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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2307

07 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tai Chin Chun *(Chairman)*
Mr. Tai Chin Wen *(Chief Executive Officer)*
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Independent Non-Executive Directors

Mr. Chan Yuk Tong, Jimmy
Ms. Chu Hak Ha, Mimi
Mr. Ku Shiu Kuen, Anthony
Mr. Chan Chung Yuen, Lawrence
(appointed on 1 July 2007)

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Wai Kong, Elmen

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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

COMPANY WEBSITE

www.kamhingintl.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 1-9, 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
Wing Hang Bank Limited
Citibank, N.A.
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
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 2307
CUSIP Reference Number: G5213T101

Financial Highlights and Summary

Key Financial Data

	Year ended/As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	1,101,581	1,315,650	1,499,403	2,013,889	**2,230,764**
Profit before tax	115,134	124,983	90,262	121,806	**127,535**
Tax	(18,778)	(20,221)	(11,312)	(20,659)	**(17,617)**
Profit for the year	96,356	104,762	78,950	101,147	**109,918**
Dividends	–	10,240	19,840	25,600	**27,698**
Total assets	810,876	1,185,585	1,663,388	1,996,233	**2,053,599**
Total liabilities	(498,757)	(581,475)	(986,154)	(1,197,498)	**(1,093,332)**
Shareholders' funds	312,119	604,110	677,129	798,418	**942,992**

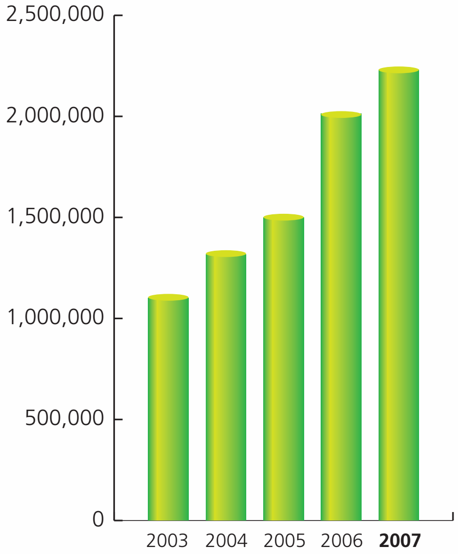
Key Financial Ratios

	Year ended/As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue growth rate (%)	12.4%	19.4%	14.0%	34.3%	**10.8%**
Gross profit margin (%)	25.3%	23.9%	22.6%	19.7%	**19.7%**
Net profit margin (%)	8.7%	8.0%	5.3%	5.0%	**4.9%**
Current ratio (times)	1.3	1.3	1.4	1.0	**1.4**
Gearing ratio (net debt/ capital and net debt) (%)	59.3%	42.5%	54.4%	55.3%	**50.5%**

Financial Highlights and Summary

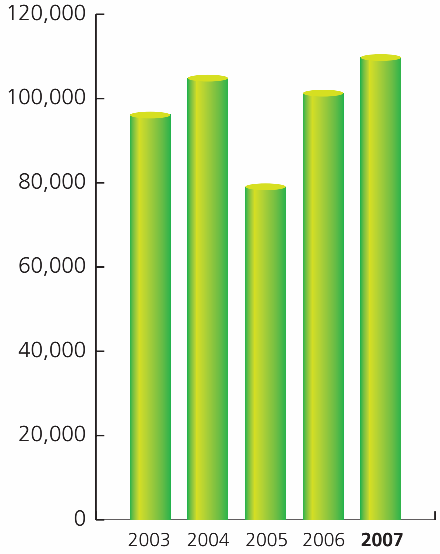
Revenue

HK$'000



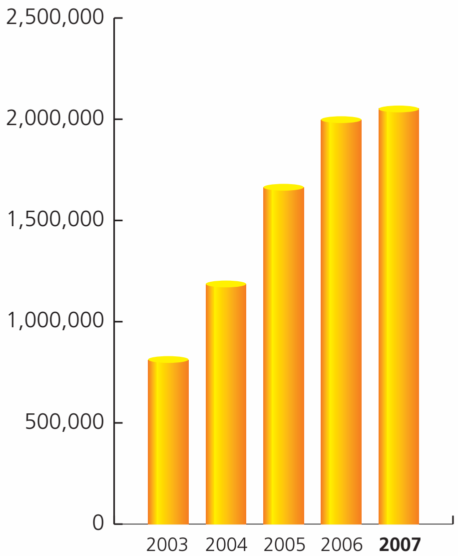
Profit for the Year

HK$'000



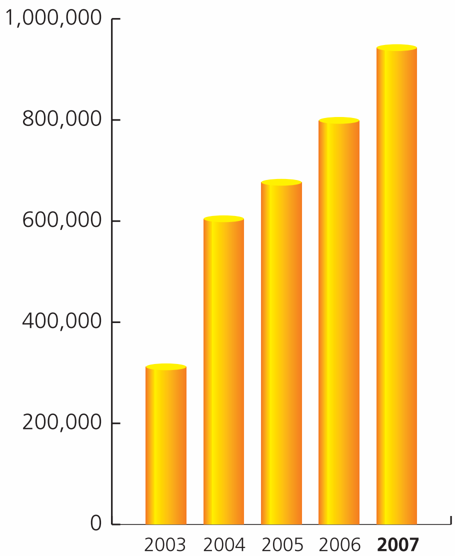
Total assets

HK$'000



Shareholders' fund

HK$'000



Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Kam Hing International Holdings Limited (the "Company"), I am pleased to announce the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK4.3 cents per share for the year ended 31 December 2007 to shareholders whose names appear on the register of members of the Company on 26 May 2008. The payment is subject to approval by shareholders regarding the payment of final dividend at the forthcoming annual general meeting of the Company. The proposed final dividend will be paid on 10 June 2008 following approval at the Annual General Meeting.

Business Review

We are delighted to report a growth in revenue and net profit in 2007. Revenue for the year ended 31 December 2007 was HK$2,230.8 million, representing an increase of approximately 10.8% from that of the previous financial year. Net profit attributable to shareholders increased by approximately 8.8% to HK$110.0 million compared with the previous year. The gross profit margin was maintained at the same level of around 19.7% as in 2006 and the net profit margin was approximately 4.9% in 2007, which was close to 5.0% in 2006.

The increase in revenue was attributable to a strong growth in orders received from both existing customers and new customers in Korea, Malaysia and USA, as well as the growth in the sales of garment products. We thank for the efforts of our R&D and marketing teams which enable the Group to obtain higher value orders at better profit margin this year to partly compensate the increase in outsourcing and staff cost resulting from the labor shortage in the PRC. During the year, the Group has successfully developed a variety of new fabrics for the market and solicited new customers and labels to promote our continuous and sustainable expansion of production capacity and product differentiation.

Chairman's Statement

Same as past years, the large amount of orders that the Group received had greatly exceeded our production capacity. We needed to outsource part of the orders to subcontractors in order to cope with the increasing orders. To cope with the continuous expansion of orders and rising market demand for quality and timely delivery, we are on the way to establish a second fabric factory in Enping, Guangdong Province in the PRC. It is expected to commence production in the third quarter of 2008 and bring a 30% increase to the Group's overall production capacity. With the additional production capacity from the new factory, we will be able to reduce the amount of outsourcing orders and assign extra resources to focus on the high value order with a view to increase profit margin.

The first garment factory of the Group was established in Madagascar in late 2006. In mid-2007, the Group established the second garment factory in Madagascar and the third garment factory in Panyu, the PRC, to accommodate the increasing amount of orders. The expansion in production facilities has raised the total production capacity from 0.8 million pieces at the beginning of 2007 to 1.5 million pieces per month at the end of 2007. Along with the boosted efficiency and addition of new customers, the Group is optimistic about the continuous growth of the garment operation and the contribution to the Group's long-term development.

Besides, the Group had established a new R&D Centre and a Testing Centre in the existing production premises in Panyu, the PRC. The Centres added important value to the Group's success in developing new fabrics, as well as enhancing its international reputation in the production of quality fabrics.

While maintaining the Group's core textile business, the Group also took its first step to diversify its business into the mining sector to broaden its source of income. Eyeing on the opportunities arisen from the increase in demand in zinc and iron in both the PRC and the world market, the Group has acquired the exploration right of a zinc mine and an iron mine in the PRC and Madagascar, respectively. In January 2008, the Group made two agreements with Wuhan Iron and Steel (Group) Company (武漢鋼鐵(集團)有限公司) (the "WISCO"), the third biggest steel production company in the PRC, to set up a joint venture company to explore the mining opportunity in Madagascar. The joint venture will be held beneficially as to 40% by the Group and as to 60% by the WISCO. We believe that the establishment of the joint venture company with WISCO will facilitate the Group's development in the mining business.

Chairman's Statement

Outlook

Looking ahead, the appreciation of Renminbi and increase of labor costs will continue to add pressure to the manufacturing costs in the PRC. However, after several years of production process optimization, the heightened production efficiency achieved by the Group will help to alleviate the negative impact brought by Renminbi appreciation and increasing labor costs.

Furthermore, the Group will continue to expand the textile business by increasing production capacity of its fabric operation with the establishment of the second fabric factory in Enping, the PRC, and also diversifying downstream business to garment manufacturing in Madagascar and PRC. This horizontal and vertical diversification will enhance the Group's long-term development and sustain the Group's profitability in the long run.

We believe the mining business will be beneficial to the Group's long-term development with rewarding profit contribution for the Group and our shareholders in the future.

All in all, in 2007, the Group enjoyed significant success in new business development, and also new market development including the diversification of product varieties and market coverage. With the existing effective management, we are confident that continuous growth will be achieved in 2008.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude and thanks for the devotion of our management team and staff members, who have contributed greatly to the development of the Group.

Tai Chin Chun
Chairman

Hong Kong
21 April 2008

Management Discussion and Analysis

Operational and Financial Review

The Group is principally engaged in the manufacture and sale of knitted fabrics, dyed yarn and garment product. The Group purchases raw yarn and through a series of production processes including knitting, yarn dyeing, fabric dyeing and final processing to produce dyed yarn and fabric. Part of the fabric will be used for the production of garment.

To ensure stable production, the Group has its own production facilities including a water supply plant, a sewage treatment plant and a power and steam generating plant that sufficiently support the 24-hour non-stop production of the Group's manufacturing base in Panyu, the PRC. Most of the Group's fabric and dyed yarn are supplied to the Group's garment factories in Madagascar and Panyu and other garment manufacturers in various countries around the world for the production of branded casual wear that will be ultimately supplied to major global retail chain stores.

During the year under review, the Group established two garment factories in Madagascar and Panyu, respectively. The factory mainly produces finished knitted garment to major global retail chain operators. In addition, the Group is on the way of establishing a second fabric production factory in Enping, the PRC, which is expected to commence operation in the third quarter of 2008.

Moreover, the Group diversified its business into the mining sector by acquiring the exploration right of a zinc mine and an iron mine in the PRC and Madagascar, respectively. The Group has also formed a team of mining professional to conduct exploration in the area.

Revenue

For the financial year ended 31 December 2007, the Group recorded HK$2,230.8 million (2006: HK$2,013.9 million) in revenue, representing an increase of 10.8% in comparison to that of the previous financial year. The increase in revenue was mainly attributable to the increase in sales to the existing customers and new customers, together with the expansion of sale of garment product.

Gross Profit

The gross profit of the Group for the year ended 31 December 2007 was HK$438.8 million (2006: HK$395.9 million), representing an increase of 10.8% in comparison to the previous year. The gross profit margin for the year ended 31 December 2007 was maintained at 19.7%, which is the same as last year. The Group had obtained higher value orders at better profit margin compared with 2006, which partly compensate the increase in production cost such as staff salary and outsourcing cost.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2007 was HK$110.0 million (2006: HK$101.1 million), representing a year-on-year increase of 8.8%. Net profit margin for the year ended 31 December 2007 was 4.9%, which was close to 5.0% in 2006.

Management Discussion and Analysis

Other Income and Expense

Other income of approximately HK$22.3 million (2006: HK$9.3 million) was mainly comprised of HK$6.3 million (2006: HK$4.1 million) in shipping and handling charges earned by Kam Hing International Shipping Limited and its subsidiaries, and HK$8.0 million (2006: HK$1.8 million) for the sale of excess steam generated by the power plant to the nearby factories in the district. The remaining balance was primarily the result of interest income, rental income, the sale of scrap materials and fair value gain on derivative financial instruments. Selling and distribution costs of HK$98.6 million (2006: HK$89.8 million) consisted of HK$86.2 million (2006: HK$82.7 million) in shipping and delivery costs, representing an increase of 4.2% in comparison to the previous year which is due to increase in turnover. Administrative expenses, which include salaries, depreciation and other related expenses, increased 24.1% year-on-year to HK$178.1 million (2006: HK$143.5 million). The increase was due to salary increment as well as improvement in the staff welfare for the PRC factory resulting from labor shortage and additional administrative staff for the expansion of garment operation.

Finance costs, which mainly include interest on long-term loans from banks, short-term trust receipt loans and finance lease interest, increased by 10.5% to HK$45.1 million (2006: HK$40.8 million) as compared with the previous year. This was primarily a result of the increase in working capital requirement due to the expansion of the Group's operations.

Liquidity and Financial Resources

As at 31 December 2007, the Group had net current assets of HK$271.9 million (2006: HK$47.8 million). The increase in net current assets was mainly attributable to the refinancing of the previous syndicated loan in April 2007 by a new syndicated loan of HK$440.0 million, of which HK$35.2 million was due in 2008 as current liabilities and HK$404.8 million was due from 2009 to 2011 as long term liabilities. The Group will constantly review its financial position and maintain a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2007, the Group had cash and cash equivalents of HK$113.2 million (2006: HK$193.1 million). The current ratio of the Group was 1.4 times (2006: 1.0 times).

The total bank and other borrowings of the Group as at 31 December 2007 were HK$782.1 million (2006: HK$750.0 million), netting off the cash and cash equivalents of HK$113.2 million (2006: HK$193.1 million), the Group's gearing ratio was approximately 50.5% (2006: 55.3%). Decrease in gearing ratio was mainly due to the strengthened credit control.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 54.3 days (2006: 61.6 days), 99.2 days (2006: 97.5 days) and 62.8 days (2006: 68.4 days) respectively. The decrease in the debtors' turnover period was due to early settlement of some customers as a result of better credit control. The increase in the inventory turnover period was attributable to the expansion of garment operation which is required to keep longer fabric stock for the garment production. The creditors' turnover period decreased was due to less purchase near year end as a result of reduced customer order in late 2007.

Management Discussion and Analysis

Financing

As at 31 December 2007, the total banking and loan facilities of the Group amounted to HK$2,375.2 million (2006: HK$1,416.5 million), of which HK$809.6 million (2006: HK$672.7 million) was utilised.

As at 13 April 2007, the Group has successfully obtained a four-year syndicated loan facility of HK$440.0 million from a syndicate of banks at interest rate of HIBOR plus 0.68% per annum for refinancing current syndicated loan, supplying additional working capital and financing future expansion of production capacity. The syndicated loan facility could reduce interest expenses and strengthen the Group's financial position.

As at 31 December 2007, the Group's long-term loans were HK$414.9 million (2006: HK$188.4 million) comprised of term loans from banks of HK$402.1 million (2006: HK$151.7 million) and long-term finance lease payable of HK$12.8 million (2006: HK$36.7 million). The increase in long-term loan was mainly attributable to the refinancing of the previous syndicated loan in April 2007 by a new syndicated loan.

The Group's long-term bank loans comprised of loans drawn down by Kam Hing Piece Works Limited, 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 HK4.3 cents (2006: HK4.0 cents) per share in respect of the year ended 31 December 2007 to shareholders of record as of 26 May 2008. The decision is subject to approval by shareholders regarding the payment of the final dividend at the annual general meeting of the Company. The proposed final dividend will be paid on 10 June 2008 following approval at the Annual General Meeting.

Capital Structure

There has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Management Discussion and Analysis

Foreign Exchange Risk and Interest Rate Risk

76.2% (2006: 76.3%) 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 was denominated in US dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to US dollars and Renminbi. Renminbi appreciated against other currencies continuously during the year under review. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary. Exchange rate of the other currencies was relatively stable throughout the year under review.

The Group's borrowings were mainly maintained as floating rate basis. Attention will be paid to the interest rate movements. Hedging instruments will be employed when necessary to hedge against unanticipated interest rate volatilities.

Charge on Group's Assets

As at 31 December 2007, certain items of property, plant and equipment of the Group with an aggregate net book value of HK$94.8 million (2006: HK$194.6 million) were under finance leases.

Capital Expenditure

During the year under review, the Group invested HK$199.5 million (2006: HK$180.2 million) in property, plant and equipment, as well as prepaid land lease payments, of which 80.1% (2006: 77.2%) was used for the purchase of plant and machinery, 12.9% (2006: 14.2%) was used for the acquisition and construction of new factory premises, 3.8% (2006: 4.7%) was used for the acquisition of pieces of land in preparation for future production capacity expansion and the remaining was used for the purchase of other property, plant and equipment and intangible assets.

As at 31 December 2007, the Group had capital commitments of HK$129.5 million (2006: HK$21.9 million) in property, plant and equipment, which are to be funded by net proceeds from internal resources.

Staff Policy

The Group had 4,150 (2006: 4,050) employees in the PRC, 4,680 (2006: 1,140) employees in Madagascar and 140 (2006: 153) employees in Hong Kong, Macau and Singapore as at 31 December 2007. 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 also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide.

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

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2007, the Company had contingent liabilities in relation to guarantees given to banks to secure credit facilities granted to certain subsidiaries amounting to HK$809.6 million (2006: HK$672.7 million). The Group also had bills discounted with recourse of HK$39.2 million (2006: HK$103.3 million). The Group had a contingent liability in respect of possible future long service payments to employees with a maximum possible amount of HK$1.5 million (2006: HK$2.1 million).

Major Customers and Suppliers

In the year ended 31 December 2007, sales to the five largest customers accounted for 47.3% (2006: 55.7%) of the total sales and sales to the largest customer included therein accounted for 17.1% (2006: 20.9%).

Purchases from the five largest suppliers accounted for 37.6% (2006: 37.2%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 11.8% (2006: 9.5%).

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 2007, sales to the four largest regions (Singapore, Taiwan, Hong Kong and the PRC (other than Hong Kong and Macau)) accounted for 80.3% (2006: 89.4%) of the total sales of the Group and sales to the largest region (Singapore) included therein accounted for 48.4% (2006: 56.4%) of the Group.

As at 31 December 2007, the Group's assets located in Hong Kong and the PRC (other than Hong Kong and Macau) accounted for 15.0% (2006: 21.9%) and 80.8% (2006: 76.9%) 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 2007 accounted for 93.1% (2006: 92.1%) of the total capital expenditure of the Group.

Corporate Governance Report

Corporate Governance Practices

The Company is committed to maintain good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors (the "Directors") of the Company. Having made specific enquiry of all Directors, the Company has confirmed that the Directors have complied with the required standard set out in the Model Code for the year ended 31 December 2007.

Board of Directors

As at 31 December 2007, the Board comprised nine Directors, including five executive Directors and four independent non-executive Directors. The term of office for all Directors (including the independent non-executive Directors) is specified for a term of three years subject to retirement by rotation and re-election at each annual general meeting under the Articles. Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 19 to 22 of the annual report.

The composition of the Board, by category, is set out below:

Executive Directors:	Mr. Tai Chin Chun *(Chairman)*
	Mr. Tai Chin Wen *(Chief Executive Officer)*
	Ms. Cheung So Wan
	Ms. Wong Siu Yuk
	Mr. Chong Chau Lam
Independent Non-executive Directors:	Mr. Chan Yuk Tong, Jimmy
	Ms. Chu Hak Ha, Mimi
	Mr. Ku Shiu Kuen, Anthony
	Mr. Chan Chung Yuen, Lawrence

There is no relationship among members of the Board except for the family relationship between Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan and Ms. Wong Siu Yuk. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and their spouses are Ms. Cheung So Wan and Ms. Wong Siu Yuk, respectively.

Corporate Governance Report

The Board has a balance of skills and various expertise to direct and supervise the business affairs of the Group. The Board undertakes to monitor the performance of the Group's business operation and act in the best interests of the Group as a whole. The independent non-executive Directors exercise independent judgements and opinions on the Board's affairs through the contribution at board meetings and committee meetings. The management of the Company implements the strategic development and deals with certain operational matters of the Group under the delegation and authority of the Board.

During the year ended 31 December 2007, the Board convened four full board meetings and the individual attendance of each Director at these meetings is set out below:

Name of Director	*Note*	**Attendance**	**Rate** (%)
Executive Directors:			
Mr. Tai Chin Chun *(Chairman)*		4/4	100%
Mr. Tai Chin Wen		4/4	100%
Ms. Cheung So Wan		4/4	100%
Ms. Wong Siu Yuk		4/4	100%
Mr. Chong Chau Lam		4/4	100%
Independent Non-executive Directors:			
Mr. Chan Yuk Tong, Jimmy		3/4	75%
Ms. Chu Hak Ha, Mimi		4/4	100%
Mr. Ku Shiu Kuen, Anthony		4/4	100%
Mr. Chan Chung Yuen, Lawrence	*(i)*	2/2	100%

Note:

(i) Mr. Chan Chung Yuen, Lawrence was appointed as an independent non-executive Director and a member of the remuneration committee, nomination committee and audit committee of the Company on 1 July 2007.

In order to enhance an active contribution to the Board's affairs by all Directors, the Chairman has arranged to convene a regular full board meeting at quarterly intervals to review the financial and operating performance of the Group. To ensure that good corporate governance practices and procedures are established, the Chairman has delegated the company secretary to draw up and approve the agenda for each board meeting. Notice of at least 14 days has been given to all Directors for a regular board meeting and the Directors can give ideas for discussion in advance in the agenda, if necessary. Draft and final minutes of all regular board meetings have been sent to the Directors for comment and records respectively within a reasonable time after the board meeting is held.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules. The Board comprises of four independent non-executive Directors, which represent more than one-third of the Board. In addition, one of the independent non-executive Directors possesses the requisite appropriate professional accounting qualifications.

Corporate Governance Report

The Company has received from each independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors to be independent.

Chairman and Chief Executive Officer

The executive Directors, Mr. Tai Chin Chun and Mr. Tai Chin Wen, served as the Chairman and the Chief Executive Officer of the Company, respectively. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen.

The roles of the Chairman and the Chief Executive Officer are segregated and not performed by the same individual. The Chairman is primarily responsible for the leadership of the Board and the formulation of overall strategic development of the Group, while the Chief Executive Officer is primarily responsible for the day-to-day management of the Group's business.

Remuneration Committee

The remuneration committee was established in September 2005. Terms of reference adopted by the remuneration committee are of no less exacting terms than those duties set out in the Code. The remuneration committee comprised four independent non-executive Directors, namely Ms. Chu Hak Ha, Mimi (Chairman), Mr. Chan Yuk Tong, Jimmy, Mr. Ku Shiu Kuen, Anthony and Mr. Chan Chung Yuen, Lawrence, and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The remuneration committee is primarily responsible for reviewing and making recommendations to the Board on the remuneration packages of the Directors and senior management of the Company to ensure that such remuneration is reasonable and not excessive.

During the year ended 31 December 2007, the remuneration committee convened three meetings and the individual attendance of each committee member at these meeting is set out below:

Name of Director	*Note*	**Attendance**	**Rate** (%)
Independent Non-executive Directors:			
Ms. Chu Hak Ha, Mimi *(Chairman)*		3/3	100%
Mr. Chan Yuk Tong, Jimmy		3/3	100%
Mr. Ku Shiu Kuen, Anthony		3/3	100%
Mr. Chan Chung Yuen, Lawrence	*(i)*	1/1	100%
Executive Directors:			
Mr. Tai Chin Chun		3/3	100%
Mr. Tai Chin Wen		3/3	100%

Note:

(i) Mr. Chan Chung Yuen, Lawrence was appointed as an independent non-executive Director and a member of the remuneration committee, nomination committee and audit committee of the Company on 1 July 2007.

Corporate Governance Report

The remuneration committee meetings were held to review and approve the salary increment for executive Directors and annual salary of executive Directors. In view that no Director or any of his/her associate should be involved in deciding his/her own remuneration in compliance with the principle of the Code, the relevant executive Directors were abstained from voting on this resolution in which they were materially interested in. The amounts paid to each director for the year are shown in note 8 to the financial statements.

Nomination Committee

The nomination committee was established in September 2005. Terms of reference adopted by the nomination committee are of no less exacting terms than those duties set out in the Code. The nomination committee comprised four independent non-executive Directors, namely Mr. Ku Shiu Kuen, Anthony (Chairman), Mr. Chan Yuk Tong, Jimmy, Ms. Chu Hak Ha, Mimi and Mr. Chan Chung Yuen, Lawrence and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The nomination committee is primarily responsible for reviewing and making recommendations to the Board on the selection of board members to ensure that suitable individuals are nominated for filling vacancies on the directorships.

During the year ended 31 December 2007, the nomination committee convened one meeting and the individual attendance of each committee member at that meeting is set out below:

Name of Director	*Note*	**Attendance**	**Rate** (%)
Independent Non-executive Directors:			
Mr. Ku Shiu Kuen, Anthony *(Chairman)*		1/1	100%
Mr. Chan Yuk Tong, Jimmy		1/1	100%
Ms. Chu Hak Ha, Mimi		1/1	100%
Mr. Chan Chung Yuen, Lawrence	*(i)*	0/0	–
Executive Directors:			
Mr. Tai Chin Chun		1/1	100%
Mr. Tai Chin Wen		1/1	100%

Note:

(i) Mr. Chan Chung Yuen, Lawrence was appointed as an independent non-executive Director and a member of the remuneration committee, nomination committee and audit committee of the Company on 1 July 2007.

Corporate Governance Report

The nomination committee meeting was held to review the structure, size and composition including the skills, knowledge and experience of the Board, made recommendation to the Board on the selection of board members to ensure that suitable individual is nominated on the directorship and concluded that the current Board comprises a sufficient number of directors and is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group.

Auditors' Remuneration

For the year ended 31 December 2007, Ernst & Young, as the external auditors of the Company, have provided audit and non-audit services to the Group at the fee of approximately HK$1.69 million and HK$0.5 million, respectively.

Respective responsibilities of the Directors and the external auditors of the Company are set out in the "Independent Auditors' Report" on page 34 of this report.

Audit Committee

The audit committee was established in August 2004. Terms of reference adopted by the audit committee are of no less exacting terms than those duties set out in the Code. The audit committee comprised four independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy (Chairman), Ms. Chu Hak Ha, Mimi, Mr. Ku Shiu Kuen, Anthony and Mr. Chan Chung Yuen, Lawrence. The audit committee is primarily responsible for reviewing and providing supervision over the Group's financial reporting process and internal controls.

During the year ended 31 December 2007, the audit committee convened two meetings and the individual attendance of each committee member at these meetings is set out below:

Name of Director	*Note*	**Attendance**	**Rate** (%)
Independent Non-executive Directors:			
Mr. Chan Yuk Tong, Jimmy *(Chairman)*		2/2	100%
Ms. Chu Hak Ha, Mimi		2/2	100%
Mr. Ku Shiu Kuen, Anthony		2/2	100%
Mr. Chan Chung Yuen, Lawrence	*(i)*	1/1	100%

Note:

(i) Mr. Chan Chung Yuen, Lawrence was appointed as an independent non-executive Director and a member of the remuneration committee, nomination committee and audit committee of the Company on 1 July 2007.

Corporate Governance Report

The audit committee meetings were held to discuss with the management and/or the external auditors the accounting policies and internal controls adopted by the Group, as well as to review the interim and annual financial statements of the Group before recommending them to the Board for adoption and approval.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of the same on an annual basis.

The Group has an independent internal audit department. The independent internal audit department is primarily responsible for carrying out review of the internal control system and risk management process. This is part of the on-going process to ensure that the effectiveness of material controls is monitored.

During the year of 2007, the Board has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions as required by the Code Provisions. The audit committee has also reviewed the internal control system of the Group and the findings of major investigations of internal control matters. The Group implements budget management with an aim to have better monitor on both business and financial performance. There was no significant incidence of failure in connection with financial, operational and compliance control during the year under review.

The Company has implemented a system of internal controls to provide reasonable assurance that assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes, investment and business risks are identified and managed, the Board will continue to review procedures implemented for assessing their effectiveness of the internal control system.

Investor Relations and Communication with Shareholders

The Company establishes different communication channels with shareholders and investors, including (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) regular press conferences and meetings with investors and analysts are set up from time to time on updated information of the Group, (iv) the Company's Registrars serve the shareholders on all share registration matters, and (v) maintain a corporate website, at which, comprehensive information, updates on the Company's business development and operations are provided.

Profile of Directors and Senior Management

Board of Directors

Executive Directors

Mr. Tai Chin Chun (戴錦春), aged 46, is the Chairman and founder of the Group. He is in charge of the Group's corporate strategy, planning and overall development. He has more than 25 years of experience in the textile industry. Mr. Tai obtained the "World Outstanding Chinese Award 2008" and conferred an Honorary Doctor Degree by The University of West Alabama (Regional University), USA. Mr. Tai is a member of Guangdong Committee of CPPCC and Panyu District Committee of CPPCC (廣東省政協委員、廣州市番禺區政協委員). He has also been awarded honorary citizenship of Guangzhou Municipal, life honorary president of Fujian Tai's Clan Hong Kong Association, Hong Kong Panyu Commercial and Industrial Association and Panyu Charity Federation, Guangzhou Municipal (福建旅港戴氏宗親會永遠榮譽會長、香港番禺工商聯誼會永遠榮譽會長及廣州市番禺區慈善會永遠榮譽會長). Mr. Tai is the younger brother of Mr. Tai Chin Wen and the spouse of Ms. Cheung So Wan.

Mr. Tai Chin Wen (戴錦文), aged 52, is the Chief Executive Officer and founder of the Group. He is in charge of the Group's overall management. He has over 25 years of management experience in the manufacturing industry. Mr. Tai is a standing member of the Hubei Committee of CPPCC, Guangdong Enping Committee of CPPCC and member of Fujian Nan An Committee of CPPCC (湖北省政協常委、廣東省恩平市政協常委及福建省南安市政協委員). He is a Vice Chairman of Hubei-Africa Business Council (湖北省非洲民間商會副會長), Executive Director of Hubei Chinese Overseas Friendship Association (湖北省海外聯誼會常務理事), Vice Chairman of Guangdong Jiangmen City Association of Foreign Investment (廣東省江門市外商投資協會副會長) and President of Fujian Tai's Clan Hong Kong Association (福建旅港戴氏宗親會會長). He has also been awarded honorary citizenship of Guangzhou Municipal and life honorary president of Hong Kong Fujian Nan An Association (香港福建南安公會永遠名譽會長). Mr. Tai is the elder brother of Mr. Tai Chin Chun and the spouse of Ms. Wong Siu Yuk.

Ms. Cheung So Wan (張素雲), aged 44, 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. Ms. Cheung joined the Group in November 1996 and has more than 15 years of experience in the textile industry. Ms. Cheung is the spouse of Mr. Tai Chin Chun.

Ms. Wong Siu Yuk (黃少玉), aged 46, 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. Ms. Wong joined the Group in December 1996 and has more than 15 years of experience in the textile industry. Ms. Wong is the spouse of Mr. Tai Chin Wen.

Profile of Directors and Senior Management

Mr. Chong Chau Lam (莊秋霖), aged 58, is the executive Director of the Group. Mr. Chong obtained a higher diploma in Dyeing, Printing and Finishing Technology from the Hong Kong Technical College and a master degree of Business Administration from the University of East Asia. He is an associate member of both the Society of Dyers and Colourists and the Textile Institute in United Kingdom, and was awarded the Silver Medal by the Society of Dyers and Colourists in 1982. Prior to joining the Group on 30 March 2004, he worked as a senior lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University and an engineer in a local textile company. Mr. Chong is also currently a member of the Dyeing and Finishing Special Committee, the China Textile Engineering Society, and an active technical consultant in the dyeing and finishing sector.

Independent Non-executive Directors

Mr. Chan Yuk Tong, Jimmy (陳育棠), aged 45. Mr. Chan obtained a bachelor degree in Commerce from the University of Newcastle in Australia and a master degree of Business Administration from the Chinese University of Hong Kong. He is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has over 20 years of experience in corporate finance, financial advisory and management, professional accounting and auditing. He is also a non-executive director of Vitop Bioenergy Holdings Limited and an independent non-executive director of Carico Holdings Limited, Daisho Microline Holdings Limited, Sichuan Xinhua Winshare Chainstore Company Limited, BYD Electronic (International) Company Limited, which are listed companies in Hong Kong. He is also an independent non-executive director of Anhui Conch Cement Company Limited, which is a listed company in Hong Kong and Shanghai. Mr. Chan was also an independent non-executive director of Luks Industrial (Group) Limited and World Trade Bun Kee Limited, listed companies in Hong Kong, during the period from 30 September 2004 to 1 December 2005 and during 1 January 2007 to 3 July 2007, respectively. Mr. Chan joined the Group on 30 March 2004.

Ms. Chu Hak Ha, Mimi (朱克遐), aged 44, is a solicitor practising in Hong Kong SAR and a partner of David Lo & Partners, a law firm in Hong Kong. Ms. Chu was also admitted as solicitor in England and Wales and solicitor and barrister in the Australian Capital Territory. Ms. Chu joined the Group on 30 March 2004.

Mr. Ku Shiu Kuen, Anthony (古兆權), aged 58, is a lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University. Mr. Ku obtained a higher diploma in Dyeing, Printing and Finishing Technology from the Hong Kong Technical College and a master degree of Philosophy from the Hong Kong Polytechnic University. He holds the professional qualification of Chartered Colourist and Associateship of the Society of Dyers and Colourists in United Kingdom. Prior to joining the Institute of Textiles and Clothing of the Hong Kong Polytechnic University, he worked in a local dyeing and finishing company for several years. Mr. Ku has been involved in various consultancy projects in the dyeing and finishing sector. Mr. Ku joined the Group on 1 July 2005.

Profile of Directors and Senior Management

Mr. Chan Chung Yuen, Lawrence (陳鍾元), aged 29, graduated from the University of Manchester, Institute of Science and Technology (UMIST) in England. Mr. Chan has 4 years of work experience in a brokerage firm in Hong Kong. He is also a director of two private companies in Hong Kong. Save as being an independent non-executive director of the company, he does not hold any position with other members of the Group. Mr. Chan has over 4 years of corporate finance, accounting and finance experience. Mr. Chan joined the Group on 1 July 2007.

Senior Management

Mr. Kung Wai Chung (龔衛忠), aged 50, 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 the Kwai Chung Technical Institute and a professional certificate in Business Management awarded by the Hong Kong Open University. Prior to joining the Group in November 1996, Mr. Kung has worked for textile companies for over 10 years. 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 43, is the deputy managing director of Panyu Kam Hing Textile Dyeing Co., Limited (the "Panyu KH Textile"), a wholly-owned subsidiary of the Group, and is responsible for the overall management and administration of Panyu KH Textile. Mr. Wong obtained a master degree of Business Administration from the Zhongshan University. He has over 20 years of management experience in the textile industry. Prior to 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 Ms. Wong Siu Yuk.

Mr. Liu Zhi Gang (劉志剛), aged 41, 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. Prior to joining the Group in July 1997, Mr. Liu has worked for dyeing companies for over 7 years.

Mr. Tai Chu Fa (戴住發), aged 55, is the deputy general 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 December 1996, Mr. Tai has worked for knitting companies for over 25 years.

Mr. Chan Ying Wah (陳映華), aged 52, is the production control manager of the knitting operation of Panyu KH Textile and is responsible for the monitoring and management of the Group's knitting operations. Prior to joining the Group in January 2003, Mr. Chan worked for knitting companies for over 20 years.

Mr. Wong Yin Ming (王燕明), aged 46, 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 over 10 years.

Profile of Directors and Senior Management

Mr. Lam Hau Hei (林厚禧), aged 56, is the production control manager of the fabric dyeing operation of Panyu KH Textile, and is responsible for monitoring and management of the Group's dyeing operations. Prior to joining the Group in November 2005, Mr. Lam has worked for technical services, production management and merchandising in knitting companies for over 30 years.

Mr. Ho Yi Piu, Bill (何宜標), aged 39, 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, United Kingdom. Prior to joining the Group in June 1999, Mr. Ho has worked for fabric trading companies and he has over 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.

Mr. Wong Wai Hung (黃偉洪), aged 43, 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 18 years of experience in the textile industry.

Mr. Wong Wai Kong, Elmen (黃偉桄), aged 42, 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 degree of Business Administration from the Hong Kong Baptist University, a master degree of Business Administration from the University of Sheffield and a master degree of Science in Business Information Technology from the Middlesex University. Prior to joining the Group in December 2002, Mr. Wong gained extensive financial experience in professional accounting and auditing for over 8 years. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, a practising fellow member of the Hong Kong Institute of Certified Public Accountants.

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 2007.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 36 to 115.

The directors recommend the payment of a final dividend of HK4.3 cents per ordinary share in respect of the year, to shareholders on the register of members on 26 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets.

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 Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2004, after deduction of the related issue expenses, amounted to approximately HK$186.2 million. During the years ended 31 December 2004 to 2006, proceeds of approximately HK$66.3 million, HK$98.1 million and HK$14.4 million, respectively, were utilised as disclosed in the annual report for each of these years. During the year, proceeds of approximately HK$7.4 million were further utilised for the acquisition of additional knitting facilities in accordance with the proposed applications set out in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 116. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

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 28 and 29 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 of the Company.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2007, 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$558,016,000, of which HK$27,698,000 has been proposed as a final dividend for the year. The amount of HK$558,016,000 includes the Company's share premium account and capital reserve of HK$530,244,000 in aggregate as at 31 December 2007, 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$2,613,000.

Report of the Directors

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 47.3% (2006: 55.7%) of the total sales and sales to the largest customer included therein accounted for 17.1% (2006: 20.9%). Purchases from the Group's five largest suppliers accounted for 37.6% (2006: 37.2%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 11.8% (2006: 9.5%).

None of the directors 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 during the year and as at the date of this report were:

Executive directors:
Mr. Tai Chin Chun *(Chairman)*
Mr. Tai Chin Wen *(Chief Executive Officer)*
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Independent non-executive directors:
Ms. Chu Hak Ha, Mimi
Mr. Chan Yuk Tong, Jimmy
Mr. Ku Shiu Kuen, Anthony
Mr. Chan Chung Yuen, Lawrence (appointed on 1 July 2007)

In accordance with article 86 of the Company's articles of association, Mr. Chan Chung Yuen, Lawrence will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company. In accordance with article 87 of the Company's articles of association, Mr. Tai Chin Wen, Ms. Cheung So Wan and Mr. Chong Chau Lam will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive directors are appointed for a term of three years.

The Company has received annual confirmations of independence from Ms. Chu Hak Ha, Mimi, Mr. Chan Yuk Tong, Jimmy, Mr. Ku Shiu Kuen, Anthony and Mr. Chan Chung Yuen, Lawrence, 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 and the senior management of the Group are set out on pages 19 to 22 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 and is subject to termination by either party by giving not less than three months' and one month's written notice, respectively, and in any events not later than the end of the initial term.

Under the service contracts between the Company and Mr. Chong Chau Lam, after each complete year of service, the remuneration payable to the executive Director may, subject to the discretion of the Board, be increased by not more than 20% and be 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. Under the service contracts between the Company as one part and each of Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan and Ms. Wong Siu Yuk on the other part, the executive Directors, subject to the discretion of the Board, may be entitled to discretionary bonuses, with reference to their duties and responsibilities with the Company, their performance against corporate goals and objectives, the remuneration standard in the market and salaries paid by the comparable companies.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Emolument policy and directors' remuneration

The directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. 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 a discretionary bonus 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 salaries, discretionary bonuses, housing benefits and share option benefits.

Report of the Directors

Directors' interests in contracts

Save as disclosed in the related party transactions disclosures in note 35 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.

Directors' interests and short positions in shares and underlying shares

At 31 December 2007, 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 of director	*Notes*	Capacity and nature of interest	Number of shares	Approximate percentage of the Company's issued share capital
Mr. Tai Chin Chun	*1*	Through controlled corporation	382,600,000	59.40
Mr. Tai Chin Wen	*2*	Through controlled corporation	96,000,000	14.90
Ms. Cheung So Wan	*3*	Through spouse	382,600,000	59.40
Ms. Wong Siu Yuk	*4*	Through spouse	96,000,000	14.90
Mr. Chong Chau Lam		Directly beneficially owned	300,000	0.05
Mr. Chan Chung Yuen, Lawrence		Directly beneficially owned	1,100,000	0.17

Report of the Directors

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

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr. Tai Chin Chun	3,000,000
Mr. Tai Chin Wen	2,000,000
Ms. Cheung So Wan	1,000,000
Ms. Wong Siu Yuk	1,000,000
	7,000,000

Long position 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

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. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Ms. Cheung So Wan is the spouse of Mr. Tai Chin Chun.

2. The shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen.

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

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

Save as disclosed above, as at 31 December 2007, none of the directors had any 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.

Report of the Directors

Directors' rights to acquire shares or debentures

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, 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

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. Further details of the Scheme are disclosed in note 29 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options								
Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$ per share*	Price of the Company's shares at grant date of options*** *HK$ per share*
Directors									
Mr. Tai Chin Chun	3,000,000	–	–	–	3,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Mr. Tai Chin Wen	2,000,000	–	–	–	2,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Ms. Cheung So Wan	1,000,000	–	–	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Ms. 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				

Report of the Directors

Share option scheme *(continued)*

Name or category of participant	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares at grant date of options*** HK$ per share
Non-director employees									
In aggregate	14,203,000	–	(3,408,000)	(1,008,000)	9,787,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
	–	39,950,000	–	–	39,950,000	2 November 2007	2 November 2008 to 1 February 2009	2.47	2.34
	14,203,000	39,950,000	(3,408,000)	(1,008,000)	49,737,000				
Others									
In aggregate	1,260,000	–	(720,000)	–	540,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
	–	2,500,000	–	–	2,500,000	2 November 2007	2 November 2008 to 1 February 2009	2.47	2.34
	1,260,000	2,500,000	(720,000)	–	3,040,000				
Total	22,463,000	42,450,000	(4,128,000)	(1,008,000)	59,777,000				

* The vesting period of the share options is from the date of 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 weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$2.46. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK$2.34.

Report of the Directors

Share option scheme *(continued)*

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options *HK$*
Non-director employees	39,950,000	16,383,000
Others	2,500,000	1,025,000
	42,450,000	17,408,000

The binomial model is a generally accepted method of valuing options, using the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. The significant assumptions used in the calculation of the values of the share options were the accuracy and completeness of the sources of market data. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Report of the Directors

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

As at 31 December 2007, the following interests of 5% or more of the issued share capital and share options 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 *(Note)*	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Directly beneficially owned	382,600,000	59.40
Power Strategy	Directly beneficially owned	96,000,000	14.90

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 section "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 the section "Share option scheme" above.

Save as disclosed above, as at 31 December 2007, no person, other than the directors, whose interests are set out under the sections "Directors' interests and short positions in shares and underlying shares" and "Share option scheme" above, had an interest or a short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO.

Disclosures pursuant to Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreement of a subsidiary of the Company, which contains covenants requiring performance obligations of the controlling shareholders of the Company. Pursuant to a loan agreement dated 13 April 2007 entered into between the Company as the guarantor, a wholly-owned subsidiary of the Company as the borrower and a syndicate of banks for a four-year loan facility of HK$440 million, an event of default would arise if (a) Mr. Tai Chin Chun and Mr. Tai Chin Wen, the ultimate controlling shareholder and substantial shareholder, respectively, cease to collectively and beneficially (either directly or indirectly) own 51% of the voting share capital in the Company; or (b) any member of the Group or its management, business or operations is not or ceases to be controlled by both of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Report of the Directors

Disclosures pursuant to Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") *(continued)*

Upon the occurrence of an event of default, the lenders may declare that all or part of the loan outstanding together with accrued interest and all other amounts accrued be immediately due and payable; and/or the facility under the loan agreement shall immediately be cancelled.

Sufficiency of public float

On 17 July 2007, the Company was made aware that its public float has fallen below the minimum public float requirement of 25% under Rule 8.08 of the Listing Rules. For the purpose of restoring the minimum public float, the controlling shareholder of the Company, namely, Exceed Standard, had on 18 July 2007 disposed of 1,400,000 shares in the capital of the Company to the market. As a result of the disposal, 25% of the issued shares of the Company has been restored in public hands. Save as disclosed herein and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

Auditors

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

ON BEHALF OF THE BOARD

Tai Chin Chun
Chairman

Hong Kong
21 April 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of **Kam Hing International Holdings Limited**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Kam Hing International Holdings Limited set out on pages 36 to 115, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the financial statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditors' Report *(continued)*

To the shareholders of **Kam Hing International Holdings Limited**
(Incorporated in the Cayman Islands with limited liability)

Auditors' Responsibility *(continued)*

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

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

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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
21 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**2,230,764**	2,013,889
Cost of sales		**(1,791,926)**	(1,618,023)
Gross profit		**438,838**	395,866
Other income and gains	5	**22,308**	9,281
Selling and distribution costs		**(98,635)**	(89,842)
Administrative expenses		**(178,075)**	(143,508)
Other operating expenses, net		**(11,800)**	(9,170)
Finance costs	6	**(45,101)**	(40,821)
PROFIT BEFORE TAX	7	**127,535**	121,806
Tax	10	**(17,617)**	(20,659)
PROFIT FOR THE YEAR		**109,918**	101,147
Attributable to:			
Ordinary equity holders of the Company	11	**109,960**	101,125
Minority interests		**(42)**	22
		109,918	101,147
DIVIDEND – Proposed final	12	**27,698**	25,600
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK17.2 cents**	HK15.8 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,043,504**	883,249
Investment properties	15	**–**	7,055
Prepaid land lease payments	16	**58,380**	48,990
Intangible assets	18	**2,105**	–
Deferred tax assets	27	**–**	41
Total non-current assets		**1,103,989**	939,335
CURRENT ASSETS			
Inventories	19	**491,150**	483,347
Accounts and bills receivable	20	**296,300**	367,396
Prepayments, deposits and other receivables		**28,374**	9,405
Equity investment at fair value through profit or loss	21	**703**	1,382
Derivative financial instruments	24	**6,913**	–
Due from a minority shareholder		**101**	140
Pledged deposits	25	**12,887**	2,152
Cash and cash equivalents	22	**113,182**	193,076
Total current assets		**949,610**	1,056,898
CURRENT LIABILITIES			
Accounts and bills payable	23	**232,280**	384,657
Accrued liabilities and other payables		**60,131**	45,802
Derivative financial instruments	24	**4,842**	–
Tax payable		**13,280**	17,076
Bank advances for discounted bills	20	**39,025**	85,796
Interest-bearing bank and other borrowings	25	**328,116**	475,720
Total current liabilities		**677,674**	1,009,051
NET CURRENT ASSETS		**271,936**	47,847
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,375,925**	987,182
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**414,946**	188,447
Deferred tax liabilities	27	**712**	–
Total non-current liabilities		**415,658**	188,447
Net assets		**960,267**	798,735

Consolidated Balance Sheet *(continued)*

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	*28*	**64,413**	64,000
Reserves	*30(a)*	**850,881**	708,818
Proposed final dividend	*12*	**27,698**	25,600
		942,992	798,418
Minority interests		**17,275**	317
Total equity		**960,267**	798,735

Tai Chin Chun
Director

Tai Chin Wen
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to ordinary equity holders of the Company										
	Notes	Issued capital *HK$'000* *(note 28)*	Share premium account *HK$'000* *(note 28)*	Share option reserve *HK$'000* *(note 29)*	Capital reserve *HK$'000*	Statutory surplus reserve *HK$'000*	Exchange fluctuation reserve *HK'000*	Retained profits *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2007		64,000	122,429	5,300	104,804	23,204	40,004	413,077	25,600	798,418	317	798,735
Exchange realignment		–	–	–	–	–	52,030	–	–	52,030	–	52,030
Total income and expense for the year recognised directly in equity		–	–	–	–	–	52,030	–	–	52,030	–	52,030
Profit for the year		–	–	–	–	–	–	109,960	–	109,960	(42)	109,918
Total income and expense for the year		–	–	–	–	–	52,030	109,960	–	161,990	(42)	161,948
Final 2006 dividend declared		–	–	–	–	–	–	–	(25,600)	(25,600)	–	(25,600)
Contribution from minority shareholders		–	–	–	–	–	–	–	–	–	17,000	17,000
Proposed final 2007 dividend	*12*	–	–	–	–	–	–	(27,698)	27,698	–	–	–
Issue of shares	*28*	413	4,871	–	–	–	–	–	–	5,284	–	5,284
Transfer to share premium account upon exercise of share options	*28*	–	937	(937)	–	–	–	–	–	–	–	–
Equity-settled share option arrangement	*29*	–	–	2,900	–	–	–	–	–	2,900	–	2,900
Transfer to statutory surplus reserve		–	–	–	–	4,599	–	(4,599)	–	–	–	–
Transfer to retained profits		–	–	(430)	–	–	–	430	–	–	–	–
At 31 December 2007		64,413	128,237*	6,833*	104,804*	27,803*	92,034*	491,170*	27,698	942,992	17,275	960,267

* These reserve accounts comprise the consolidated reserves of HK$850,881,000 (2006: HK$708,818,000) in the consolidated balance sheet of the Group as at 31 December 2007.

Consolidated Statement of Changes in Equity *(continued)*

Year ended 31 December 2007

		Attributable to ordinary equity holders of the Company										
	Note	Issued capital *HK$'000*	Share premium account *HK$'000*	Share option reserve *HK$'000*	Capital reserve *HK$'000*	Statutory surplus reserve *HK$'000*	Exchange fluctuation reserve *HK'000*	Retained profits *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2006		64,000	122,429	5,300	104,804	19,729	–	341,027	19,840	677,129	105	677,234
Exchange realignment		–	–	–	–	–	40,004	–	–	40,004	–	40,004
Total income and expense for the year recognised directly in equity		–	–	–	–	–	40,004	–	–	40,004	–	40,004
Profit for the year		–	–	–	–	–	–	101,125	–	101,125	22	101,147
Total income and expense for the year		–	–	–	–	–	40,004	101,125	–	141,129	22	141,151
Final 2005 dividend declared		–	–	–	–	–	–	–	(19,840)	(19,840)	–	(19,840)
Contribution from a minority shareholder		–	–	–	–	–	–	–	–	–	190	190
Proposed final 2006 dividend	*12*	–	–	–	–	–	–	(25,600)	25,600	–	–	–
Transfer to statutory surplus reserve		–	–	–	–	3,475	–	(3,475)	–	–	–	–
At 31 December 2006		64,000	122,429*	5,300*	104,804*	23,204*	40,004*	413,077*	25,600	798,418	317	798,735

* These reserve accounts comprise the consolidated reserves of HK$708,818,000 in the consolidated balance sheet of the Group as at 31 December 2006.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**127,535**	121,806
Adjustments for:			
Bank interest income	5	**(1,397)**	(888)
Finance costs	6	**41,810**	39,221
Amortisation of bank charges on a syndicated loan	6	**3,291**	1,600
Depreciation of items of property, plant and equipment	7	**90,690**	69,960
Depreciation of investment properties	7	**–**	377
Amortisation of prepaid land lease payments	7	**1,211**	949
Loss on disposal of items of property, plant and equipment	7	**313**	480
Impairment of accounts receivable	7	**1,618**	69
Write back of impairment allowance for accounts receivable	7	**(112)**	(1,493)
Fair value (gains)/losses, net:			
Equity investment at fair value through profit or loss	5	**679**	(63)
Derivative financial instruments – transactions not qualifying as hedges	5	**(2,091)**	–
Equity-settled share option expense	29	**2,900**	–
		266,447	232,018
Increase in inventories		**(7,803)**	(102,245)
Decrease/(increase) in accounts and bills receivable		**69,590**	(63,342)
Increase in prepayments, deposits and other receivables		**(18,880)**	(4,627)
Decrease in an amount due from a minority shareholder		**39**	–
Increase/(decrease) in accounts and bills payable		**(152,377)**	163,316
Increase in accrued liabilities and other payables		**14,329**	7,707
Decrease in an amount due to a minority shareholder		**–**	(114)
Decrease in bank advances for discounted bills		**(46,771)**	(19,098)
Cash generated from operations		**124,574**	213,615
Interest received		**1,397**	888
Interest paid		**(38,523)**	(34,238)
Interest element of finance lease rental payments		**(3,287)**	(4,983)
Hong Kong profits tax paid		**(13,674)**	(1,890)
Overseas taxes paid		**(6,988)**	(7,087)
Net cash inflow from operating activities		**63,499**	166,305

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow from operating activities		**63,499**	166,305
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(190,013)**	(142,022)
Prepayment of land leases		**(7,500)**	(7,401)
Purchase of an equity investment at fair value through profit or loss		**–**	(822)
Proceeds from derivative instruments – transactions not qualifying as hedges		**20**	–
Proceeds from disposal of items of property, plant and equipment		**881**	691
Additions to intangible assets	18	**(2,000)**	–
Increase in pledged time deposits		**(10,735)**	(6)
Contribution from minority shareholders	31(c)	**17,000**	50
Net cash outflow from investing activities		**(192,347)**	(149,510)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**5,284**	–
Capital element of finance lease rental payments		**(33,653)**	(42,025)
Drawdown of bank loans		**1,593,892**	1,167,564
Repayment of bank loans		**(1,484,635)**	(1,097,496)
Dividend paid		**(25,600)**	(19,840)
Net cash inflow from financing activities		**55,288**	8,203
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(73,560)**	24,998
Cash and cash equivalents at beginning of year		**193,076**	171,691
Effect of foreign exchange rate changes, net		**(6,334)**	(3,613)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**113,182**	193,076
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**113,182**	193,076

Company Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**402,207**	402,207
CURRENT ASSETS			
Due from subsidiaries	17	**221,941**	217,027
Cash and cash equivalents	22	**5,444**	8,034
Total current assets		**227,385**	225,061
CURRENT LIABILITIES			
Accruals and other payables		**330**	3,300
Due to subsidiaries	17	**–**	4,500
Total current liabilities		**330**	7,800
NET CURRENT ASSETS		**227,055**	217,261
Net assets		**629,262**	619,468
EQUITY			
Issued capital	28	**64,413**	64,000
Reserves	30(b)	**537,151**	529,868
Proposed final dividend	12	**27,698**	25,600
Total equity		**629,262**	619,468

Tai Chin Chun
Director

Tai Chin Wen
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2007

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 37 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2007

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

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 January 2008

Notes to Financial Statements

31 December 2007

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

(d) an equity investment accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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%

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

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

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of properties for subsequent accounting is the net carrying value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Licences

Purchased licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of two years.

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 Financial Statements

31 December 2007

2.4 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 acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

Investments and other financial assets

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

In relation to accounts receivable, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, interest-bearing loans and borrowings and other monetary liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Income tax

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

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

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

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

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Notes to Financial Statements

31 December 2007

2.4 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 have been rendered;

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

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

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Binomial/Black-Scholes option pricing models, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

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

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

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

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

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments

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

A contingent liability is disclosed in respect of possible future 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 all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

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

Foreign currencies

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

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

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

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Carrying value of leasehold land element in relation to the entire leasehold land and buildings

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Notes to Financial Statements

31 December 2007

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

Judgements *(continued)*

Classification between investment properties and owner-occupied properties (continued)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If these portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Otherwise, the property is classified as an owner-occupied property.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Provision for impairment of accounts and bills receivable

The Group makes provision for impairment of accounts and bills receivable based on an assessment of the recoverability of accounts and bills receivable. Allowances are applied to accounts and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of accounts and bills receivable and doubtful debt expenses in the year in which such estimate has been changed.

Valuation of share options

The fair value of options granted under a share option scheme is determined using the Binomial model. The significant inputs into the model were share price at the grant date, exercise price, risk-free interest rate, average dividend payments of the past three years, expected volatility and suboptimal exercise date. When the actual results of the inputs differ from management's estimate, it will have an impact on the share option expenses and the related share option reserve of the Company.

Notes to Financial Statements

31 December 2007

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 production and sale of knitted fabric, dyed yarn and garment products and provision of related subcontracting services.

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

(a) Singapore;

(b) Taiwan;

(c) Hong Kong;

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

(e) Others

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

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group – 2007

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Sales to external customers	1,078,999	186,531	315,970	210,364	438,900	2,230,764
Other income	2,701	66	3,128	154	202	6,251
Total	1,081,700	186,597	319,098	210,518	439,102	2,237,015
Segment results	188,211	33,221	58,809	37,557	77,232	395,030
Interest and other unallocated income and gains						16,057
Unallocated expenses						(238,451)
Finance costs						(45,101)
Profit before tax						127,535
Tax						(17,617)
Profit for the year						109,918
Assets and liabilities						
Segment assets	122,803	16,387	58,232	68,997	29,881	296,300
Unallocated assets						1,757,299
Total assets						2,053,599
Segment liabilities	31,484	10,325	81,004	136,151	12,341	271,305
Unallocated liabilities						822,027
Total liabilities						1,093,332

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

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

Group – 2007 *(continued)*

	Singapore	Taiwan	Hong Kong	PRC	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						90,690
Amortisation of prepaid land lease payments, unallocated						1,211
Capital expenditure, unallocated						199,513
Loss on disposal of items of property, plant and equipment, unallocated						313
Impairment losses recognised in the income statement	701	11	499	–	407	1,618
Impairment losses reversed in the income statement	(112)	–	–	–	–	(112)

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

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

Group – 2006

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Sales to external customers	1,135,710	192,602	285,736	186,349	213,492	2,013,889
Other income	1,248	5	2,546	218	58	4,075
Total	1,136,958	192,607	288,282	186,567	213,550	2,017,964
Segment results	190,770	32,817	52,081	32,027	36,558	344,253
Interest and other unallocated income and gain						5,206
Unallocated expenses						(186,832)
Finance costs						(40,821)
Profit before tax						121,806
Tax						(20,659)
Profit for the year						101,147
Assets and liabilities						
Segment assets	175,138	17,850	60,392	90,036	23,980	367,396
Unallocated assets						1,628,837
Total assets						1,996,233
Segment liabilities	70,776	13,060	140,226	184,772	61,619	470,453
Unallocated liabilities						727,045
Total liabilities						1,197,498

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

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

Group – 2006 *(continued)*

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						69,960
Depreciation of investment properties, unallocated						377
Amortisation of prepaid land lease payments, unallocated						949
Capital expenditure, unallocated						180,207
Loss on disposal of items of property, plant and equipment, unallocated						480
Impairment losses recognised in the income statement	–	–	69	–	–	69
Impairment losses reversed in the income statement	(377)	–	(925)	(62)	(129)	(1,493)

(ii) Geographical segments based on the location of assets

The following tables present certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group – 2007

	Singapore *HK$'000*	**Hong Kong** *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Segment assets	**152**	**308,769**	**1,658,652**	**86,026**	**2,053,599**
Capital expenditure	**46**	**546**	**185,844**	**13,077**	**199,513**
Group – 2006					
Segment assets	476	437,880	1,534,135	23,742	1,996,233
Capital expenditure	–	1,568	165,965	12,674	180,207

Notes to Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2007 HK$'000	2006 HK$'000
Revenue			
Production and sale of knitted fabric, dyed yarn and garment products and provision of related subcontracting services		**2,230,764**	2,013,889
Other income			
Fee income from freight handling services		**6,251**	4,075
Bank interest income		**1,397**	888
Gross rental income		**901**	1,372
Others		**12,347**	2,883
		20,896	9,218
Gains			
Fair value gains/(losses), net:			
Equity investment at fair value through profit or loss – held for trading	7	**(679)**	63
Derivative financial instruments – transactions not qualified as hedges	7	**2,091**	–
		1,412	63
		22,308	9,281

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6. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**38,523**	34,238
Interest on finance leases	**3,287**	4,983
Amortisation of bank charges on a syndicated loan	**3,291**	1,600
	45,101	40,821

7. PROFIT BEFORE TAX

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

		2007	2006
	Notes	***HK$'000***	*HK$'000*
Cost of inventories sold and services provided		**1,791,926**	1,618,023
Auditors' remuneration		**1,690**	1,350
Research and development costs		**4,712**	4,107
Depreciation of items of property, plant and equipment	*14*	**90,690**	69,960
Depreciation of investment properties	*15*	**–**	377
Amortisation of prepaid land lease payments	*16*	**1,211**	949
Employee benefits expense (excluding directors' remuneration – note 8):			
Wages and salaries		**153,704**	98,502
Equity-settled share option expense		**2,900**	–
Pension scheme contributions		**8,454**	6,601
		165,058	105,103
Minimum lease payments under operating leases in respect of land and buildings		**2,813**	1,931
Loss on disposal of items of property, plant and equipment		**313**	480
Impairment of accounts receivable		**1,618**	69
Write back of impairment allowance for accounts receivable		**(112)**	(1,493)
Fair value (gains)/losses, net			
Equity investment at fair value through profit or loss – held for trading		**679**	(63)
Derivative financial instruments – transactions not qualified for hedges		**(2,091)**	–
Foreign exchange differences, net		**6,811**	8,385

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7. PROFIT BEFORE TAX *(continued)*

The cost of inventories sold and services provided includes depreciation and staff costs of HK$187,644,000 for the year ended 31 December 2007 (2006: HK$124,352,000), which is also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK$3,983,000 for the year ended 31 December 2007 (2006: HK$3,462,000), which is also included in the respective total amounts disclosed separately above.

At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

8. DIRECTORS' REMUNERATION

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees	**600**	480
Other emoluments:		
Salaries, allowances and benefits in kind	**6,319**	5,613
Discretionary bonuses*	**4,586**	4,906
Pension scheme contributions	**90**	84
	10,995	10,603
	11,595	11,083

* An executive director of the Company is entitled to a discretionary bonus which in aggregate is limited to 5% (2006: 5%) of the consolidated profit after tax of the Group.

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8. DIRECTORS' REMUNERATION *(continued)*

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Executive Directors:					
Tai Chin Chun	**–**	**1,909**	**2,039**	**12**	**3,960**
Tai Chin Wen	**–**	**1,520**	**1,450**	**12**	**2,982**
Cheung So Wan	**–**	**620**	**516**	**12**	**1,148**
Wong Siu Yuk	**–**	**620**	**516**	**12**	**1,148**
Chong Chau Lam	**–**	**1,650**	**65**	**12**	**1,727**
Independent non-executive Directors:					
Chu Hak Ha, Mimi	**180**	**–**	**–**	**9**	**189**
Chan Yuk Tong, Jimmy	**180**	**–**	**–**	**9**	**189**
Ku Shiu Kuen, Anthony	**150**	**–**	**–**	**8**	**158**
Chan Chung Yuen, Lawrence	**90**	**–**	**–**	**4**	**94**
Total	**600**	**6,319**	**4,586**	**90**	**11,595**
2006					
Executive Directors:					
Tai Chin Chun	–	1,643	2,304	12	3,959
Tai Chin Wen	–	1,311	1,650	12	2,973
Cheung So Wan	–	537	432	12	981
Wong Siu Yuk	–	537	432	12	981
Chong Chau Lam	–	1,585	88	12	1,685
Independent non-executive Directors:					
Chu Hak Ha, Mimi	180	–	–	9	189
Chan Yuk Tong, Jimmy	180	–	–	9	189
Ku Shiu Kuen, Anthony	120	–	–	6	126
Total	480	5,613	4,906	84	11,083

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: one) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,185**	1,082
Discretionary bonuses	**592**	63
Employee share option benefits	**383**	–
Pension scheme contributions	**64**	12
	3,224	1,157

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

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	–
	2	1

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, share options were granted to two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

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10. TAX

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**11,111**	10,243
Overprovision in prior years	**(1,649)**	(1,227)
Current tax – Elsewhere		
Charge for the year	**7,404**	9,547
Deferred tax charge *(note 27)*	**751**	2,096
Total tax charge for the year	**17,617**	20,659

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2006: 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.

Guangzhou Kam Hing Textile Dyeing Co. Ltd. ("Guangzhou KH Textile"), a wholly-owned PRC subsidiary of the Company, is entitled to a 50% reduction in the corporate income tax in the PRC. The applicable tax rate of Guangzhou KH Textile, after the 50% reduction, was 12% (2006: 12%).

The Group has tax losses arising in Hong Kong of HK$4,150,000 (2006: HK$2,565,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Corporate Income Tax Law issued by The State Council of the PRC on 26 December 2007, effective from 1 January 2008, the existing preferential income tax rate pertaining to the Group's subsidiaries operated in the PRC will gradually transit to the applicable tax rate of 25%.

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31 December 2007

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions/countries in which the Company and the majority of its subsidiaries are operated to the tax expense at the effective tax rates is as follows:

Group – 2007

	Hong Kong *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Profit before tax	**23,702**	**88,757**	**15,076**	**127,535**
Tax at the statutory tax rate	**4,148**	**29,289**	**1,547**	**34,984**
Lower tax rate for specific provinces or local authority	**–**	**(21,896)**	**(14)**	**(21,910)**
Adjustments in respect of current tax of prior years	**(1,649)**	**–**	**–**	**(1,649)**
Lower tax rate due to tax holiday	**–**	**–**	**(1,459)**	**(1,459)**
Income not subject to tax	**(342)**	**–**	**(60)**	**(402)**
Expenses not deductible for tax	**7,755**	**–**	**6**	**7,761**
Tax losses not recognised	**292**	**–**	**–**	**292**
Tax charge at the Group's effective rate	**10,204**	**7,393**	**20**	**17,617**

Group – 2006

	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	40,711	82,127	(1,032)	121,806
Tax at the statutory tax rate	7,124	27,102	(96)	34,130
Lower tax rate for specific provinces or local authority	–	(16,896)	–	(16,896)
Adjustments in respect of current tax of previous years	(1,227)	–	–	(1,227)
Lower tax rate due to tax holiday	–	–	111	111
Income not subject to tax	(286)	(761)	(15)	(1,062)
Expenses not deductible for tax	5,349	102	–	5,451
Tax losses not recognised	152	–	–	152
Tax charge at the Group's effective rate	11,112	9,547	–	20,659

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11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2007 includes a profit of HK$27,210,000 (2006: HK$25,688,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Proposed final – HK4.3 cents per ordinary share (2006: HK4.0 cents)	**27,698**	25,600

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$109,960,000 (2006: HK$101,125,000) and the weighted average of 640,481,000 (2006: 640,000,000) ordinary shares deemed to have been in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2007						
Cost:						
At 1 January 2007	163,216	694,717	45,262	14,730	272,493	1,190,418
Additions	12,500	36,566	2,351	1,765	136,831	190,013
Disposals	(54)	(1,112)	(119)	–	–	(1,285)
Transfers	23,726	253,656	24	–	(277,406)	–
Transfer from investment properties *(note 15)*	7,912	–	–	–	–	7,912
Exchange realignment	12,025	53,479	2,025	625	7,016	75,170
At 31 December 2007	219,325	1,037,306	49,543	17,120	138,934	1,462,228
Accumulated depreciation:						
At 1 January 2007	25,512	250,108	22,506	9,043	–	307,169
Charge for the year	9,786	71,659	7,041	2,204	–	90,690
Disposals	–	–	(91)	–	–	(91)
Transfer from investment properties *(note 15)*	857	–	–	–	–	857
Exchange realignment	1,913	16,653	1,184	349	–	20,099
At 31 December 2007	38,068	338,420	30,640	11,596	–	418,724
Net book value:						
At 31 December 2007	181,257	698,886	18,903	5,524	138,934	1,043,504

Notes to Financial Statements

31 December 2007

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

Group *(continued)*

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
Cost:						
At 1 January 2006	147,358	587,914	40,944	13,763	175,388	965,367
Additions	8,632	31,388	2,386	856	128,421	171,683
Disposals	–	(1,019)	(128)	(261)	–	(1,408)
Transfers	–	43,742	550	–	(44,292)	–
Exchange realignment	7,226	32,692	1,510	372	12,976	54,776
At 31 December 2006	163,216	694,717	45,262	14,730	272,493	1,190,418
Accumulated depreciation:						
At 1 January 2006	17,341	184,230	15,256	6,844	–	223,671
Charge for the year	6,995	54,249	6,656	2,060	–	69,960
Disposals	–	–	(128)	(109)	–	(237)
Exchange realignment	1,176	11,629	722	248	–	13,775
At 31 December 2006	25,512	250,108	22,506	9,043	–	307,169
Net book value:						
At 31 December 2006	137,704	444,609	22,756	5,687	272,493	883,249

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

	2007 HK$'000	2006 HK$'000
Medium-term leases		
– in Hong Kong	**1,883**	2,025
– outside Hong Kong	**179,374**	135,679
	181,257	137,704

Notes to Financial Statements

31 December 2007

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

Group *(continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Plant and machinery	**93,837**	193,265
Furniture, fixtures and office equipment	**148**	105
Motor vehicles	**770**	1,240
	94,755	194,610

Title certificates in respect of three factory buildings with a net book value of approximately HK$0.7 million (2006: HK$0.7 million) as at 31 December 2007 as included in 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 a net book value of approximately HK$3 million (2006: HK$3 million) as at 31 December 2007.

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures is considered illegal or unauthorised, the relevant government authorities may order rectification steps by remodeling the structures of the buildings, or for more severe measures, order demolition or forfeiture of such buildings/structures and payment of fines. The aforesaid buildings and structures accounted for less than 1% of the Group's total property, plant and equipment as at 31 December 2007 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 35(b)).

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

During the year ended 31 December 2007, staff quarters of a net book value amounting to HK$5.3 million and a newly constructed factory building of HK$8.2 million were transferred from construction in progress to land and buildings upon completion. As at 31 December 2007, the Group has not yet obtained the title ownership certificates in respect of these staff quarters and the newly constructed factory building situated in Panyu, Guangzhou, the PRC. The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings are located, there is no legal barrier or otherwise for the Group to obtain the relevant buildings ownership certificates for the buildings from the relevant Mainland China authority.

15. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**7,055**	7,096
Charge for the year	**–**	(377)
Transfer to owner-occupied properties *(note 14)*	**(7,055)**	–
Exchange realignment	**–**	336
Net book value as at 31 December	**–**	7,055

The Group's investment properties were held under medium-term leases and were situated outside Hong Kong. As the above investment properties were used by the Group since the expiration of the lease during the year, the aforesaid investment properties were transferred to property, plant and equipment and were occupied by the Group as owner-occupied properties.

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**50,114**	40,259
Prepaid during the year	**7,500**	8,524
Amortised during the year	**(1,211)**	(949)
Exchange realignment	**3,190**	2,280
Carrying amount at 31 December	**59,593**	50,114
Current portion included in prepayments, deposits and other receivables	**(1,213)**	(1,124)
Non-current portion	**58,380**	48,990

The Group's prepaid land lease payments comprise:

Land outside Hong Kong:		
Long-term lease	**1,318**	1,110
Medium-term leases	**57,062**	47,880
	58,380	48,990

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**402,207**	402,207

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$221,941,000 (2006: HK$217,027,000) and Nil (2006: HK$4,500,000), respectively, are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Joint Result Holdings Limited ("Joint Result")*	BVI/Hong Kong	US$10,000	100	Investment holding
Indirectly held:				
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$1,000,010 *(Note (a))*	100	Trading of finished fabrics
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000,000 *(Note (a))*	100	Investment holding
Kam Hing Piece Works (S) Pte Limited*	Singapore	S$100,000	100	Provision of customer services
Guangzhou KH Textile*	PRC/Mainland China	US$97,610,000 (Note (b))	100	Manufacture and trading of knitted and dyed fabrics
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	100	Provision of knitting and dyeing services and trading of finished fabrics

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: *(continued)*				
Guangzhou Kam Sing Textile and Dyeing Company Limited ("Kam Sing")*	PRC/Mainland China	HK$6,000,000 *(Note (c))*	100	Manufacture and trading of knitted and dyed fabrics
En Ping Kam Hing Textile and Dyeing Co. Ltd. ("En Ping KH")*	PRC/Mainland China	US$11,822,000 *(Note (d))*	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited ("Sparkle Logistics")	Hong Kong	HK$3,800,000	92	Provision of air and ocean freight services
Kam Hing Global Garment Company Limited	Hong Kong	HK$10,000,000	100	Trading of garment products
Kam Hing Madagascar*	Madagascar	MGA10,000,000	100	Manufacture and trading of garment products
Kam Hing International Cargo Forwarding (Guangzhou) Limited Company*	PRC/Mainland China	RMB5,000,000	100	Provision of air and ocean freight services
Highkeen Enterprises Limited ("Highkeen")*	BVI	US$1,000 *(Note (e))*	100	Investment holding
Kam Wing International Textile Company Limited ("Kam Wing")#	Hong Kong	HK$42,500,000 *(Note (e))*	60	Investment holding and trading of finished fabrics

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: *(continued)*				
Guangxi Kam Hing Mining Company Limited ("Guangxi Mining")*#	PRC/Mainland China	– *(Note (f))*	100	Mining
En Ping Kam Lap Textile and Dyeing Co. Ltd. ("En Ping KL")*#	PRC/Mainland China	US$545,000 *(Note (g))*	60	Manufacture and trading of knitted and dyed fabrics
Guangzhou Kwok Hing Garment Limited ("Kwok Hing GZ")*#	PRC/Mainland China	HK$2,000,000 *(Note (h))*	100	Manufacture and trading of garment products
Kwok Hing Garment Madagascar ("Kwok Hing Mada")*#	Madagascar	MGA100,000,000	100	Manufacture and trading of garment products
Guangzhou Kam Yam Garment Design Co. Ltd. ("Kam Yam")*#	PRC/Mainland China	– *(Note (i))*	100	Provision of knitting and dyeing services and trading of finished fabrics

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) Guangzhou 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 Guangzhou KH Textile amounted to US$97,610,000, which has been fully paid up during the current year.

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

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

(d) En Ping KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 27 April 2005. The registered capital of En Ping KH amounted to US$65,000,000 and the remaining unpaid capital contribution of US$53,178,000 (equivalent to approximately HK$413,725,000) was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

(e) On 27 December 2006, Highkeen has entered into a joint venture agreement with an independent third party to establish a joint venture (the "JV Agreement"), Kam Wing, in Hong Kong. The registered capital of Kam Wing amounted to HK$200,000,000. Pursuant to the JV Agreement, Highkeen is required to contribute HK$39,000,000 prior to 31 December 2008 (notes 34 and 38(b)), which was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

(f) Guangxi Mining is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 5 November 2007. The registered capital of Guangxi Mining amounted to HK$10,000,000 and remained unpaid as at 31 December 2007. The entire amount was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

(g) En Ping KL is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 8 June 2007. The registered capital of En Ping KL amounted to US$12,000,000. The remaining unpaid capital contribution of US$11,455,000 (equivalent to approximately HK$89,120,000) was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

(h) Kwok Hing GZ is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 30 March 2007. The registered capital of Kwok Hing GZ amounted to HK$10,000,000. The remaining unpaid capital contribution of HK$8,000,000 was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

(i) Kam Yam is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 14 November 2007. The registered capital of Kam Yam amounted to HK$400,000 remained unpaid as at 31 December 2007. The entire amount was included as capital commitments at 31 December 2007 as disclosed in note 34 to the financial statements.

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

\# Subsidiaries incorporated/established during the current year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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18. INTANGIBLE ASSETS

Group

	Licences
	HK$'000
Cost at 1 January 2007, net of accumulated amortisation	–
Additions	2,000
Amortisation provided during the year	–
Exchange realignment	105
At 31 December 2007	2,105
At 31 December 2007:	
Cost	2,105
Accumulated amortisation	–
Net carrying amount	2,105

19. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**325,921**	324,429
Work in progress	**89,617**	80,399
Finished goods	**75,612**	78,519
	491,150	483,347

Notes to Financial Statements

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20. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Accounts and bills receivable	**297,918**	367,508
Impairment	**(1,618)**	(112)
	296,300	367,396

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

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**131,612**	138,659
31 to 60 days	**91,302**	100,241
61 to 90 days	**49,244**	83,166
Over 90 days	**24,142**	45,330
	296,300	367,396

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

Included in the above accounts and bills receivable as at 31 December 2007, HK$39,025,000 (2006: HK$85,796,000) were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" on the face of the consolidated balance sheet.

Notes to Financial Statements

31 December 2007

20. ACCOUNTS AND BILLS RECEIVABLE *(continued)*

The movements in impairment allowance for accounts and bills receivable are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**112**	14,221
Impairment losses recognised *(note 7)*	**1,618**	69
Amount written off as uncollectible	**–**	(12,685)
Write back of impairment losses *(note 7)*	**(112)**	(1,493)
	1,618	112

Included in the above impairment allowance for accounts and bills receivable is an allowance for individually impaired trade receivables of HK$1,618,000 (2006: HK$112,000) with a carrying amount of HK$2,084,000 (2006: HK$1,964,000). The individually impaired accounts and bills receivable related to customers that were in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts and bills receivable that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**190,491**	195,763
Less than 1 month past due	**59,444**	62,945
1 to 6 months past due	**46,365**	108,688
	296,300	367,396

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

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21. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Equity investment listed outside Hong Kong, at market value	**703**	1,382

The above equity investment was classified as held for trading at 31 December 2007 and 2006.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**113,182**	193,076	**5,444**	8,034
Time deposits	**–**	–	**–**	–
Cash and cash equivalents	**113,182**	193,076	**5,444**	8,034

As at 31 December 2007, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$29,024,000 (2006: HK$35,715,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Notes to Financial Statements

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23. 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:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**191,024**	322,382
91 to 180 days	**39,152**	50,865
181 to 365 days	**2,016**	11,322
Over 365 days	**88**	88
	232,280	384,657

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2007	
	Assets	**Liabilities**
Group	***HK$'000***	***HK$'000***
Forward currency contracts	**6,913**	**4,842**
Portion classified as non-current	**–**	**–**
Current portion	**6,913**	**4,842**

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$2,091,000 were credited to the income statement during the year (2006: Nil).

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Effective interest rate (%)	Maturity	*HK$'000*	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Finance lease payables *(note 26)*	4.1-11.2	2008	23,890	3.5-11.2	2007	33,615
Bank loans – unsecured	Weighted average of HIBOR/LIBOR/ SIBOR + 0.68 to 0.9	2008	304,226	Weighted average of HIBOR/LIBOR/ SIBOR + 0.7 to 1.25	2007	442,105
			328,116			475,720
Non-current						
Finance lease payables *(note 26)*	4.1–11.2	2009-2011	12,819	3.5-11.2	2008-2010	36,747
Bank loans – unsecured	HIBOR + 0.68	2011	402,127	HIBOR + 0.7	2008	151,700
			414,946			188,447
			743,062			664,167

Notes to Financial Statements

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**304,226**	442,105
In the second year	**144,012**	151,700
In the third to fifth years, inclusive	**258,115**	–
	706,353	593,805
Finance lease payables:		
Within one year or on demand	**23,890**	33,615
In the second year	**11,990**	23,877
In the third to fifth years, inclusive	**829**	12,870
	36,709	70,362
	743,062	664,167

As at 31 December 2007, the Group's banking facilities were secured by the carrying amounts of the Group's pledged bank deposits of HK$12,887,000 (2006: HK$2,152,000) which approximate to their fair values, and were supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

As at 31 December 2007, the finance lease payables were secured by corporate guarantees executed by the Company and/or certain subsidiaries of the Company and the underlying property, plant and equipment (note 26).

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

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease payables	**12,819**	36,747	**12,819**	36,747
Floating rate bank loans – unsecured	**402,127**	151,700	**404,267**	153,490
	414,946	188,447	**417,086**	190,237

Notes to Financial Statements

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26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and office equipment and motor vehicles for its business operation (note 14). These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31 December 2007, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present values of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**25,190**	36,551	**23,890**	33,615
In the second year	**12,273**	25,241	**11,990**	23,877
In the third to fifth years, inclusive	**841**	13,107	**829**	12,870
Total minimum finance lease payments	**38,304**	74,899	**36,709**	70,362
Future finance charges	**(1,595)**	(4,537)		
Total net finance lease payables	**36,709**	70,362		
Portion classified as current liabilities *(note 25)*	**(23,890)**	(33,615)		
Non-current portion *(note 25)*	**12,819**	36,747		

At 31 December 2007, the finance lease payables were secured by corporate guarantees executed by the Company and/or certain subsidiaries of the Company and the underlying property, plant and equipment.

Notes to Financial Statements

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27. DEFERRED TAX

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

Deferred tax assets

	Allowance for doubtful debts	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**41**	2,137
Deferred tax charged to the income statement during the year *(note 10)*	**(41)**	(2,096)
At 31 December	**–**	41

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**–**	–
Deferred tax charged to the income statement during the year *(note 10)*	**710**	–
At 31 December	**710**	–
Exchange differences	**2**	–
At 31 December	**712**	–

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

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28. SHARE CAPITAL

	Company 2007 HK$'000	2006 HK$'000
Authorised:		
2,000,000,000 (2006: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
644,128,000 (2006: 640,000,000) ordinary shares of HK$0.1 each	**64,413**	64,000

During the year, the subscription rights attaching to 4,128,000 share options were exercised at the subscription price of HK$1.28 per share (note 29), resulting in the issue of 4,128,000 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$5,284,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	640,000,000	64,000	122,429	186,429
Share options exercised	4,128,000	413	4,871	5,284
	644,128,000	64,413	127,300	191,713
Transfer from share option reserve	–	–	937	937
At 31 December 2007	644,128,000	64,413	128,237	192,650

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

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29. 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 of the Company's subsidiaries. The Scheme became effective on 25 August 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of 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 offer.

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

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29. SHARE OPTION SCHEME *(continued)*

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

	2007		2006	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**1.28**	**22,463**	1.28	24,006
Granted during the year	**2.47**	**42,450**	–	–
Exercised during the year	**1.28**	**(4,128)**	–	–
Lapsed during the year	**1.28**	**(1,008)**	1.28	(1,543)
At 31 December	**2.13**	**59,777**	1.28	22,463

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.75 (2006: Nil).

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2007

Number of options ***'000***	**Exercise price** ***HK$ per share***	**Exercise period**
17,327	1.28	6 October 2005 to 5 October 2014
42,450	2.47	2 November 2008 to 1 February 2009
59,777		

2006

Number of options *'000*	Exercise price *HK$ per share*	Exercise period
22,463	1.28	6 October 2005 to 5 October 2014

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29. SHARE OPTION SCHEME *(continued)*

The fair value of the share options granted during the year was HK$17,408,000 (HK$0.41 each) (2006: Nil) of which the Group recognised a share option expense of HK$2,900,000 (2006: Nil) during the year ended 31 December 2007.

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

	2007
Average dividend payments of the past three years *(HK$)*	**0.029**
Expected volatility *(%)*	**49.23**
Historical volatility *(%)*	**49.23**
Risk-free interest rate *(%)*	**2.3**
Share price as at valuation date *(HK$)*	**2.34**

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

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

For the share options granted on 6 October 2004, the fair value of these share options at the date of grant of HK$5,300,000 was estimated using the Black-Scholes option pricing model and was fully recognised in the share option reserve upon the adoption of HKFRS 2 *Share-based Payment* during the year ended 31 December 2005. Details of the underlying inputs to the model was disclosed in the annual report of the Company for the year ended 31 December 2005.

The 4,128,000 share options exercised during the year resulted in the issue of 4,128,000 ordinary shares of the Company and new share capital of HK$412,800 and share premium of HK$4,871,000 (before issue expenses), as further detailed in note 28 to the financial statements.

The 59,777,000 share options outstanding as at 31 December 2007 under the Scheme, represented approximately 9.3% 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 59,777,000 additional ordinary shares of the Company and additional share capital of HK$5,977,700 and share premium of HK$121,052,360 (before issue expenses).

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30. 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 capital of the subsidiaries acquired pursuant to the group reorganisation taken place on 24 August 2004, for the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"), over the nominal value of the 1,000,000 shares of HK$0.1 each of the Company issued in exchange 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 accumulated losses of the respective subsidiaries.

Under the Macau legislation, a subsidiary which is incorporated in Macau is required to transfer to a legal reserve an amount equal to a minimum of 25% of its annual profit after tax until the amount of the reserve is equal to 50% of the subsidiary's registered capital. This reserve is only distributable in accordance with certain limited circumstances prescribed by statue.

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30. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006	122,429	5,300	402,007	44	529,780
Profit for the year	–	–	–	25,688	25,688
Proposed final 2006 dividend	–	–	–	(25,600)	(25,600)
At 31 December 2006	122,429	5,300	402,007	132	529,868
Share options exercised *(note 28)*	4,871	–	–	–	4,871
Equity-settled share option arrangements *(note 29)*	–	2,900	–	–	2,900
Transfer to share premium account *(note 28)*	937	(937)	–	–	–
Transfer to retained profits	–	(430)	–	430	–
Profit for the year	–	–	–	27,210	27,210
Proposed final 2007 dividend	–	–	–	(27,698)	(27,698)
	128,237	6,833	402,007	74	537,151

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as disclosed in the annual report of the Company for the year ended 31 December 2004, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The Group's and the Company's share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group has the following major non-cash transactions during the year ended 31 December 2006:

(a) During the year ended 31 December 2006, the Group has entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK$20,784,000.

(b) During the year ended 31 December 2006, accounts receivable of HK$10,000,000 were settled by the transfer from a debtor to the Group a piece of land and certain items of property, plant and equipment of HK$1,123,000 and HK$8,877,000, respectively.

(c) During the year ended 31 December 2006, out of the 3,420,000 new ordinary shares issued by Sparkle Logistics, the Company subscribed 3,230,000 ordinary shares of HK$1 each and the minority shareholder has subscribed 190,000 new ordinary shares of HK$1 each for a total consideration of HK$190,000. The minority shareholder has paid up HK$50,000 and the remaining balance of HK$140,000 was reflected as an amount due from a minority shareholder in the Group's consolidated balance sheet as at 31 December 2006.

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Discounted bills with recourse supported by letters of credit	**39,179**	103,276	**–**	–
Guarantees given to banks in connection with facilities granted to and fully utilised by subsidiaries	**–**	–	**809,581**	672,697
	39,179	103,276	**809,581**	672,697

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32. CONTINGENT LIABILITIES *(continued)*

(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$1,504,000 (2006: HK$2,059,000) as at 31 December 2007, as further explained under the heading "Employee benefits" in note 2.4 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.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its building under operating lease arrangements, with leases negotiated for terms ranging from one to fourteen years.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**550**	1,260
In the second to fifth years, inclusive	**816**	2,320
After five years	**197**	–
	1,563	3,580

Notes to Financial Statements

31 December 2007

33. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**4,075**	3,543
In the second to fifth years, inclusive	**7,085**	8,920
After five years	**6,631**	6,863
	17,791	19,326

The Company had no significant operating lease commitments at 31 December 2007 (2006: Nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchases of machinery	**44,071**	6,156
Construction in progress	**85,472**	15,710
Investments in subsidiaries	**560,245**	620,358
	689,788	642,224

The Company had no significant commitments at 31 December 2007 (2006: Nil).

Notes to Financial Statements

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35. RELATED PARTY TRANSACTIONS

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

	Note	**2007** ***HK$'000***	2006 *HK$'000*
Rental expenses on office premises and a staff quarter paid to Tai Chin Chun and Tai Chin Wen	*(i)*	**322**	210

Note:

(i) The Group entered into tenancy agreements with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of office premises and a staff quarter at monthly rentals of HK$25,000 and HK$6,000, for terms of seven months to two years, respectively, based on the prevailing market rentals.

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

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

	2007 ***HK$'000***	2006 *HK$'000*
Short-term employee benefits	**11,505**	10,999
Post-employment benefits	**90**	84
	11,595	11,083

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

Notes to Financial Statements

31 December 2007

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Accounts and bills receivable	–	296,300	296,300
Financial assets included in prepayments, deposits and other receivables	–	5,093	5,093
Equity investment at fair value through profit or loss	703	–	703
Derivative financial instruments	6,913	–	6,913
Due from a minority shareholder	–	101	101
Pledged deposits	–	12,887	12,887
Cash and cash equivalents	–	113,182	113,182
	7,616	427,563	435,179

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payable	–	232,280	232,280
Financial liabilities included in accrued liabilities and other payables	–	20,184	20,184
Derivative financial instruments	4,842	–	4,842
Interest-bearing bank and other borrowings	–	743,062	743,062
Bank advances for discounted bills	–	39,025	39,025
	4,842	1,034,551	1,039,393

Notes to Financial Statements

31 December 2007

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

2006 Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Accounts and bills receivable	–	367,396	367,396
Financial assets included in prepayments, deposits and other receivables	–	3,323	3,323
Equity investment at fair value through profit or loss	1,382	–	1,382
Due from a minority shareholder	–	140	140
Pledged deposits	–	2,152	2,152
Cash and cash equivalents	–	193,076	193,076
	1,382	566,087	567,469

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Accounts and bills payable	384,657
Financial liabilities included in accrued liabilities and other payables	15,554
Interest-bearing bank and other borrowings	664,167
Bank advances for discounted bills	85,796
	1,150,174

Notes to Financial Statements

31 December 2007

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

2007 **Company**

Financial assets

	Loans and receivables *HK$'000*
Due from subsidiaries	**221,941**
Cash and cash equivalents	**5,444**
	227,385

2006 Company

Financial assets

	Loans and receivables *HK$'000*
Due from subsidiaries	217,027
Cash and cash equivalents	8,034
	225,061

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Due to subsidiaries	4,500

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, finance leases and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and bills receivable and accounts and bills payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, commodity price risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's net debt obligations with a floating interest rate. The bank borrowings bear interest at interest rates with reference to HIBOR, LIBOR, Hong Kong prime rate, etc. The Group believes that the exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate net borrowings).

	Group	
	Change in interest rate	**Change in the Group's profit before tax**
	%	*HK$'000*
2007		
Hong Kong dollar – HIBOR	**1**	**3,899**
Hong Kong dollar – prime rate	**0.4**	**187**
United States dollar – LIBOR	**0.5**	**1,455**
2006		
Hong Kong dollar – HIBOR	0.4	1,340
Hong Kong dollar – prime rate	0.1	106
United States dollar – LIBOR	0.4	1,156

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Commodity price risk

The major raw materials used in the production of the Group's products include yarns and dyeing chemicals. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Foreign currency risk

Foreign currency risk is the risk of losses due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group has transactional currency exposures. Such exposure arises as a substantial portion of sales and purchase transactions are conducted by the Group's subsidiaries in United States dollars and RMB with the counterparties.

The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in the Group's profit before tax	Increase/ (decrease) in the Group's equity
	%	HK$'000	HK$'000
2007			
If Hong Kong dollar weakens against RMB	**5**	**(4,692)**	**(7,053)**
If Hong Kong dollar strengthens against RMB	**(5)**	**4,692**	**7,053**
2006			
If Hong Kong dollar weakens against RMB	5	(4,459)	(6,459)
If Hong Kong dollar strengthens against RMB	(5)	4,459	6,459

Credit risk

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

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an equity investment at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 32(a) to the financial statements.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial instruments and financial assets (e.g. accounts and bills receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable and interest-bearing bank and other borrowings to meet its working capital and capital expenditure requirements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	–	249,454	78,662	414,946	743,062
Bank advances for discounted bills	–	39,025	–	–	39,025
Accounts and bills payable	96,078	134,721	1,481	–	232,280
Derivative financial instruments	–	215	4,627	–	4,842
Other payables	1,862	18,322	–	–	20,184
	97,940	441,737	84,770	414,946	1,039,393

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows: *(continued)*

	2006				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	–	329,322	146,398	188,447	664,167
Bank advances for discounted bills	–	85,796	–	–	85,796
Accounts and bills payable	108,603	270,830	5,224	–	384,657
Other payables	3,257	12,297	–	–	15,554
	111,860	698,245	151,622	188,447	1,150,174

Company

	2007
	On demand
	HK$'000
Due to subsidiaries	**–**

	2006
	On demand
	HK$'000
Due to subsidiaries	4,500

Notes to Financial Statements

31 December 2007

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. Net debt comprises all interest-bearing bank and other borrowings, bank advances for discounted bills, accounts and bills payable and accrued liabilities and other payables less cash and cash equivalents. The total equity comprises owner's equity as stated in the consolidated balance sheet.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The gearing ratios of the Group as at the balance sheet dates were as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings	**743,062**	664,167
Bank advances for discounted bills	**39,025**	85,796
Accounts and bills payable	**232,280**	384,657
Accrued liabilities and other payables	**60,131**	45,802
Less: Cash and cash equivalents	**(113,182)**	(193,076)
Net debt	**961,316**	987,346
Equity attributable to ordinary equity holders	**942,992**	798,418
Total capital	**942,992**	798,418
Capital and net debt	**1,904,308**	1,785,764
Gearing ratio	**50.5%**	55.3%

Notes to Financial Statements

31 December 2007

38. POST BALANCE SHEET EVENTS

(a) On 18 January 2008, the Group entered into two cooperation agreements with Wuhan Iron and Steel (Group) Company 武漢鋼鐵(集團)有限公司 (the "Strategic Partner") in relation to the exploration and exploitation of iron and other mineral resources in Bekisopa, Madagascar (the "Bekisopa Region"), and other regions of Madagascar.

The Group and the Strategic Partner have agreed to form a joint venture company (the "JV Company") for the exploration and exploitation of iron and other mineral resources in the Bekisopa Region under the first cooperation agreement. The JV Company would be incorporated in Hong Kong and would be owned by the Group and the Strategic Partner in the proportion of 40% and 60%, respectively. The JV Company was subsequently incorporated in Hong Kong on 3 April 2008 under the name of Wisco Kam Hing Resources Limited.

Under the second cooperation agreement, the Group and the Strategic Partner have agreed to use the JV Company for the purpose of acquiring another mineral exploration and exploitation rights in other regions of Madagascar. If the required mineral exploration and exploitation rights have been acquired by the JV Company, the Strategic Partner will be responsible for the establishment and running of the production site and the Strategic Partner has committed to purchase all the metallic resources exploited therein at the then prevailing international market price.

(b) Kam Wing was incorporated in Hong Kong in January 2007 pursuant to the JV Agreement as further detailed in note 17(e). The Group is required to contribute the remaining capital contribution of HK$39,000,000 prior to 31 December 2008. According to a written resolution signed on 31 March 2008 between Highkeen and Special Skill, the paid up schedule of the outstanding contribution will be subject to further negotiation and the remaining capital contribution is expected to be paid up by 30 June 2008.

(c) On 3 March 2008, Kam Hing Mining Madagascar SARL ("Kam Hing Mining Madagascar") was newly established as a wholly-owned subsidiary of the Group in Madagascar with an authorised share capital of MGA100,000,000. Kam Hing Mining Madagascar is principally engaged in the mining business.

39. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been shown separately in respect of items disclosed for the first time in 2007.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2008.

Five Year Financial Summary

31 December 2007

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

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**2,230,764**	2,013,889	1,499,403	1,315,650	1,101,581
Profit before tax	**127,535**	121,806	90,262	124,983	115,134
Tax	**(17,617)**	(20,659)	(11,312)	(20,221)	(18,778)
Profit for the year	**109,918**	101,147	78,950	104,762	96,356
Attributable to:					
Ordinary equity holders of the Company	**109,960**	101,125	78,959	104,762	96,356
Minority interests	**(42)**	22	(9)	–	–
	109,918	101,147	78,950	104,762	96,356

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**2,053,599**	1,996,233	1,663,388	1,185,585	810,876
TOTAL LIABILITIES	**(1,093,332)**	(1,197,498)	(986,154)	(581,475)	(498,757)
MINORITY INTERESTS	**(17,275)**	(317)	(105)	–	–
	942,992	798,418	677,129	604,110	312,119

Note: The summary of the consolidated results of the Group for the year ended 31 December 2003 and of the assets and liabilities as at 31 December 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 the annual report of the Company for the year ended 31 December 2004. The consolidated results, assets, liabilities and minority interests of the Group for the years ended 31 December 2004 and 2005 have been extracted from the annual reports of the Company for the years ended 31 December 2004 and 2005. The consolidated results of the Group for each of the years ended 31 December 2006 and 2007 and the consolidated assets, liabilities and minority interests of the Group as at 31 December 2006 and 2007 are those set out on pages 36 to 115 of the financial statements.