



**KAM HING INTERNATIONAL  
HOLDINGS LIMITED**  
**錦興國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*



Annual Report  
**2004**



## Kam Hing Group's Major Developments

- 1996 Kam Hing Group was co-founded by the Tai brothers
- 1997 Acquired a dyeing factory in Panyu, the PRC
- 1998 A new subsidiary was incorporated in Hong Kong to serve the Group's sales and marketing functions
- 1999 The Panyu factory was awarded the ISO9001 certification for quality system accreditation on the knitting, dyeing and finishing of fabrics
- 2001 A new subsidiary was established for the provision of freight and shipping handling services
- 2003 Established a power and steam generating plant, and water supply and sewage treatment plants in the Panyu factory . . . . .
- 2003 Acquired a subsidiary in Singapore to create marketing presence
- 2004 Established a yarn dye production line with computer-monitored central dosing system in the Panyu factory . . . . .
- 2004 Installation of 8,000-pound dyeing tanks . . . . .
- 2004 Successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited



Water Treatment Plant



Sewage Treatment Plant



Power and Steam Generating Plant



Yarn Dye Production Line



8,000-pound Dyeing Tank

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# Corporate Information

## Board of Directors

### Executive Directors

Mr. Tai Chin Chun  
(Chairman and Managing Director)  
Mr. Tai Chin Wen (Vice-chairman)  
Madam Cheung So Wan  
Madam Wong Siu Yuk

### Independent Non-Executive Directors

Mr. Chong Chau Lam  
Madam Chu Hak Ha, Mimi  
Mr. Chan Yuk Tong

## Company Secretary

Mr. Wong Wai Kong, Elmen

## Solicitors

Sidley Austin Brown & Wood  
39th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

## Auditors

Ernst & Young  
Certified Public Accountants  
15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

## Registered Office

Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681 GT  
George Town, Grand Cayman  
Cayman Island  
British West Indies

## Head Office and Principal Place of Business

Units 5-9, 8th Floor  
Lucida Industrial Building  
43-47 Wang Lung Street  
Tsuen Wan  
New Territories  
Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Standard Chartered Bank (HK) Limited  
The Bank of East Asia Limited  
Wing Hang Bank Limited  
Bank of China (Hong Kong) Limited  
China Construction Bank

## Principal Share Registrar and Transfer Office in Cayman Islands

Bank of Bermuda (Cayman) Limited  
PO Box 513 GT, Strathvale House  
North Church Street  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

## Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## Stock Code

2307

## Company Website

[www.kam-hing.com.hk](http://www.kam-hing.com.hk)

## Financial Highlights and Summary

### KEY FINANCIAL DATA

	Year ended/As at 31 December			
	2001	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	711,620	980,192	1,101,581	<b>1,315,650</b>
Profit before tax	22,779	85,545	115,134	<b>125,983</b>
Tax	(1,768)	(3,998)	(18,778)	<b>(20,221)</b>
Net profit from ordinary activities attributable to shareholders	21,011	81,547	96,356	<b>105,762</b>
Dividends	–	–	–	<b>10,240</b>
Total assets	323,868	605,320	810,876	<b>1,185,585</b>
Total liabilities	(283,341)	(483,246)	(498,757)	<b>(581,475)</b>
Shareholders' funds	40,527	122,074	312,119	<b>604,110</b>

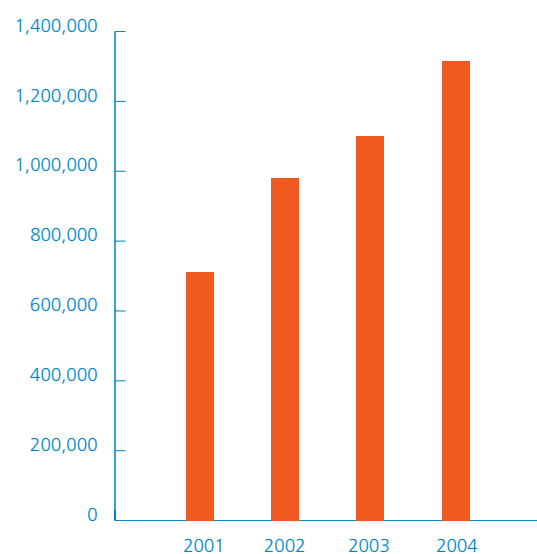
### KEY FINANCIAL RATIOS

	Year ended/As at 31 December			
	2001	2002	2003	2004
Turnover growth rate (%)	N/A	37.7%	12.4%	<b>19.4%</b>
Gross profit margin (%)	17.7%	22.6%	25.3%	<b>23.9%</b>
Net profit margin (%)	3.0%	8.3%	8.7%	<b>8.0%</b>
Current ratio (times)	0.86	0.84	1.34	<b>1.30</b>
Gearing ratio (total debt/total assets) (%)	31.1%	36.3%	33.4%	<b>30.3%</b>
Interest coverage (times)	5.47	14.71	12.12	<b>8.94</b>

## Financial Highlights and Summary

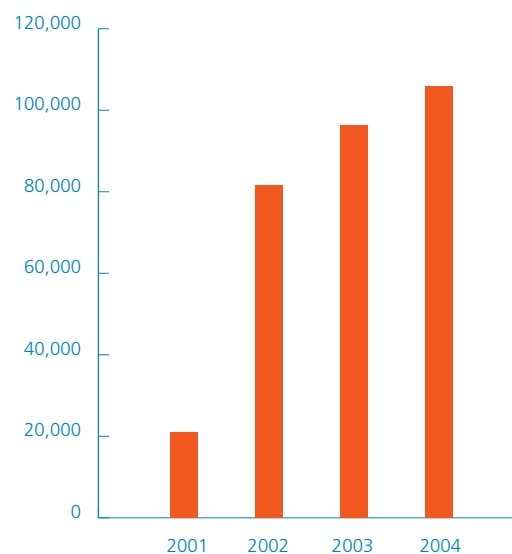
### Turnover

HK\$'000



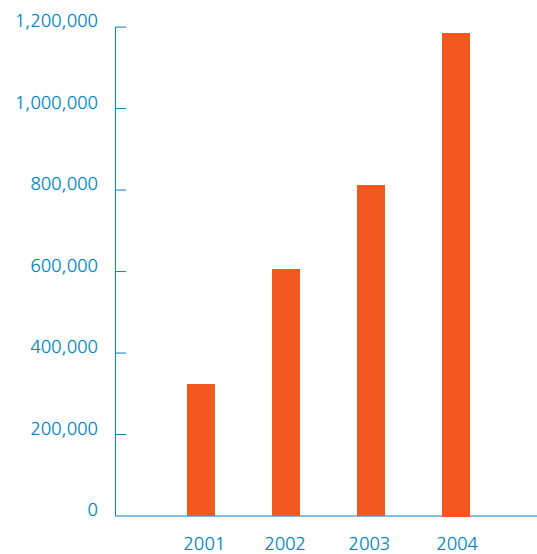
### Net Profit

HK\$'000



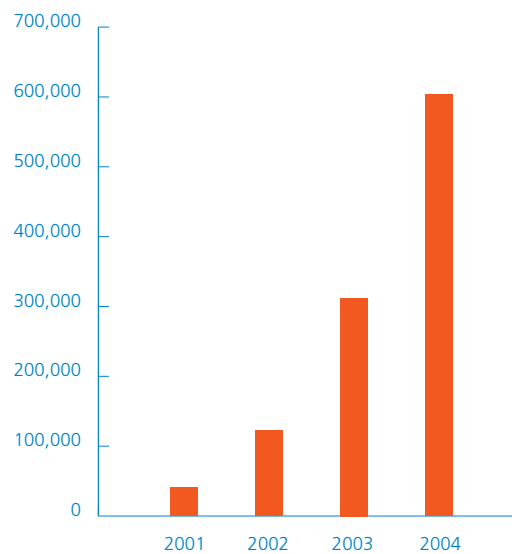
### Total Assets

HK\$'000



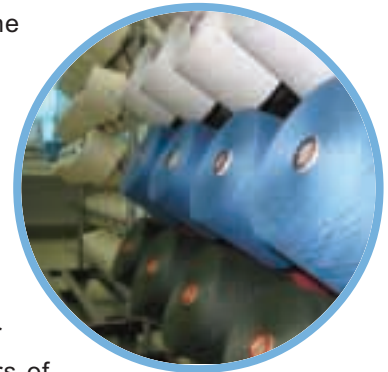
### Shareholders' Funds

HK\$'000



## Chairman's Statement

On behalf of the board of directors (the "Board") of Kam Hing International Holdings Limited (the "Company"), I am pleased to announce the annual audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004. The successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 September 2004 is considered to be a major milestone of the Group since its establishment in November 1996. The management will continue to seek and capture growth opportunities in the future as a reward to shareholders.

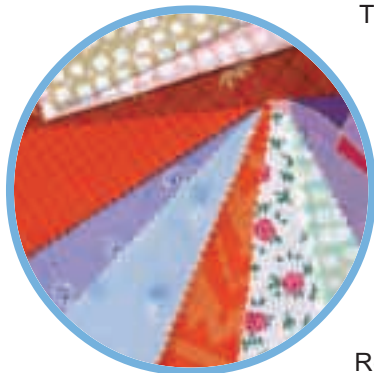


### DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK1.6 cents per share in respect of the year ended 31 December 2004 to shareholders whose names appear on the register of members of the Company on 23 May 2005, subject to the approval of the Company's shareholders at the annual general meeting of the Company. The final dividend is based on 25% of the net profit of the second half year of 2004.

### BUSINESS REVIEW

I am happy to see the continuous expansion of the Group since its establishment in 1996. All of the staff are devoted and committed to the further development of the Group, especially in light of the rapid growth of the Group's business in the previous years.



The Group's turnover for the year ended 31 December 2004 was HK\$1,315.7 million, representing an increase of 19.4% over the previous year. The gross profit margin dropped slightly from 25.3% in 2003 to 23.9% in 2004 mainly due to the substantial increase in raw material costs in early 2004. With the decrease in raw material costs since mid-2004, the gross and net margins recovered in the second half of the year under review. As a whole, the net profit margin for the year decreased slightly from 8.7% to 8.0%.

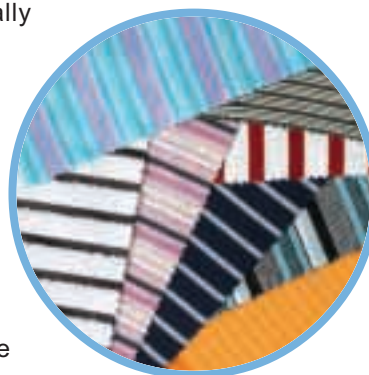
Regarding the market development, the Group has successfully solicited a number of potential customers including some major garment manufacturers and famous international brand operators to provide extra order sources. In addition, the Group successfully developed the Mainland China market after listing and recorded remarkable sales amounting to HK\$18.1 million in the last quarter of 2004. I am confident that the China market of the Group will grow significantly in 2005.



## Chairman's Statement

The new yarn dye production line, with an investment of approximately HK\$126.2 million, has a monthly capacity of around 2.5 million pounds, and commenced operations in September 2004. The new operation has already broken even financially in November 2004. The improvement in production capability has been particularly noticeable in recent months. I therefore believe that the new production line will contribute greatly to an increase in turnover and an improvement in profit margin in 2005.

Guangzhou Zhongshan University, the People's Republic of China (the "PRC") was appointed as a consultant in 2004 to advise on the human resource management and to increase the production capabilities at the Group's factory in Panyu, the PRC. The achievements after the completion of the first phase were apparent.



### OUTLOOK

The Group has sped up its business development after its listing on the Stock Exchange, including the construction of a central knitting complex (which was completed in January 2005) and the relocation of knitting machines to the knitting complex (which is currently underway). In mid-2005, the Group's annual dyeing and knitting capacity will be expected to increase by approximately 10% and 20% from the capacity of approximately 101.5 million pounds and 74.4 million pounds as at 31 December 2004, respectively. In addition, the second phase of the power plant is expected to be in place in the second quarter of 2005, which will further reduce energy costs. All of the above will enhance the Group's ability of handling rush orders and its capabilities in expanding the order source.

The import quota on textile products between members of the World Trade Organisation was abolished on 1 January 2005. As a result, buyers have been continuously consolidating their supplier lists and increasing their proportion of garment sourcing from the Asian region. In addition, garment manufacturers are now tending to rely greatly on more sizable and reputable suppliers. As one of the key knitted fabrics suppliers in the market, I am confident that these trends will be advantageous to the future development of the Group.

In accordance with the terms of the World Trade Organisation, exports from the PRC may still be restricted under the "anti-surge" or "anti-dumping" policies. At the same time, the PRC government has imposed an additional tax on the export of textile products to further affect the competitiveness of production in the PRC. Despite the uncertainties encountered in the first few months after the abolition of the quota system on textile products, the Group has been making continuous efforts to seek opportunities for further development with a view to capturing long-term benefits from the change.

During the course of the Group's development history, it has always been our goal to improve margins in light of the growing volume. The implementation of the yarn dye operation is an important step towards vertical integration. On the condition that the Group maintains its healthy financial status, we will continue to seek opportunities for upstream operation expansion in the future.

## Chairman's Statement

The Group's past successes have relied on strong research and development (the "R&D") efforts in developing products that meet customer expectations. The new yarn dye production line has further strengthened the Group's R&D capabilities. In the first quarter of 2005, a number of different new fabrics have been developed, which have added value by expanding order sources in the market.

The Group will enhance its operating efficiency in order to increase competitiveness and strengthen the Group's position in the market.

### APPRECIATION

I would like to express my heartfelt thanks, on behalf of the Board, for the hard work of our management and all staff, which has led to the Group's major achievements both during the year under review and in previous years.

**Tai Chin Chun**

*Chairman*

Hong Kong

21 April 2005

# Management Discussion and Analysis

## Operational and Financial Review

The Group is principally engaged in the manufacture and sale of knitted fabrics and is one of the major suppliers of knitted fabrics in the market. The Group's merchandise was sold to various garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell garment products to the consumers in the United States of America and other countries. The Group has vertically integrated its operations, which include marketing and sales, research and development, production processes, including knitting, fabrics dyeing and yarn dyeing, and final processes, such as setting and pre-shrinking.

### Turnover

For the financial year ended 31 December 2004, the Group recorded a turnover of approximately HK\$1,315.7 million (2003: HK\$1,101.6 million), representing an increase of approximately 19.4% in comparison to the previous financial year. The increase in turnover was mainly attributable to the general increase in demand for the Group's fabrics in the basic, functional and novelty series and the increase in sales to customers in Singapore and Taiwan which accounted for about 54.8% and about 18.5% of total turnover, respectively. In addition, a new yarn dye production line commenced operation in September 2004, which recorded a turnover of about HK\$12.1 million as at 31 December 2004. The Group has also entered into the PRC local market since the third quarter of 2004 and recorded a turnover of about HK\$18.1 million as at 31 December 2004.

### Gross Profit

The gross profit of the Group was approximately HK\$313.9 million, representing an increase for the year ended 31 December 2004 of approximately 12.6% in comparison to the gross profit of approximately HK\$278.7 million in the previous financial year. The gross profit margin slightly decreased from approximately 25.3% in the previous year to approximately 23.9% in the year ended 31 December 2004. The slight decrease in gross profit margin was due to the combined effect of the increase in purchase cost of cotton yarn in the first half-year of 2004 and the increase in depreciation charges of the newly established production facilities, including the yarn dyeing production line, power and steam generating plant, and water and sewage treatment plant, which offset the corresponding increase in the selling price of fabrics and the improvement of operating efficiency by a reduction in subcontracting production process.

### Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2004 was approximately HK\$105.8 million (2003: HK\$96.4 million), representing a year-on-year increase of approximately 9.8%. Net profit margin for the year ended 31 December 2004 was approximately 8.0% (2003: 8.7%). The decrease in net profit margin was principally attributable to the decrease in gross profit margin.

# Management Discussion and Analysis

## Other Revenue and Expenses

Other revenue of approximately HK\$6.6 million mainly comprised approximately HK\$5.7 million in shipping and handling charges earned by Kam Hing International Shipping Limited, a wholly-owned subsidiary of the Company. Selling and distribution costs of approximately HK\$83.1 million mainly comprised HK\$75.6 million in shipping and delivery costs, representing an increase of approximately 33.6% in comparison to the previous year. The increase in selling and distribution costs was principally due to delivery orders from further afield and rising freight costs. Administrative expenses increased 10.3% year-on-year to approximately HK\$101.9 million and mainly comprised salaries, entertainment expenses, traveling and accommodation, staff welfare, bank charges, depreciation, and postage and courier expenses. The increase was basically in line with the increase in turnover and partly due to the fact that more staff were employed to enhance production and more marketing and communication efforts were spent on customer liaison and sales solicitation.

During the year under review, the Group recorded an aggregate provision for doubtful debts and bad debts written off of approximately HK\$2.2 million, which represented only approximately 0.16% of the Group's turnover for the same year. Finance costs of approximately HK\$15.9 million for the year ended 31 December 2004 comprised mainly interest on short-term trust receipt loans, term loans from bank and finance lease interests. Finance costs increased by 53.2% as compared with the previous year mainly due to the increase in working capital requirement as a result of the increase in the Group's operations and the increase in bank financing for the acquisition of production equipment, particularly the yarn dyeing machinery.

## Liquidity and Financial Resources

As at 31 December 2004, the Group had net current assets of approximately HK\$147.9 million (2003: HK\$123.4 million). The Group maintains a strong financial position by financing its operations with the proceeds from the Company's initial public offering (the "IPO") and internally generated resources. As at 31 December 2004, the Group had cash and bank deposits of approximately HK\$124.8 million (2003: HK\$57.7 million). The current ratio of the Group was 1.3 (2003: 1.3).

The total bank borrowings of the Group as at 31 December 2004 were approximately HK\$358.8 million (2003: HK\$270.6 million). The Group's net debt gearing ratio (bank borrowings net of cash on hand and bank deposits to equity) was approximately 38.7% (2003: 68.2%).

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 53.7 days, 84.6 days and 47.7 days respectively. The debtors' turnover period decreased slightly from 55.3 days in the previous financial year to 53.7 days in the current financial year. This was due to the discounting of bills receivable to financial institutions. The increase in the inventory turnover period from 78.3 days to 84.6 days was attributable to the increase in inventory in anticipation of the increase in production demand of fabrics in the coming period and the establishment of a new yarn dye production line during the year ended 31 December 2004. The creditors' turnover period further decreased slightly from 55.0 days to 47.7 days due to arrangements with some suppliers for purchase discounts on early settlement.

# Management Discussion and Analysis

## Financing

As at 31 December 2004, the total banking and loan facilities of the Group amounted to approximately HK\$755 million (2003: HK\$705 million), of which approximately HK\$429 million (2003: HK\$206 million) was utilized.

As at 31 December 2004, the Group's long-term loans were maintained at approximately HK\$53.5 million. Long-term finance lease payable was increased from approximately HK\$32.0 million as at 31 December 2003 to approximately HK\$42.0 million as at 31 December 2004 because the Group has made further additions to plant and machinery. The acquisition of these fixed assets were principally financed by way of finance leases. As at 31 December 2004, the Group's long-term bank loans comprised loans drawn down by Panyu Kam Hing Textile Dyeing Co., Limited and Kam Hing Piece Works Limited, both are wholly-owned subsidiaries of the Company, which were not secured by any assets of the Group but by corporate guarantees provided by other members within the Group.

## Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.6 cents per share in respect of the year ended 31 December 2004 to shareholders whose names appear on the register of members of the Company on 23 May 2005 subject to the approval of the shareholders regarding the payment of the final dividend at the annual general meeting. The final dividend is based on 25% of the net profit of the second half year of 2004.

## Capital Structure

Since the listing of the Company's shares on the Stock Exchange on 23 September 2004, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

## Foreign Exchange Risk and Interest Rate Risk

For the year ended 31 December 2004, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in US dollars, Hong Kong dollars or Renminbi. Hence, no financial instrument for hedging was employed.

Approximately 89% of the Group's sales were denominated in US dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's cost of sales and capital expenditures were denominated in US dollars, Renminbi and Hong Kong dollars. Since the exchange rate of US dollars and Renminbi has been relatively stable in recent years, the directors do not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems for the Group. Hence, the Group did not enter into any arrangements to hedge its foreign exchange exposure.

## Management Discussion and Analysis

All bank borrowings of the Group were denominated in US dollars, Hong Kong dollars or Renminbi on either a fixed interest rate basis, an inter-bank borrowing interest rate basis or a prime rate basis. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

### Charge on the Group's Assets

As at 31 December 2004, certain plant and machinery and motor vehicle of the Group with an aggregate net book value of approximately HK\$148.6 million (2003: HK\$77.3 million) were under finance leases.

In addition, certain of the bank's short term bank loans were secured by pledged bank deposits of the Group of HK\$7.9 million. Subsequent to the balance sheet date, the pledge over the bank deposits was released.

### Capital Expenditure

During the year, the Group invested approximately HK\$261.1 million in fixed assets, of which approximately 37.6% (2003: 71.0%) was used for the purchase of plant and machinery, approximately 57.9% (2003: 27.6%) was used for the construction of new factory premises and the remaining was used for the purchase of other fixed assets.

As at 31 December 2004, the Group had capital commitments of approximately HK\$96.7 million (2003: HK\$35.7 million) in respect of fixed assets, which are to be funded by the IPO proceeds and net proceeds from internal resources.

### Staff Policy

The Group had 2,064 employees in the PRC, and 118 employees in Hong Kong, Macau and Singapore as at 31 December 2004. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are offered to the Group's staff depending on their performance and the results of the Group.

The Group operates a defined contribution retirement benefits scheme under the MPF Ordinance as well as medical insurance for all its employees in Hong Kong. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options are granted to select eligible executives, with a view to providing senior management an appropriate incentive package for the growth of the Group.

## Management Discussion and Analysis

In addition to weekly and monthly internal training, the Group also contracted Zhongshan University, the PRC to provide management training to senior staff. External course subsidies are also provided to certain employees.

### Contingent Liabilities

As at 31 December 2004, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to approximately HK\$429 million. The Group also had bills discounted with recourse of approximately HK\$106.4 million (2003: HK\$62.4 million).

### Major Customers and Suppliers

In the year ended 31 December 2004, sales to the five largest customers accounted for approximately 60.9% (2003: 65.4%) of the total sales of the Group and sales to the largest customer included therein accounted for approximately 30.8% (2003: 36.2%).

Purchases from the five largest suppliers accounted for approximately 39.3% (2003: 27.5%) of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 10.9% (2003: 6.9%).

None of the directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or shareholders of the Company who own more than five percent of the issued share capital of the Company had any interest in the Group's five largest customers and/or suppliers during the year under review.

### Segment Information

In the year ended 31 December 2004, sales to the three largest regions (Singapore, Taiwan and Hong Kong) accounted for approximately 82.8% (2003: 85.7%) of the total sales of the Group and sales to the largest region (Singapore) included therein accounted for approximately 54.8% (2003: 58.2%) of the Group.

As at 31 December 2004, the Group's assets located in Hong Kong and the PRC (other than Hong Kong and Macau) accounted for approximately 25.9% (2003: 30.5%) and 74% (2003: 69.4%) of the total assets of the Group, respectively. Capital expenditure in the PRC (other than Hong Kong and Macau) during the year ended 31 December 2004 accounted for approximately 97.7% (2003: 98.4%) of the total capital expenditure of the Group.

# Biographical Details of Directors and Senior Management

## Board of Directors

### Executive Directors

**Mr. Tai Chin Chun** (戴錦春), aged 43, is the Chairman, Managing Director and founder of the Group. He is in charge of the Group's corporate strategy, planning and overall development. He has more than 20 years of experience in the textile industry. Mr. Tai is a standing member of the Political Consultative Committee of Panyu District, Guangzhou City (中國人民政治協商會議廣州市番禺區委員會委員). He has also been awarded honorary citizenship of Guangzhou Municipal. Mr. Tai is the younger brother of Mr. Tai Chin Wen and the spouse of Madam Cheung So Wan.

**Mr. Tai Chin Wen** (戴錦文), aged 49, is the Vice-chairman, Executive Director and founder of the Group. He is in charge of the Group's overall management. Mr. Tai has over 20 years of management experience in the manufacturing industry. Mr. Tai is a standing member of the Political Consultative Committee of Nan An City (中國人民政治協商會議南安市委員會委員) of the Fujian Province. He has also been awarded honorary citizenship of Guangzhou Municipal. Mr. Tai is the elder brother of Mr. Tai Chin Chun and the spouse of Madam Wong Siu Yuk.

**Madam Cheung So Wan** (張素雲), aged 41, is the Executive Director of the Group. She is responsible for yarn sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Madam Cheung joined the Group in November 1996 and has more than 10 years of experience in the textile industry. Madam Cheung is the spouse of Mr. Tai Chin Chun.

**Madam Wong Siu Yuk** (黃少玉), aged 43, is the Executive Director of the Group. She is responsible for dyeing material sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Madam Wong joined the Group in December 1996 and has more than 10 years of experience in the textile industry. Madam Wong is the spouse of Mr. Tai Chin Wen.

### Independent Non-executive Directors

**Mr. Chong Chau Lam** (莊秋霖), aged 55, is a senior lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University. Mr. Chong obtained a Higher Diploma in Dyeing, Printing & Finishing from the Hong Kong Technical College and a Master of Business Administration degree from the University of East Asia. He is an Associate Member of both the Society of Dyers & Colourists and the Textile Institute in UK, and was awarded the Silver Medal by the Society of Dyers & Colourists in 1982. Prior to joining the Institute of Textiles & Clothing in 1975, he worked as an engineer in a local textile company. He is also currently a committeeman of the Dyeing & Finishing Special Committee, The China Textile Engineering Society, and an active technical consultant in the dyeing and finishing sector. Mr. Chong joined the Group on 30 March 2004.



## Biographical Details of Directors and Senior Management

**Madam Chu Hak Ha, Mimi** (朱克邈), aged 40, is a solicitor practising in Hong Kong and a partner of David Lo & Partners, a law firm in Hong Kong. Madam Chu is also qualified to practise in both England and Wales and the Australian Capital Territory. Madam Chu joined the Group on 30 March 2004.

**Mr. Chan Yuk Tong** (陳育棠), aged 42, has around 20 years of experience in corporate finance, financial advisory and management, accounting and auditing. Mr. Chan is currently a shareholder and a practising director of a CPA firm, and a shareholder of a financial consulting firm where he acts as a director and the president. He is also an independent non-executive director of two other listed companies in Hong Kong, namely Daisho Microline Holdings Limited and Luks Industrial (Group) Limited. Prior to establishing his own businesses, he was both an executive director and the chief financial officer of Tak Sing Alliance Holdings Limited, whose securities are listed on the Stock Exchange. He then served as a finance director in a regional retail group and subsequently became a sales director in the same group. He has also worked for a number of international accounting firms for over 13 years. Mr. Chan obtained a bachelor degree in Commerce from the University of Newcastle in Australia. He is a fellow member and a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan joined the Group on 30 March 2004.

### Senior Management

**Mr. Koon Kan Sang, Harris** (管更生), aged 42, is the general manager of the Group and is responsible for the overall management and administration in the Group. Mr. Koon was awarded an associateship in textile technology by the Hong Kong Polytechnic in 1986. He also obtained a graduateship certificate issued by the Diploma Committee of the Textile Institute in the United Kingdom. Mr. Koon has over 18 years of experience in textile industry. Before joining the Group in May 2004, Mr. Koon has worked for the fabric companies in Hong Kong in the capacities of both a director and a general manager.

**Mr. Kung Wai Chung** (龔衛忠), aged 47, is the deputy general manager of the Group and is responsible for the overall management and administration in the Group. Mr. Kung obtained a Craft Certificate in Tool and Die Making awarded by Kwai Chung Technical Institute and a Professional Certificate in Business Management awarded by Hong Kong Open University. Mr. Kung joined the Group in November 1996 and has over 10 years of experience in the textile industry. Mr. Kung is a brother-in-law of both Mr. Tai Chin Chun and Mr. Tai Chin Wen.

**Mr. Wong Yi Ming** (黃一鳴), aged 40, is the deputy general manager of Panyu Kam Hing Textile Dyeing Co., Limited (the "Panyu KH Textile") and is responsible for the overall management and administration of Panyu KH Textile. Mr. Wong obtained a master of Business Administration Degree from the Zhongshan University. He has more than 20 years of management experience in the textile industry. Before joining the Group in September 1997, Mr. Wong has worked for PRC companies for 16 years, where he was responsible for financial and business management. Mr. Wong is the younger brother of Madam Wong Siu Yuk.

## Biographical Details of Directors and Senior Management

**Mr. Yeung Shing Wai** (楊升偉), aged 40, is the deputy general manager of Panyu KH Textile and is responsible for the monitoring and management of the Group's production control center, and the production planning and scheduling to Panyu KH Textile's knitting, fabric dyeing and yarn dyeing factories. Before joining the Group in December 1997, Mr. Yeung has worked for a dyeing company for 12 years, where he was responsible for technology dyeing and processing works. Mr. Yeung obtained a master of Business Administration Degree from the Zhongshan University. He has more than 18 years of experience in the textile industry.

**Dr. Shang Songmin** (尚頌民), aged 44, is the deputy general manager of Panyu KH Textile and is responsible for the monitoring and management of the Group's technical center, and the technical supervising to Panyu KH Textile's knitting, fabric dyeing and yarn dyeing factories. Dr. Shang obtained a bachelor from the East-China Textile Institute of Science & Technology (now renamed as Donghua University), a master from the Northwest Institute of Textile Science & Technology, and the Ph.D. from the Hong Kong Polytechnic University. Before joined the group in October 2004, Dr. Shang has worked for the dyeing companies as well as a Main Board listed dyeing machinery supplier in Hong Kong in the capacity of a senior technical management staff. Dr. Shang has also worked as a lecturer in the Northwest Institute of Textile Science & Technology. Dr. Shang is currently a consultant professor of the College of Chemistry & Chemical Engineering, Donghua University, a committeeman of the Dyeing & Finishing Special Committee, The China Textile Engineering Society and a member of the Hong Kong Institution of Textile and Apparel. Dr. Shang is also a qualified senior engineer in the dyeing and finishing sector and he has over 20 years working experiences in textile and its related field.

**Mr. Liu Zhi Gang** (劉志剛), aged 38, is the factory manager of the fabric dyeing operation of Panyu KH Textile, and is responsible for the monitoring and management of the Group's fabric dyeing operation. Before joining the Group in July 1997, Mr. Lou has worked for dyeing companies for over 6 years.

**Mr. Chan Ying Wah** (陳映華), aged 49, is the factory manager of the knitting operation of Panyu KH Textile and is responsible for the monitoring and management of the Group's knitting operation. Prior to joining the Group in January 2003, Mr. Chan has worked for knitting companies for over 20 years.

**Mr. Wong Yin Ming** (王燕明), aged 43, is the factory manager of the yarn dyeing operation of Panyu KH Textile and is responsible for the monitoring and management of the Group's yarn dyeing operation. Prior to joining the Group in June 2004, Mr. Wong has worked for dyeing companies for 10 years.

**Mr. Ho Yi Piu, Bill** (何宜標), aged 36, is the director of Kam Hing Piece Works (S) Pte Limited, a wholly-owned subsidiary of the Group, and is in charge of the Group's sales and marketing function. Mr. Ho obtained a diploma in Business Administration from the Society of Business Practitioners, Cheshire, England. Prior to joining the Group in June 1999, Mr. Ho has worked for a fabric trading company in Hong Kong for 5 years. He has more than 10 years of experience in the textile industry. Mr. Ho is a son-in-law of a brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

## Biographical Details of Directors and Senior Management

**Mr. Wong Wai Hung** (黃偉洪), aged 40, is the sales manager of the Group and is responsible for sales and marketing. He obtained a Higher Diploma in Textile Chemistry awarded by The Hong Kong Polytechnic University. Prior to joining the Group in August 2001, Mr. Wong has worked for knitting, dyeing and textile companies and he has over 17 years of experience in the textile industry.

**Mr. Wong Wai Kong, Elmen** (黃偉光), aged 39, is the chief financial officer and company secretary of the Group and is responsible for the supervision and management of the Group's financial matters. Mr. Wong obtained a bachelor of Business Administration Degree from the Hong Kong Baptist University, a master of Business Administration from the University of Sheffield and a master of Science in Business Information Technology from Middlesex University. Prior to joining the Group in December 2002, Mr. Wong gained extensive financial experience by working as an auditor in the international accounting firms for 5 years. He has also worked in a Main Board listed group in Hong Kong for three years. He was the assistant financial controller upon his departure. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a practising certified public accountant in Hong Kong.

## Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

### Group reorganisation

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. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 August 2004 (the "Group Reorganisation"). Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 15 to the financial statements and in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 23 September 2004.

### Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 77.

The directors recommend the payment of a final dividend of HK1.6 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

# Report of the Directors

## Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in September 2004, after deduction of related issue expenses, amounted to approximately HK\$186.2 million. These proceeds were partially utilised during the year ended 31 December 2004 in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$29.5 million was used for the expansion of production capacity, of which approximately HK\$12.1 million was used for the acquisition of additional fabric dyeing tanks, and approximately HK\$17.4 million was used for the construction of factory buildings for such an expansion;
- approximately HK\$27.3 million was used for the installation of an additional power and steam generator;
- approximately HK\$4 million was used for the purchase of additional machinery required for the yarn dyeing operation;
- approximately HK\$1.5 million was used for the expansion of the marketing distribution network;
- approximately HK\$1 million was used for product development; and
- approximately HK\$3 million was applied as additional general working capital of the Group.

The remaining net proceeds at 31 December 2004, of approximately HK\$119.9 million, were placed as bank deposits in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

## Summary financial information

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the prospectus of the Company dated 14 September 2004, is set out on page 78. This summary does not form part of the audited financial statements.

## Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

# Report of the Directors

## Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements, respectively.

## Pre-emptive rights

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

## Purchase, redemption or sale of listed securities of the Company

The listing of the Company's shares commenced on 23 September 2004. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 23 September 2004 to 31 December 2004.

## Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$535,974,000, of which HK\$10,240,000 has been proposed as a final dividend for the year. The amount of HK\$535,974,000 includes the Company's share premium account and capital reserve of HK\$524,436,000 in aggregate at 31 December 2004, which may be distributed 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.

## Charitable contributions

During the year, the Group made charitable contributions totalling HK\$521,000.

# Report of the Directors

## Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 60.9% (2003: 65.4%) of the total sales for the year and sales to the largest customer included therein amounted to 30.8% (2003: 36.2%). Purchases from the Group's five largest suppliers accounted for 39.3% (2003: 27.5%) of the total purchases for the year and purchases to the largest supplier included therein amounted to 10.9% (2003: 6.9%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

## Directors

The directors of the Company during the year were:

### Executive directors:

Mr. Tai Chin Chun	(appointed on 17 February 2004)
Mr. Tai Chin Wen	(appointed on 17 February 2004)
Madam Cheung So Wan	(appointed on 17 February 2004)
Madam Wong Siu Yuk	(appointed on 17 February 2004)

### Independent non-executive directors:

Mr. Chong Chau Lam	(appointed on 30 March 2004)
Madam Chu Hak Ha, Mimi	(appointed on 30 March 2004)
Mr. Chan Yuk Tong	(appointed on 30 March 2004)

In accordance with article 87 of the Company's articles of association, Mr. Tai Chin Wen and Madam Cheung So Wan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for terms of three years.

The Company has received annual confirmations of independence from Mr. Chong Chau Lam, Madam Chu Hak Ha, Mimi and Mr. Chan Yuk Tong, and as at the date of this report still considers them to be independent.

# Report of the Directors

## Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the annual report.

## Directors' 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 which commenced on 1 September 2004 and is subject to termination by either party giving not less than seven days' and one month's written notice, respectively.

Under the service contracts, after each complete year of service, the remuneration payable to each of the executive directors may, subject to the discretion of the Board, be increased by not more than 20% and the executive directors are entitled to a discretionary bonus provided that the total amount of bonuses payable to all directors for that year shall not exceed 5% of the consolidated profit after tax of the Group.

## Emolument policy and Directors' remuneration

The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide discretionary bonuses to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salary, discretionary bonus and housing benefit.

## Directors' interests in contracts

Save as disclosed in the related party transaction disclosures in note 31 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.



## Report of the Directors

### Directors' interests and short positions in shares and underlying shares

At 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company 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 Issuers (the "Model Code"), 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 a controlled corporation	384,000,000	60
Mr. Tai Chin Wen	2	Through a controlled corporation	96,000,000	15
Madam Cheung So Wan	3	Through spouse	384,000,000	60
Madam Wong Siu Yuk	4	Through spouse	96,000,000	15

#### Long positions in shares of an associated corporation:

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

## Report of the Directors

### Directors' interests and short positions in shares and underlying shares *(continued)*

Notes:

1. The shares are held by Exceed Standard, a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Madam Cheung So Wan is the spouse of Mr. Tai Chin Chun.
2. The shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen.
3. Madam Cheung So Wan is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Chun.
4. Madam Wong Siu Yuk is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Wen.

The interests of the directors in the share options of the Company are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures 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.

### Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share option scheme

Details of the Company's share option scheme and share options outstanding at the balance sheet date are included in note 25 to the financial statements.

## Report of the Directors

### Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2004, the following interests of 5% or more of the issued share capital of the Company (other than the directors 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:

Name	Capacity and nature of interest <i>(Note)</i>	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Directly beneficially owned	384,000,000	60
Power Strategy	Directly beneficially owned	96,000,000	15

*Note:* The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above.

The details of the share options outstanding during the year are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

# Report of the Directors

## Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), since the date of the listing of the Company's shares on the Stock Exchange.

## Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code since the date of the listing of the Company's shares on the Stock Exchange.

## Audit committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

## Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tai Chin Chun**

*Chairman*

Hong Kong

21 April 2005

# Report of the Auditors



To the members

**Kam Hing International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 28 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

21 April 2005

# Consolidated Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>TURNOVER</b>	5	<b>1,315,650</b>	1,101,581
Cost of sales		<b>(1,001,715)</b>	(822,925)
Gross profit		<b>313,935</b>	278,656
Other revenue	5	<b>6,629</b>	3,193
Selling and distribution costs		<b>(83,115)</b>	(62,856)
Administrative expenses		<b>(101,862)</b>	(92,370)
Other operating income/(expenses), net		<b>6,266</b>	(1,132)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	6	<b>141,853</b>	125,491
Finance costs	7	<b>(15,870)</b>	(10,357)
<b>PROFIT BEFORE TAX</b>		<b>125,983</b>	115,134
Tax	10	<b>(20,221)</b>	(18,778)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	11	<b>105,762</b>	96,356
<b>DIVIDEND – Proposed final</b>	12	<b>10,240</b>	–
<b>EARNINGS PER SHARE</b>	13		
Basic		<b>20.2 cents</b>	20.1 cents
Diluted		<b>20.2 cents</b>	N/A

# Consolidated Balance Sheet

31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	551,625	325,488
Deferred tax assets	23	76	–
		<u>551,701</u>	<u>325,488</u>
<b>CURRENT ASSETS</b>			
Inventories	16	304,861	236,298
Accounts and bills receivable	17	193,434	166,789
Prepayments, deposits and other receivables		10,762	24,462
Tax recoverable		–	127
Pledged deposits	18	7,948	30,651
Cash and cash equivalents	18	116,879	27,061
		<u>633,884</u>	<u>485,388</u>
<b>CURRENT LIABILITIES</b>			
Accounts and bills payable	19	171,832	166,117
Accrued liabilities and other payables		32,304	45,360
Tax payable		18,478	16,644
Interest-bearing bank borrowings	20, 21	226,812	114,410
Finance lease payables	22	36,552	19,431
		<u>485,978</u>	<u>361,962</u>
<b>NET CURRENT ASSETS</b>		<u>147,906</u>	<u>123,426</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>699,607</u>	<u>448,914</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	20, 21	53,467	104,777
Finance lease payables	22	42,007	32,001
Deferred tax liabilities	23	23	17
		<u>95,497</u>	<u>136,795</u>
		<u>604,110</u>	<u>312,119</u>

## Consolidated Balance Sheet *(continued)*

31 December 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	<b>64,000</b>	200
Reserves	26(a)	<b>529,870</b>	311,919
Proposed final dividend	12	<b>10,240</b>	–
		<b>604,110</b>	312,119

**Tai Chin Chun**  
*Director*

**Tai Chin Wen**  
*Director*



# Consolidated Statement of Changes in Equity

Year ended 31 December 2004

		Share	Statutory	Proposed				
	Notes	Issued capital HK\$'000	premium account HK\$'000	Capital reserve HK\$'000	surplus reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
			(Note 24)	(Note 26(a))	(Note 26(a))			
At 1 January 2003		200	–	11,426	9,200	101,559	–	122,385
Capitalisation of amounts due to directors		–	–	93,378	–	–	–	93,378
Net profit for the year		–	–	–	–	96,356	–	96,356
Transfer to reserve		–	–	–	4,000	(4,000)	–	–
At 31 December 2003 and 1 January 2004		200	–*	104,804*	13,200*	193,915*	–	312,119
Capitalisation issue	24(e)	47,800	(47,800)	–	–	–	–	–
Issue of shares for cash consideration	24(f)	16,000	185,600	–	–	–	–	201,600
Share issue expenses		–	(15,371)	–	–	–	–	(15,371)
Net profit for the year		–	–	–	–	105,762	–	105,762
Proposed final dividend	12	–	–	–	–	(10,240)	10,240	–
Transfer to reserve		–	–	–	3,200	(3,200)	–	–
At 31 December 2004		64,000	122,429*	104,804*	16,400*	286,237*	10,240	604,110

\* These reserve accounts comprise the consolidated reserves of HK\$529,870,000 (2003: HK\$311,919,000) in the consolidated balance sheet of the Group as at 31 December 2004.

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		125,983	115,134
Adjustments for:			
Interest income	5	(253)	(377)
Depreciation	6	34,829	27,375
Gain on disposal of fixed assets	6	(3,165)	(68)
Provision for inventories	6	–	2,739
Bad debts written off	6	418	386
Provision for doubtful debts	6	1,744	2,719
Write back of provision for doubtful debts	6	(1,540)	(344)
Write back of provision for other receivables	6	(200)	–
Finance costs	7	15,870	10,357
Operating profit before working capital changes		173,686	157,921
Increase in inventories		(68,563)	(147,458)
Decrease/(increase) in accounts and bills receivable		(27,267)	25,808
Decrease/(increase) in prepayments, deposits and other receivables		16,200	(16,701)
Decrease in amounts due from related companies		–	21,338
Increase in accounts and bills payable		5,715	35,940
Increase/(decrease) in accrued liabilities and other payables		(13,056)	9,023
Increase in amounts due to directors		–	53,292
Decrease in amounts due to related companies		–	(39,080)
Cash generated from operations		86,715	100,083
Interest received		253	377
Interest paid		(13,249)	(8,403)
Interest element of finance lease rental payments		(2,621)	(1,954)
Hong Kong profits tax paid		(10,932)	(3,896)
Overseas taxes paid		(7,398)	–
Net cash inflow from operating activities		52,768	86,207

# Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(205,700)	(99,461)
Proceeds from disposal of fixed assets		1,030	68
Decrease/(increase) in pledged time deposits		22,703	(7,321)
Increase in non-pledged time deposits with original maturity of over three months when acquired		(5,000)	–
Net cash outflow from investing activities		<u>(186,967)</u>	<u>(106,714)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	24(f)	201,600	–
Proceeds from issue of shares by a subsidiary		–	233
Share issue expenses		(15,371)	–
Capital element of finance lease rental payments		(28,304)	(16,433)
Drawdown of bank loans		704,597	753,039
Repayment of bank loans		(643,742)	(677,208)
Repayment of other loans		–	(37,166)
Net cash inflow from financing activities		<u>218,780</u>	<u>22,465</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		84,581	1,958
Cash and cash equivalents at beginning of year		<u>27,061</u>	<u>25,103</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u>111,642</u>	<u>27,061</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	18	103,870	27,061
Non-pledged time deposits with original maturity of less than three months when acquired		8,009	–
Bank overdrafts, unsecured	20	(237)	–
		<u>111,642</u>	<u>27,061</u>

# Balance Sheet

31 December 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	15	<b>402,207</b>	–
<b>CURRENT ASSETS</b>			
Due from subsidiaries	15	<b>197,560</b>	–
Prepayments, deposits and other receivables		<b>163</b>	–
Cash and cash equivalents	18	<b>344</b>	–
		<b>198,067</b>	–
<b>CURRENT LIABILITIES</b>			
Accruals and other payables		<b>300</b>	–
<b>NET CURRENT ASSETS</b>			
		<b>197,767</b>	–
		<b>599,974</b>	–
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	<b>64,000</b>	–
Reserves	26(b)	<b>525,734</b>	–
Proposed final dividend	12	<b>10,240</b>	–
		<b>599,974</b>	–

**Tai Chin Chun**  
*Director*

**Tai Chin Wen**  
*Director*

# Notes to the Financial Statements

31 December 2004

## 1. CORPORATION INFORMATION AND GROUP REORGANISATION

### 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.

Upon incorporation, the Company had an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. No transactions were carried out by the Company during the period from 26 November 2003 (date of incorporation) to 31 December 2003. Accordingly, the Company had not recorded any assets or liabilities as at 31 December 2003, nor profits or losses for the period then ended.

The principal place of business of the Company is located at Units 5-9, 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 15 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 is Exceed Standard Limited ("Exceed Standard"), which is incorporated in the British Virgin Islands (the "BVI").

### Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 August 2004 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Joint Result Holdings Limited ("Joint Result"), a company incorporated in the BVI, which is, as at the date of this report, the intermediate holding company of the subsidiaries set out in note 15 to the financial statements, in consideration of and in exchange for (i) the allotment and issue of 1,000,000 ordinary shares of HK\$0.1 each in the Company, credited as fully paid; and (ii) the 1,000,000 shares of HK\$0.1 each previously allotted and issued nil paid being credited as fully paid.

Further details of the Group Reorganisation are set out in note 24 to the financial statements and in the Company's prospectus dated 14 September 2004.

The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 September 2004.

# Notes to the Financial Statements

31 December 2004

## 2. BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 27, “Accounting for group reconstructions”, as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2003 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Impact of recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the “New HKFRSs”, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted the New HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of the New HKFRSs but is not yet in a position to state whether the New HKFRSs would have a significant impact on its results of operations and financial position.

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include SSAPs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Subsidiaries**

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

The results of subsidiaries are included in the Company's profit and loss account 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**

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

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

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

### **Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

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

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Fixed assets and depreciation** *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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

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

### **Accounts receivable**

Accounts receivable, which generally have credit terms of up to 60 days (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) are recognised and carried at the original invoiced amount, less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### **Inventories**

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



# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are 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 profit and loss account 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 lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### 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 profit and loss account.

### Income tax

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

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.

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Income tax** *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or 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, except 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 assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or 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 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.

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, 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

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

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

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Foreign currencies** *(continued)*

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.

### **Related parties**

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

### **Cash and cash equivalents**

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

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

### **Employee benefits**

#### *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.

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Employee benefits** *(continued)*

#### *Employment Ordinance long service payments (continued)*

A contingent liability is disclosed in respect of possible future long 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 those 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 profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

#### *Share option scheme*

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

# Notes to the Financial Statements

31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Research and development costs

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

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

## 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; and
- (d) Others

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

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION *(continued)*

### (i) Geographical segments based on the location of customers

#### Group – 2004

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	720,614	244,028	124,620	226,388	1,315,650
Other revenue	3,066	–	2,592	66	5,724
Total	<u>723,680</u>	<u>244,028</u>	<u>127,212</u>	<u>226,454</u>	<u>1,321,374</u>
Segment results	<u>130,364</u>	<u>45,087</u>	<u>22,798</u>	<u>40,928</u>	239,177
Interest and other unallocated income					905
Unallocated expenses					(98,229)
Profit from operating activities					141,853
Finance costs					(15,870)
Profit before tax					125,983
Tax					(20,221)
Net profit from ordinary activities attributable to shareholders					<u>105,762</u>
Segment assets	<u>115,057</u>	<u>5,993</u>	<u>46,684</u>	<u>25,700</u>	193,434
Unallocated assets					992,151
					<u>1,185,585</u>

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION *(continued)*

### (i) Geographical segments based on the location of customers *(continued)*

#### Group – 2004 *(continued)*

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment liabilities	3,569	516	69,836	102,956	176,877
Unallocated liabilities					404,598
					581,475
Other segment information:					
Depreciation-unallocated					34,829
Capital expenditure-unallocated					261,131
Gain on disposal of fixed assets – unallocated					(3,165)
Bad debts written off	–	–	418	–	418
Provision for doubtful debts	800	–	18	926	1,744
Write back of provision for doubtful debts	(1,540)	–	–	–	(1,540)
Write back of provision for other receivables – unallocated					(200)



# Notes to the Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION *(continued)*

### (i) Geographical segments based on the location of customers *(continued)*

Group – 2003

	Singapore <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	641,637	177,027	125,366	157,551	1,101,581
Other revenue	1,142	315	290	280	2,027
Total	<u>642,779</u>	<u>177,342</u>	<u>125,656</u>	<u>157,831</u>	<u>1,103,608</u>
Segment results	<u>122,337</u>	<u>40,490</u>	<u>25,169</u>	<u>31,635</u>	219,631
Interest and other unallocated income					1,166
Unallocated expenses					<u>(95,306)</u>
Profit from operating activities					125,491
Finance costs					<u>(10,357)</u>
Profit before tax					115,134
Tax					<u>(18,778)</u>
Net profit from ordinary activities attributable to shareholders					<u>96,356</u>
Segment assets	<u>104,736</u>	<u>12,982</u>	<u>36,214</u>	<u>12,857</u>	166,789
Unallocated assets					<u>644,087</u>
					<u>810,876</u>

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION (continued)

### (i) Geographical segments based on the location of customers (continued)

Group – 2003 (continued)

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment liabilities	371	530	80,056	85,797	166,754
Unallocated liabilities					332,003
					498,757
Other segment information:					
Depreciation-unallocated					27,375
Capital expenditure-unallocated					127,867
Gain on disposal of fixed assets					
– unallocated					(68)
Provision for inventories					
– unallocated					2,739
Bad debts written off	–	–	386	–	386
Provision for doubtful debts	1,581	600	–	538	2,719
Write back of provision for					
doubtful debts	(326)	–	(10)	(8)	(344)

### (ii) Geographical segments based on the location of assets

Group – 2004

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

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION *(continued)*

### (ii) Geographical segments based on the location of assets *(continued)*

Group – 2003

	Singapore <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	PRC (other than Hong Kong and Macau) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	851	247,541	562,484	–	810,876
Capital expenditure	325	1,754	125,788	–	127,867

## 5. TURNOVER AND REVENUE

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 Group's turnover and other revenue is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>		
Sale of goods	1,309,780	1,090,190
Fee income from knitting and dyeing services	5,870	11,391
	<b>1,315,650</b>	<b>1,101,581</b>
<b>Other revenue</b>		
Fee income from freight handling services	5,724	2,027
Interest income	253	377
Others	652	789
	<b>6,629</b>	<b>3,193</b>
	<b>1,322,279</b>	<b>1,104,774</b>

# Notes to the Financial Statements

31 December 2004

## 6. PROFIT FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	998,248	817,230
Cost of services provided	3,467	5,695
Auditors' remuneration	1,030	650
Research and development costs	2,617	1,738
Depreciation	34,829	27,375
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	61,197	47,798
Pension schemes contributions	1,801	1,507
Total staff costs	62,998	49,305
Minimum lease payments under operating leases in respect of land and buildings	728	1,158
Gain on disposal of fixed assets	(3,165)	(68)
Provision for inventories	–	2,739
Bad debts written off	418	386
Provision for doubtful debts	1,744	2,719
Write back of provision for doubtful debts	(1,540)	(344)
Write back of provision for other receivables	(200)	–
Exchange gains, net	(4,594)	(1,664)

Cost of inventories sold includes HK\$60,770,000 for the year ended 31 December 2004 (2003: HK\$51,101,000) in respect of depreciation, staff costs and provision for inventories, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK\$796,000 for the year ended 31 December 2004 (2003: HK\$614,000) in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2003: Nil).

# Notes to the Financial Statements

31 December 2004

## 7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	13,249	8,403
Interest on finance leases	2,621	1,954
	<u>15,870</u>	<u>10,357</u>

## 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 and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	180	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,211	3,634
Discretionary bonuses *	2,225	1,726
Pension scheme contributions	71	89
	<u>5,507</u>	<u>5,449</u>
	<u>5,687</u>	<u>5,449</u>

\* 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.

# Notes to the Financial Statements

31 December 2004

## 8. DIRECTORS' REMUNERATION (continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
<b>2004</b>					
Executive directors:					
Tai Chin Chun	–	1,379	1,104	20	2,503
Tai Chin Wen	–	957	772	20	1,749
Cheung So Wan	–	457	155	12	624
Wong Siu Yuk	–	418	194	10	622
Independent non-executive directors:					
Chong Chau Lam	60	–	–	3	63
Chu Hak Ha, Mimi	60	–	–	3	63
Chan Yuk Tong	60	–	–	3	63
<b>Total</b>	<b>180</b>	<b>3,211</b>	<b>2,225</b>	<b>71</b>	<b>5,687</b>
<b>2003</b>					
Executive directors:					
Tai Chin Chun	–	1,834	908	34	2,776
Tai Chin Wen	–	976	642	33	1,651
Cheung So Wan	–	456	44	12	512
Wong Sin Yuk	–	368	132	10	510
<b>Total</b>	<b>–</b>	<b>3,634</b>	<b>1,726</b>	<b>89</b>	<b>5,449</b>

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

# Notes to the Financial Statements

31 December 2004

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees during the year are set out below:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	3,035	2,055
Discretionary bonuses	379	234
Pension scheme contributions	32	36
	3,446	2,325

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
	3	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.

During the year, 2,500,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements.

# Notes to the Financial Statements

31 December 2004

## 10. TAX

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	15,072	12,243
Underprovision in respect of prior years	272	–
Current tax – Elsewhere		
Charge for the year	5,914	6,513
Underprovision/(overprovision) in respect of prior years	(967)	5
Deferred tax charge/(credit) (note 23)	(70)	17
Total tax charge for the year	<u>20,221</u>	<u>18,778</u>

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2003: 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 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 enterprise income tax purpose. For the years ended 31 December 2003 and 2004, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.



# Notes to the Financial Statements

31 December 2004

## 10. TAX (continued)

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

### Group – 2004

	Hong Kong		Singapore		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>82,443</u>		<u>12</u>		<u>43,528</u>		<u>125,983</u>	
Tax at the statutory tax rate	14,427	17.5	3	22.0	14,364	33.0	28,794	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	792	1.0	5	41.7	20	-	817	0.6
Tax losses not recognised	-	-	-	-	22	-	22	-
Tax charge at the Group's effective rate	<u>15,267</u>	18.5	<u>7</u>	58.3	<u>4,947</u>	11.3	<u>20,221</u>	16.0

# Notes to the Financial Statements

31 December 2004

## 10. TAX (continued)

Group – 2003

	Hong Kong		Singapore		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	69,307		166		45,661		115,134	
Tax at the statutory tax rate	12,129	17.5	36	22.0	15,068	33.0	27,233	23.7
Lower tax rate for specific provinces or local authority	–	–	–	–	(4,109)	(9.0)	(4,109)	(3.6)
Adjustments in respect of current tax of previous years	–	–	5	3.0	–	–	5	–
Lower tax rate due to tax holiday	–	–	–	–	(5,479)	(12.0)	(5,479)	(4.8)
Income not subject to tax	(32)	–	(19)	(11.4)	–	–	(51)	–
Expenses not deductible for tax	146	0.2	13	7.8	1,020	2.2	1,179	1.0
Tax charge at the Group's effective rate	12,243	17.7	35	21.4	6,500	14.2	18,778	16.3

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$11,538,000 (period from 26 November 2003 (date of incorporation) to 31 December 2003: Nil) (note 26(b)).

## 12. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Proposed final – HK1.6 cents per ordinary share (2003: Nil)	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.

# Notes to the Financial Statements

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## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$105,762,000 (2003: HK\$96,356,000) and the weighted average of 523,716,000 (2003: 480,000,000) shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2003 includes the pro forma issued share capital of the Company of 480,000,000 shares, comprising (i) the 1,000,000 shares of the Company allotted and issued nil paid on 17 February 2004 (note 24(c)); (ii) the 1,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Joint Result on 24 August 2004 (note 24(d)); and (iii) the capitalisation issue of 478,000,000 shares (note 24(e)). The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2004 includes the weighted average of 43,716,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 23 September 2004 in addition to the aforementioned 480,000,000 ordinary shares.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit attributable to shareholders for the year of HK\$105,762,000. The weighted average number of shares used in the calculation is the 523,716,000 shares deemed to have been in issue during the year as used in the basic earnings per share calculation, and the weighted average of 543,000 shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

There was no potential dilutive shares in existence for the year ended 31 December 2003 and, accordingly, no diluted earnings per share amount has been presented.

# Notes to the Financial Statements

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## 14. FIXED ASSETS

### Group

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
As at 1 January 2004	60,499	288,801	12,372	8,297	99,109	469,078
Additions	2,128	98,155	5,332	4,401	151,115	261,131
Disposals	–	(7,072)	(39)	–	–	(7,111)
Transfers	83,271	23,470	2,816	–	(109,557)	–
<b>As at 31 December 2004</b>	<b>145,898</b>	<b>403,354</b>	<b>20,481</b>	<b>12,698</b>	<b>140,667</b>	<b>723,098</b>
Accumulated depreciation:						
As at 1 January 2004	10,080	119,852	8,384	5,274	–	143,590
Charge for the year	3,772	27,490	2,300	1,267	–	34,829
Disposals	–	(6,916)	(30)	–	–	(6,946)
<b>As at 31 December 2004</b>	<b>13,852</b>	<b>140,426</b>	<b>10,654</b>	<b>6,541</b>	<b>–</b>	<b>171,473</b>
Net book value:						
<b>As at 31 December 2004</b>	<b>132,046</b>	<b>262,928</b>	<b>9,827</b>	<b>6,157</b>	<b>140,667</b>	<b>551,625</b>
As at 31 December 2003	50,419	168,949	3,988	3,023	99,109	325,488

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Medium term leases		
– in Hong Kong	2,308	1,572
– outside Hong Kong	129,738	48,847
	<b>132,046</b>	<b>50,419</b>

# Notes to the Financial Statements

31 December 2004

## 14. FIXED ASSETS (continued)

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

	2004 HK\$'000	2003 HK\$'000
Plant and machinery	146,391	75,843
Motor vehicles	2,165	1,475
	<u>148,556</u>	<u>77,318</u>

Title certificates in respect of three factory buildings with net book value of approximately HK\$0.7 million as at 31 December 2004 as included in the leasehold land and 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\$4 million as at 31 December 2004.

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 approximately 1% of the Group's total fixed assets as at 31 December 2004 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 31(d)).

# Notes to the Financial Statements

31 December 2004

## 14. FIXED ASSETS *(continued)*

During the year ended 31 December 2004, staff quarters of a net book value amounting to HK\$7.6 million as included in the leasehold land and buildings were transferred from construction in progress upon completion. Application for the Building Ownership Certificates in respect of these staff quarters are still in progress and have not been obtained by the Group as at the date of this report. The directors do not expect any problem in obtaining the Building Ownership Certificates.

## 15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	<u>402,207</u>	<u>–</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

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
<b>Directly held:</b>				
Joint Result	BVI/Hong Kong	US\$10,000	100	Investment holding
<b>Indirectly held:</b>				
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

# Notes to the Financial Statements

31 December 2004

## 15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held: <i>(continued)</i></b>				
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000 <i>(Note (a))</i>	100	Provision of knitting and dyeing services and trading of finished fabrics
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	US\$50,705,275 <i>(Note (b))</i>	100	Manufacture and trading of knitted and dyed fabrics
KH Macau	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	HK\$6,000,000 <i>(Note (c))</i>	100	Manufacture and trading of knitted and dyed fabrics

# Notes to the Financial Statements

31 December 2004

## 15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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\$39,294,725 is required to be paid up prior to 29 November 2007 (note 30).
- (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.
- \* Ernst & Young Hong Kong and other Ernst & Young International member firms are not the statutory auditors of these subsidiaries.

## 16. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	241,286	200,127
Work in progress	37,065	13,161
Finished goods	26,510	23,010
	304,861	236,298

No inventories were carried at net realisable value at 31 December 2004 (2003: Nil).



# Notes to the Financial Statements

31 December 2004

## 17. ACCOUNTS AND BILLS RECEIVABLE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 30 days	74,741	63,021
31 to 60 days	45,969	49,486
61 to 90 days	26,617	24,091
Over 90 days	46,107	30,191
	<u>193,434</u>	<u>166,789</u>

## 18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<i>Note</i>	Group		Company	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash and bank balances		103,870	27,061	344	–
Time deposits		20,957	30,651	–	–
		<u>124,827</u>	57,712	<u>344</u>	–
Less: Time deposits pledged for short term banking facilities	21	<u>(7,948)</u>	(30,651)	–	–
Cash and cash equivalents		<u>116,879</u>	<u>27,061</u>	<u>344</u>	–

As at 31 December 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$5,964,000 (2003: HK\$4,494,000). 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.

# Notes to the Financial Statements

31 December 2004

## 19. ACCOUNTS AND BILLS PAYABLE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 90 days	152,608	131,216
91 to 180 days	16,702	24,341
181 to 365 days	2,522	10,560
	<u>171,832</u>	<u>166,117</u>

## 20. INTEREST-BEARING BANK BORROWINGS

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Bank overdrafts, unsecured	237	–
Bank loans:		
Secured	44,998	114,425
Unsecured	235,044	104,762
	<u>280,042</u>	<u>219,187</u>
	<u>280,279</u>	<u>219,187</u>

# Notes to the Financial Statements

31 December 2004

## 20. INTEREST-BEARING BANK BORROWINGS *(continued)*

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank overdrafts repayable on demand	<b>237</b>	–
Bank loans repayable:		
Within one year	<b>226,575</b>	114,410
In the second year	<b>14,004</b>	15
In the third to fifth years, inclusive	<b>39,463</b>	104,762
	<b>280,042</b>	219,187
	<b>280,279</b>	219,187
Portion classified as current liabilities	<b>(226,812)</b>	(114,410)
Long term portion	<b>53,467</b>	104,777

## 21. BANKING FACILITIES

As at 31 December 2004, the Group's banking facilities were secured by pledged bank deposits of the Group of approximately HK\$7,948,000 (note 18), and supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

Subsequent to the balance sheet date, the pledge over the bank deposits was released.

# Notes to the Financial Statements

31 December 2004

## 22. FINANCE LEASE PAYABLES

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

At 31 December 2004, 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	37,396	20,124	36,552	19,431
In the second year	30,244	20,252	28,664	18,962
In the third to fifth years, inclusive	14,419	13,694	13,343	13,039
Total minimum finance lease payments	82,059	54,070	78,559	51,432
Future finance charges	(3,500)	(2,638)		
Total net finance lease payables	78,559	51,432		
Portion classified as current liabilities	(36,552)	(19,431)		
Long term portion	42,007	32,001		

At 31 December 2004, the finance lease payables were supported by corporate guarantees executed by the Company and/or certain subsidiaries of the Company.

# Notes to the Financial Statements

31 December 2004

## 23. DEFERRED TAX

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

### Deferred tax assets

	Provision for doubtful debts	
	2004 HK\$'000	2003 HK\$'000
At 1 January	–	–
Deferred tax credited to the profit and loss account during the year ( <i>note 10</i> )	<u>76</u>	–
At 31 December	<u><u>76</u></u>	–

### Deferred tax liabilities

	Accelerated depreciation allowances	
	2004 HK\$'000	2003 HK\$'000
At 1 January	17	–
Deferred tax charged to the profit and loss account during the year ( <i>note 10</i> )	<u>6</u>	17
At 31 December	<u><u>23</u></u>	<u>17</u>
Net deferred tax assets/(liabilities) at 31 December	<u><u>53</u></u>	<u>(17)</u>

There is no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

# Notes to the Financial Statements

31 December 2004

## 24. SHARE CAPITAL

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 (2003: 1,000,000) ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>100</u>
Issued and fully paid:		
640,000,000 ordinary shares of HK\$0.1 each (2003: Nil)	<u>64,000</u>	<u>–</u>

The following changes in the Company's authorised and issued share capital took place during the period from 26 November 2003 (date of incorporation) to 31 December 2004:

	Notes	Number of ordinary shares of HK\$0.1 each	Nominal value of ordinary shares HK\$'000
<b>Authorised:</b>			
Upon incorporation and as at 31 December 2003	(a)	1,000,000	100
Increase in authorised share capital	(b)	<u>1,999,000,000</u>	<u>199,900</u>
<b>As at 31 December 2004</b>		<u><b>2,000,000,000</b></u>	<u><b>200,000</b></u>
<b>Issued:</b>			
Upon incorporation		–	–
Allotted and issued nil paid	(c)	1,000,000	–
On acquisition of Joint Result			
– new issue of shares	(d)	1,000,000	100
– nil paid shares credited as fully paid	(d)	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(e)	<u>478,000,000</u>	<u>–</u>
Pro forma share capital as at 31 December 2003		480,000,000	200
Capitalisation of the share premium account as set out above	(e)	–	47,800
New issue of shares	(f)	<u>160,000,000</u>	<u>16,000</u>
<b>As at 31 December 2004</b>		<u><b>640,000,000</b></u>	<u><b>64,000</b></u>

# Notes to the Financial Statements

31 December 2004

## 24. SHARE CAPITAL *(continued)*

*Notes:*

- (a) Upon incorporation of the Company, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each.
- (b) Pursuant to the resolutions passed on 24 August 2004, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of 1,999,000,000 additional shares of HK\$0.1 each.
- (c) On 17 February 2004, an aggregate of 1,000,000 shares of HK\$0.1 each were allotted and issued nil paid.
- (d) Pursuant to the same resolutions in (b) above passed on 24 August 2004 and the Group Reorganisation, 1,000,000 new shares of HK\$0.1 each in the Company were allotted and issued, credited as fully paid, and the existing 1,000,000 shares of HK\$0.1 each were credited as fully paid at par, in consideration of and in exchange for the acquisition of the entire issued share capital of Joint Result.
- (e) Pursuant to the resolutions passed on 25 August 2004, a total of 478,000,000 shares of HK\$0.1 each in the Company were allotted and issued as fully paid at par, by way of capitalisation of the sum of HK\$47,800,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (f) below.
- (f) In connection with the Company's initial public offering, 160,000,000 shares of HK\$0.1 each were issued at a price of HK\$1.26 per share for a total cash consideration, before expenses, of HK\$201,600,000. Dealings in these shares on the Stock Exchange commenced on 23 September 2004.

# Notes to the Financial Statements

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## 25. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including independent non-executive directors, 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 the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

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

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



# Notes to the Financial Statements

31 December 2004

## 25. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options				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\$
	At 1 January 2004	Granted during the year	Lapsed during the year	At 31 December 2004				
<b>Directors</b>								
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				
<b>Non-director employees</b>								
In aggregate	-	18,908,000	(302,000)	18,606,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
<b>Others</b>								
In aggregate	-	1,260,000	-	1,260,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Total	-	27,168,000	(302,000)	26,866,000				

\* 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.

# Notes to the Financial Statements

31 December 2004

## 25. SHARE OPTION SCHEME *(continued)*

At the balance sheet date, the Company had 26,866,000 share options outstanding under the Scheme, which represented approximately 4.2% 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 26,866,000 additional ordinary shares of the Company and additional share capital of HK\$2,686,600 and share premium of HK\$31,701,880 (before issue expenses).

## 26. 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 statement 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 set out in note 1 to the financial statements, over the nominal value of the 1,000,000 shares of HK\$0.1 each of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par.

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 reserve, 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 the accumulated losses of the respective subsidiary.

# Notes to the Financial Statements

31 December 2004

## 26. RESERVES (continued)

### (b) Company

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Upon incorporation and 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)
Net profit during the year	–	–	11,538	11,538
Proposed final dividend	–	–	(10,240)	(10,240)
<b>At 31 December 2004</b>	<b>122,429</b>	<b>402,007</b>	<b>1,298</b>	<b>525,734</b>

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 set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## 27. 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 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 notes 1 and 24 to the financial statements.
- (b) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$55,431,000 (2003: HK\$28,406,000).

# Notes to the Financial Statements

31 December 2004

## 28. CONTINGENT LIABILITIES

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	<u>106,374</u>	<u>62,425</u>

As at 31 December 2004, the banking and other credit facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$429 million.

- (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\$1,706,000 as at 31 December 2004 (2003: HK\$1,633,000), as further explained under the heading "Employee benefits" in note 3 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.

## 29. OPERATING LEASE ARRANGEMENTS

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

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	558	447
In the second to fifth years, inclusive	<u>233</u>	<u>–</u>
	<u>791</u>	<u>447</u>

# Notes to the Financial Statements

31 December 2004

## 30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following commitments as at the balance sheet date:

### Capital commitments

	2004 HK\$'000	2003 HK\$'000
Contracted, but not provided for:		
Purchase of machinery	12,488	15,892
Construction in progress	23,205	19,786
	<u>35,693</u>	<u>35,678</u>
Authorised, but not contracted for:		
Purchase of machinery	61,000	–
	<u>96,693</u>	<u>35,678</u>

At 31 December 2004, the Group had a commitment in respect of a capital contribution to Panyu KH Textile of approximately US\$39,294,725 (approximately HK\$306,499,000), due on 29 November 2007 (note 15).

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

# Notes to the Financial Statements

31 December 2004

## 31. 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:

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Sales of goods to Wing Hing Knitting (H.K.) Limited ("Wing Hing")	<i>(i)</i>	–	20,034
Fee income from knitting and dyeing services received from Wing Hing	<i>(i)</i>	–	8,371
Rental expenses on directors' quarters paid to Goldwille Investments Limited ("Goldwille"), a company controlled by Mr. Tai Chin Chun	<i>(ii)</i>	<b>369</b>	540
Rental expenses on office premises paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	<i>(iii)</i>	<b>180</b>	–

*Notes:*

- (i) The directors consider that these transactions were effected on prices and terms similar to those offered to/granted by other unrelated customers/suppliers of the Group. Wing Hing was disposed of by Mr. Tai Chin Chun and Madam Cheung So Wan, directors of the Company, to independent third parties during the year ended 31 December 2003 and ceased to be a related company of the Group accordingly. As a result, transactions with Wing Hing subsequent to its disposal by the directors are not disclosed above.
- (ii) The rental expense was charged at a fixed amount of HK\$45,000 per month in accordance with the terms specified in the rental agreement entered into in prior year. On 1 April 2004, the Group entered into a new tenancy agreement with Goldwille for the same properties at a monthly rental charge of HK\$26,000 for a term of one year, based on the prevailing market rentals.
- (iii) On 1 April 2004, 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.

# Notes to the Financial Statements

31 December 2004

## 31. RELATED PARTY TRANSACTIONS *(continued)*

- (b) During the year ended 31 December 2003, other loans advanced by a director of a subsidiary, who is also the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, which amounted to HK\$37,166,000 as at 31 December 2002, were fully settled.
- (c) The Group's banking and other credit facilities were secured by charges over assets owned and guarantees executed by certain of the Company's directors and/or related companies, which were released and replaced by corporate guarantees executed by the Company and/or other members of the Group during the year ended 31 December 2004.
- (d) 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 and structures of the Group as detailed in note 14 to the financial statements.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2005.

## Summary Financial Information

31 December 2004

A summary of the published results and assets and liabilities of the Group for the last four financial years, prepared on the basis as set out herein, is set out below:

### RESULTS

	Year ended 31 December			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	1,315,650	1,101,581	980,192	711,620
Profit before tax	125,983	115,134	85,545	22,779
Tax	(20,221)	(18,778)	(3,998)	(1,768)
Net profit from ordinary activities attributable to shareholders	105,762	96,356	81,547	21,011

### ASSETS AND LIABILITIES

	As at 31 December			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
TOTAL ASSETS	1,185,585	810,876	605,320	323,868
TOTAL LIABILITIES	(581,475)	(498,757)	(483,246)	(283,341)
	604,110	312,119	122,074	40,527

*Note:* The summary of the consolidated results of the Group for each of the three years ended 31 December 2001, 2002 and 2003 and of the assets and liabilities as at 31 December 2001, 2002 and 2003 have been extracted from the Company's prospectus dated 14 September 2004. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2 to the financial statements. The consolidated results of the Group for the year ended 31 December 2004 and the consolidated assets and liabilities of the Group as at 31 December 2004 are those set out in the annual report.