES				
Accounts and bills payable	436,309			436,309
Accrued liabilities and other payables	59,740			59,740
Due to a minority shareholder	114			114
Tax payable	11,893			11,893
Bank advances for discounted bills	107,153			107,153
Interest-bearing bank and other borrowings	330,563			330,563
Total current liabilities	945,772			945,772
NET CURRENT ASSETS	128,864			151,674
TOTAL ASSETS LESS CURRENT LIABILITIES	994,174			1,037,174
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	279,544			279,544
Total non-current liabilities	279,544			279,544
Net assets	714,630			757,630
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	64,000			64,000
Reserves	650,525			650,525
Proposed final dividend	–			–
	714,525			714,525
Minority interests	105	*(b)*	(43,000)	43,105
Total equity	714,630			757,630

Notes to the Unaudited Pro Forma Financial Information:

a. Under Generally Accepted Accounting Principles in Hong Kong, the Group will reflect the financial results of the JV Company as a subsidiary on the basis that the Group has control over the operation and financial policies of the JV Company in accordance with the JV Agreement.

   In accordance with the JV Agreement, the Group is required to inject its 60% portion of capital contributions to the JV Company of HK$64,500,000 by means of cash and the Highkeen Assets of HK$62,780,000 and HK$1,720,000, respectively. However, as the JV Company is accounted for by the Group as a subsidiary as mentioned above, the capital contributions made by the Group to the JV Company will have no impact on the unaudited pro forma consolidated balance sheet of the Enlarged Group. Consequently, no unaudited pro forma consolidated adjustments are presented to reflect the capital contributions made by the Group in accordance with the JV Agreement and the subsequent elimination of the Group's 60% investment in the JV Company when preparing the unaudited pro forma adjusted consolidated balance sheet of the Enlarged Group as if the formation of the JV Company had been completed on 30 June 2006 for simplicity sake.

b. According to the JV Agreement, Special Skill, the minority interest of the JV Company holding 40% equity interest, will satisfy its portion of capital contributions to the JV Company of HK$43,000,000 by means of cash, Machinery and Equipment, and Other Assets of HK$22,810,000, HK$19,440,000 and HK$750,000, respectively.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of an accoutants' report prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.

ERNST & YOUNG
安 永 會 計 師 事 務 所

23 January 2007

The board of directors
Kam Hing International Holdings Limited
Room 1-9, 8/F, Lucida Industrial Building
43-47 Wang Lung Street
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

Re: Kam Hing International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group")

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group, (being the Group together with the formation of a joint venture company), which has been prepared by the directors for illustrative purposes only, to provide the information about how the formation of a joint venture company might have affected the historical financial information in respect of the Group, for inclusion as Appendix II to the circular dated 23 January 2007 (the "Circular") issued by the Company. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 81 to the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2006 or any future date.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or (c) were required, pursuant to the Model Code as set out in appendix 10 to the Listing Rules adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name	*Notes*	**Capacity and nature of interest**	**Number of shares**	**Percentage of the Company's issued share capital**
Mr. Tai Chin Chun	*1*	Through controlled corporation	384,000,000	60%
Mr. Tai Chin Wen	*2*	Through controlled corporation	96,000,000	15%
Ms. Cheung So Wan	*3*	Through spouse	384,000,000	60%
Ms. Wong Siu Yuk	*4*	Through spouse	96,000,000	15%
Mr. Chong Chau Lam		Directly beneficially owned	300,000	0.05%

Long positions in ordinary shares of an associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Tai Chin Chun	Exceed Standard Limited	Ultimate holding company	1 share of US$1	Directly beneficially owned	100%

Notes:

1. The shares are held by Exceed Standard Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Tai Chin Chun, the chairman of the Company and an executive Director. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Ms. Cheung So Wan is the spouse of Mr. Tai Chin Chun.

2. The shares are held by Power Strategy Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Tai Chin Wen.

3. Ms. Cheung So Wan is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Chun under the SFO.

4. Ms. Wong Siu Yuk is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Wen under the SFO.

Share Option Scheme

Pursuant to the Company's share option scheme, the following share options were outstanding as at 30 November 2006:

Name or category of participant	Number of share options: At 1 January 2006	Lapsed during the period	30 November 2006	Date of grant *(Note 1)*	Exercise period	Exercise price *(Note 2)*	Price of Company's shares at grant date *(Note 3)*
Directors							
Tai Chin Chun	3,000,000	–	3,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Tai Chin Wen	2,000,000	–	2,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Cheung So Wan	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Wong Siu Yuk	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Subtotal	7,000,000	–	7,000,000				
Non-director employees							
In aggregate	15,746,000	(1,513,000)	14,233,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Others							
In aggregate	1,260,000	–	1,260,000	6 October 2004	6 October 2005 to 5 October 2014	HK$1.28	HK$1.24
Total	24,006,000	(1,513,000)	22,493,000				

Notes:

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

2. 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.

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

Save as disclosed above, none of the Directors and chief executive had registered an interest in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issues.

3. INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

As at the Latest Practicable Date, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	**Capacity and nature of interest** *(Note)*	**Number of shares**	**Percentage of the Company's issued share capital**
Exceed Standard Limited	Directly beneficially owned	384,000,000	60%
Power Strategy Limited	Directly beneficially owned	96,000,000	15%

Note: The relationship between Exceed Standard Limited and Mr. Tai Chin Chun, as well as that between Power Strategy Limited and Mr. Tai Chin Wen are disclosed under the paragraph headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

4. CLAIMS AND LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. SERVICE CONTRACTS

Each of the executive Directors and the independent non-executive Directors has a service contract with the Company for a term of three years and is subject to termination by either party giving not less than three months' and one month's written notice, respectively, and in any events not later than the end of the initial term.

Save as disclosed herein, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

6. COMPETING INTERESTS

As at the Latest Practicable Date, no Director had a beneficial interest, either directly or indirectly, in any contract of significance to the business of the Company or any of its holding company, subsidiaries and fellow subsidiaries.

7. DIRECTORS' INTERESTS IN CONTRACTS AND OTHER INTERESTS

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

8. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the Group entered into the following agreement(s) (not being a contract entered into under the ordinary course of business of the Group) and is or may be material:

(a) A term loan facility agreement dated 15 July 2005 entered into between (a) Kam Hing Piece Works Limited, an indirect wholly-owned subsidiary of the Company, as borrower; (b) the Company, Kam Hing Textile Macao Commercial Offshore Co. Limited and Kam Hing Textile (International) Limited as guarantors; (c) the Hongkong and Shanghai Banking Corporation Limited as mandated coordinating arranger; (d) China Construction Bank Corporation, Hong Kong Branch, United Overseas Bank Limited as arrangers; (e) Banca Di Roma S.P.A. – Hong Kong Branch, Cathay United Bank Company, Limited, Hong Kong Branch, Hang Seng Bank Limited, Industrial and Commercial Bank of China (Asia) Limited as senior managers, (f) Banco Bilbao Vizcaya Argentaria S.A., Hong Kong Branch as manager; and (g) The Hongkong and Shanghai Banking Corporation Limited as agent for a loan facility of HK$305,000,000; and

(b) the JV Agreement.

9. QUALIFICATION OF EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Menlo Capital Limited	Licensed corporation for type 6 (advising on corporate finance) regulated activity under the SFO

(a) Ernst & Young and Menlo Capital Limited are not beneficially interested in the share capital of any member of the Group and have no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(b) Ernst & Young and Menlo Capital Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion therein a copy of their advice and/or references to their names, in the form and context in which they respectively appear.

10. MISCELLANEOUS

(a) None of the Directors nor any persons referred to in paragraph 9 in this appendix has since 31 December 2005, being the date to which the latest published audited accounts of the Group have been made up, any direct or indirect interests in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.

(b) The company secretary and qualified accountant of the Company is Mr. WONG Wai Kong, Elmen. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a practising certified public accountant in Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Units 1-9, 8th Floor, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday up to and including 7 February 2007:

(a) the memorandum and articles of association of the Company;

(b) a copy of this circular;

(c) the audited accounts of the Group for each of the three financial years ended 31 December 2005 and the unaudited accounts of the Group as at 30 June 2006;

(d) the comfort letter prepared by Ernst & Young in respect of the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;

(e) a letter from Menlo Capital Limited on the sufficiency of working capital of the Group;

(f) the valuation report prepared by RHL Appraisal Limited on the value of the Machinery and Equipments as at 30 September 2006;

(g) the written contents referred to in paragraph 9 of this appendix;

(h) the service contracts of the Directors as referred to in paragraph 5 of this appendix; and

(i) the contracts referred to in paragraph 8 of this appendix.