Annual Report 2011

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 : 02307

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
Mr. Wong Wai Kong, Elmen

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yuk Tong, Jimmy
Ms. Chu Hak Ha, Mimi
Mr. Ho Gilbert Chi Hang

COMPANY SECRETARY

Mr. Lei Heong Man, Ben

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 IN HONG KONG

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
Australia and New Zealand Banking Group Limited
CITIC Bank International Limited
Standard Chartered Bank (HK) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

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: 02307
CUSIP Reference Number: G5213T101

FINANCIAL HIGHLIGHTS AND SUMMARY

KEY FINANCIAL DATA

	For the year ended/As at 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	2,230,764	2,586,617	2,523,245	3,267,785	**4,065,355**
EBITDA (note)	264,537	250,451	258,380	336,226	**405,104**
Profit after tax	109,918	80,641	80,675	104,383	**127,232**
Dividends per share (HK cents)	4.3	0.0	2.5	2.7	**3.3**
Shareholders' funds	942,992	1,148,119	1,447,252	1,641,094	**1,833,054**

KEY FINANCIAL RATIOS

	For the year ended/As at 31 December				
	2007	2008	2009	2010	**2011**
Gross profit margin (%)	19.7	18.6	17.5	15.7	**14.5**
Net profit margin (%)	4.9	3.1	3.2	3.1	**3.1**
Gearing ratio (net debt/ capital and net debt) (%)	50.5	51.7	41.3	52.9	**49.9**

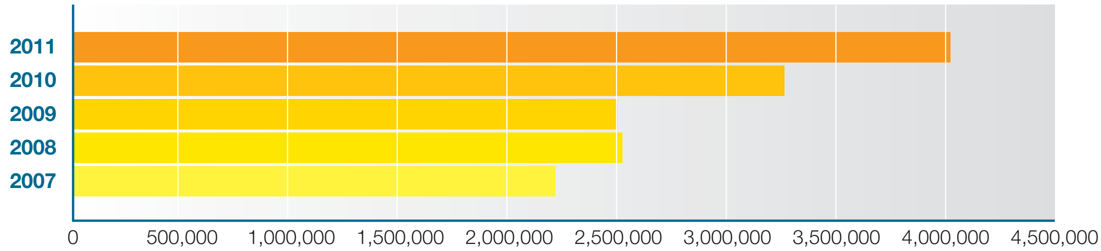
Note:

EBITDA refers to profit before interest, tax, depreciation and amortisation

FINANCIAL HIGHLIGHTS AND SUMMARY

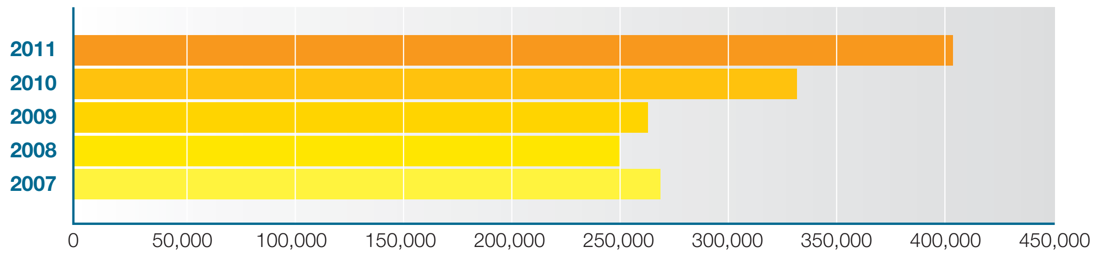
REVENUE

HK$'000



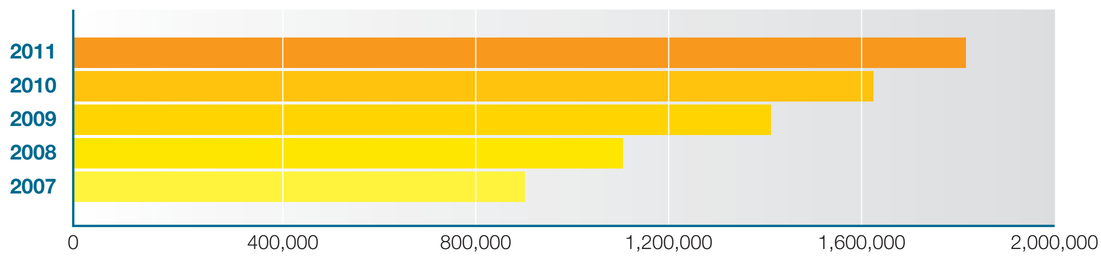
PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION ("EBITDA")

HK$'000



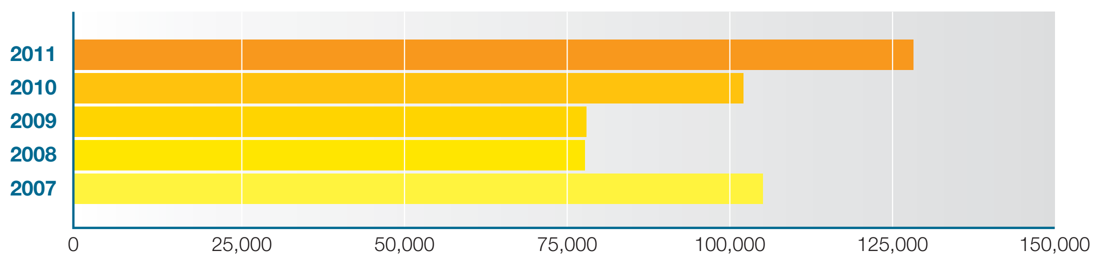
SHAREHOLDERS' FUNDS

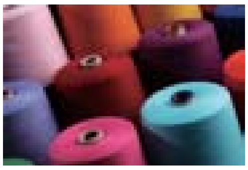
HK$'000



PROFIT AFTER TAX

HK$'000





CHAIRMAN'S STATEMENT

On behalf of the Board (the "Board") of Directors (the "Directors") of Kam Hing International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), it is my pleasure to present the consolidated results of the Group for the year ended 31 December 2011 (the "Year").

2011 continued to be a challenging year as the operating environment remained difficult and unpredictable for the global textile and garment industry. This was further complicated by the recent roller-coaster movement in cotton prices, where international cotton yarn costs (Cotlook A Index) peaked at a record high at US229 cents per pound in March 2011 before backtracking to approximately US95 cents per pound by December 2011. This represented a value loss of approximately 60%. This big swing has also subsequently altered our normal business cycle in the Year.

The Group's peak export seasons traditionally lie in the second and third quarters. However, following a near doubling of raw material prices in 2010, our customers purposely and strategically placed their orders in advance to hedge cotton price risks in the year. This resulted in a strong order book for the first quarter of 2011. The expanded production volume and sufficient cotton yarn inventory gave the Group greater bargaining power to raise our overall selling prices and thus elevated our margins for the interim period. Yet the situation was rather different in the latter half of the year, as declining cotton prices and hopes on a market recovery led to prudent purchasing behaviour. As such, profit and margin levels for the second half financial year was relatively lower in comparison because we had to face unstable buyers' orders and uneven production lead-time, thus resulting with shorter delivery times in the fourth quarter.

Despite the fickle external market conditions, I am pleased to report a satisfactory year-on-year growth of 24.4% and 21.8% in our aggregate turnover and net profit respectively, demonstrating our adaptability during times of uncertainty. Backed by our proven track record and large production scale, I am confident that our Group will achieve steady growth in the long-term.

The Board has resolved to recommend the payment of a final dividend of HK3.3 cents per share subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

PROSPECTS

As slow recovery is anticipated for the United States and European markets, we aim to accelerate business ventures in the Asia region, with focus in the People's Republic of China (the "PRC"), Korea and Japan market. To further strengthen our role in the global textile and garment supply chain, the Group is prepared to expand our existing production facilities in Enping, Guangzhou, the PRC when appropriate. We will also dedicate efforts to enhance our product mix through the development of high-margin functional and printed fabrics. Such endeavour is currently in the works and is expected to attract a wider customer base, thus driving our market share growth.

Looking ahead, the Group will remain dedicated to our core business, with an unwavering aspiration to become one of the leading players in the global textile and garment industry. Facilitated by the on-going market consolidation, with our proactive development strategies and effective control mechanisms, I strongly believe that this vision is well within our reach and that continuous growth is anticipated in the long-run.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to thank our management team and employees for their hard work during the year. In addition, I convey my deepest gratitude to our customers, business partners and shareholders for their continual confidence and support.

Tai Chin Chun
Chairman

Hong Kong, 27 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and selling of knitted fabrics, dyed yarn and garment products, which includes production processes ranging from cotton spinning, knitting, yarn dyeing, fabric dyeing, final processing to garment manufacturing.

The overall operating environment remained challenging in 2011, as sluggish market recovery in Europe and the United States coupled with the unpredictable cotton price fluctuations undermined the performance of textile and garment players globally. This resulted in a global market downsizing and many small and medium enterprises were inevitably pushed out. Yet our leading position as a one-stop textile and garment producer remained prominent, as our healthy financial position allowed us to stand in good stead during the consolidation process, garnering larger market share in the Year.

For the year ended 31 December 2011, the Group's overall revenue increased by approximately 24.4% to HK$4,065.4 million (2010: HK$3,267.8 million). Gross profit increased by approximately 15.2% to HK$589.5 million (2010: HK$511.6 million). The profit for the year improved by 21.8% to HK$127.2 million (2010: HK$104.4 million) and profit attributable to ordinary equity holders of the Company grew by a respectable 18.8% to HK$114.6 million (2010: HK$96.5 million). The increase in turnover is mainly attributable to strong recurrent orders from existing and new clients.

Regional sales for the year ended 31 December 2011 achieved a solid performance with Korea, Taiwan and Singapore markets registering growth rates of 96.6%, 26.2% and 16.3% respectively, as compared with the previous year.

The Group's key export months traditionally lie in the six-month period between March and September. Nonetheless, sky-high cotton yarn costs in 2010 continued into the first quarter of 2011 and expectation for an economic recovery in 2011 have caused strong-buying from our customers, so to lock in orders at better raw material prices. The sudden shift in purchasing behaviour has instead created a full capacity production in the first quarter, and together with the Group's ability to raise its products' average selling prices, overall sales volume and margin were significantly enhanced for the first six months in the Year.

The market, however, dramatically changed when cotton prices peaked in March 2011 before losing more than half of its value by the end of December 2011. The price decline hence triggered prudent purchasing behaviour from our customers, mainly in a form of abrupt and delayed orders, in hopes of a better discount. This shortened the Group's delivery time and reduced production efficiency. Coupled with new orders brought forth by the market rationalisation and consolidation, the Group's fourth quarter production capacity was also fully occupied, resulting in a turnover growth of 21.9% for the second half year comparing with same period in 2010.

To efficiently accommodate the influx of unstable orders volume and decline selling price due to market condition for the last two quarters, the Group's margin levels for the second half year were notably lower than the interim figures. The delayed procurement schedule from customers also increased the Group's accounts receivable as of the year end, as a majority of invoice due dates were pushed back until early 2012 due to strong orders in the fourth quarter. The Group believes that there is no actual effect on our cash cycle due to the above special circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

Comprehensive and efficient cost control mechanism remained a top priority for the Group in the Year. With approximately 93.9% of sales derived from our core textile operations, the Group responded with a series of proactive measures to stabilise production overheads. Against declining cotton prices, the Group immediately ceased bulk purchasing of raw materials and has refocused its procurement strategy to maintain a prudent cotton inventory of minimising loss against any further price drops. Such endeavour were proven effective with net profit margin maintained at 3.1% in last year.

Major Developments

In early 2008, the Group collaborated with related industry experts to commence investment in a Soalala, Madagascar mining project (the "Project"). To alleviate financial commitment in the Project, the Group disposed of 15.0% from its 20.0% ownership to an independent third party on 31 January 2011. The transaction generated a one-off net gain of approximately HK$12.8 million. The Group currently retains 5.0% interest in the Project as long-term investment. Details of the disposal were set out in the announcement and circular of the Company dated 31 January 2011 and 23 February 2011, respectively.

As at 12 August 2011, the Group obtained a syndicated loan facility of HK$690.0 million for a term of three and a half years from a syndicate of banks at an interest rate of HIBOR plus 2.25% per annum. The loan was mainly used for refinancing Hong Kong and PRC short-term loans, and to fund the expansion of production facilities in the Group's existing site in Enping, Guangzhou, the PRC when appropriate.

Prospects

The Group aspires to further extend our business footprints in the Asia territory, with focus on the PRC, Korea and Japan markets. The expansion opportunity will effectively minimise the Group's over-reliance on the US and European markets and ultimately hedge our business and currency exchange risks. The Group is also determined to diversify our production capability, expanding our product mix beyond the traditional cotton category. A new fabric printing factory is going to establish in Enping for this specific purpose and will commence its trial production run in the fourth quarter of 2012. Moreover, the Group will appropriately expand our existing Enping production site in accordance with external market demand, so as to elevate our production capacity and to lessen our reliance on subcontractors during peak seasons. Such endeavours are expected to improve the Group's profit and margin in the long-term.

Looking ahead, the overall business outlook will remain challenging for the global textile and garment industry. However, the Group is prepared to meet the challenges and will strive to emerge as a stronger player in the industry. Backed by our comprehensive business scope and scale and high production adaptability, the management is confident in capturing further market share and to achieve sustainable profitability for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved HK$4,065.4 million, representing an increase of approximately 24.4% in comparison to the previous financial year (2010: HK$3,267.8 million). The growth in revenue is mainly attributable to increases in our product's mix and strong recurring orders from existing and new clients.

Gross Profit and Gross Profit Margin

Gross profit was HK$589.5 million, representing an increase of approximately 15.2% from the previous financial year (2010: HK$511.6 million). Gross profit margin for the Year was stabilised at 14.5%, as a result of general increase in production costs.

Net Profit and Net Profit Margin

Net profit for the year was HK$127.2 million, representing an increase of 21.8% from the previous financial year (2010: HK$104.4 million). Net profit margin for 2011 was maintained at 3.1% in 2010.

Other Income and Expenses

Other income of approximately HK$24.5 million (2010: HK$24.4 million) for the Year mainly comprised HK$15.3 million (2010: HK$15.8 million) from the sales of excess steam generated by the power plant to nearby facilities in the district, as well as the fair value loss of HK$4.7 million (2010: HK$8.6 million) from interest rate swaps and forward currency contracts which are not yet matured. The remaining balance was primarily the results of interest income, rental income and sales of scrap materials.

Selling and distribution costs of HK$111.8 million (2010: HK$99.3 million) for the Year consisted of HK$84.6 million (2010: HK$75.9 million) in shipping and delivery costs, which represented an increase of 11.5% relative to the previous year. Administrative expenses, which included salaries, depreciation and other related expenses increased by HK$33.5 million year-on-year to HK$319.9 million (2010: HK$286.4 million). The increase was due to mainly an opening of Enping Garment factory from the second quarter of 2011.

Finance costs, which mainly included interest on long-term loans from banks, short-term trust receipt loans and finance lease interest, increased by 49.3% to HK$41.5 million (2010: HK$27.8 million) as compared with the previous year as a result of higher interest costs in Hong Kong and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2011, the Group's net current assets were HK$838.8 million (2010: HK$107.6 million). The increase in net current asset was mainly due to the new syndicated loan from banks, which we have replaced short-term bank loan by using the syndicated loan. 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 2011, the Group had cash and cash equivalents of HK$553.1 million (2010: HK$252.4 million). Current ratio was 1.5 times (2010: 1.1 times).

Total bank and other borrowings of the Group was HK$1,436.9 million (2010: HK$1,113.1 million). The Group's net debt gearing ratio (net debt divided by the sum of equity and net debt) was at a healthy level of 49.9% (2010: 52.9%). Net debt comprises all interest-bearing bank and other borrowings, bank advances for discounted bills, loan from a non-controlling shareholder, loan from a shareholder of an associate, an amount due to an associate, accounts and bills payable, and accrued liabilities and other payables less cash and cash equivalents. Total equity comprises owners' equity as stated in the consolidated financial statements.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 78.3 days (2010: 63.7 days), 94.4 days (2010: 130.9 days), and 85.4 days (2010: 99.9 days) respectively. The respective increase in debtors' turnover period was mainly due to substantial increase in sales during the fourth quarter. The decrease in inventory and creditors' turnover was attributable to the change of procurement strategy to react on the cotton price movement.

Financing

As at 31 December 2011, the total banking and loan facilities of the Group amounted to HK$3,031.5 million (2010: HK$2,861.0 million), of which HK$1,775.0 million (2010: HK$1,365.3 million) was utilised.

As at 31 December 2011, the Group's long-term loans were HK$752.8 million (2010: HK$263.1 million), comprising syndicated loan and term loans from banks of HK$746.0 million (2010: HK$245.9 million) and long-term finance lease payable of HK$6.8 million (2010: HK$5.2 million). The increase in long-term loans was mainly attributable to the refinancing exercise of syndication loan.

Dividend

The Board has resolved to recommend the payment of a final dividend of HK3.3 cents (2010: HK2.7 cents) per share in respect of the Year to be payable to shareholders whose names appear on the register of members of the Company on 15 June 2012. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about 28 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The capital structure of the Company is composed of equity and debt.

As at 31 December 2011, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

72.7% (2010: 66.0%) of the Group's sales was denominated in US dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in US dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Year and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 31 December 2011, certain items of property, plant and equipment of the Group with an aggregate net book value of HK$45.3 million (2010: HK$59.4 million) were under finance leases.

As at 31 December 2011, a short-term loan of US$10.0 million was guaranteed and secured against the Company's interests in an associate with book value of HK$48.8 million (2010: Nil).

Capital Expenditure

During the Year, the Group invested HK$283.8 million (2010: HK$264.2 million) in capital expenditure of which 62.9% (2010: 87.8%) was used for the purchase of plant and machinery, 12.4% (2010: 5.5%) was used for the acquisition and construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment, prepaid land lease payments and the capital contribution to an associate.

As at 31 December 2011, the Group had capital commitments of HK$147.2 million (2010: HK$41.1 million) in property, plant and equipment. All are funded or will be funded by internal resources.

MANAGEMENT DISCUSSION AND ANALYSIS

Staff Policy

The Group had 6,379 (2010: 6,351) employees in the PRC, 4,192 (2010: 2,344) employees in Madagascar and 180 (2010: 171) employees in Hong Kong, Macau, Singapore and Korea as at 31 December 2011. Remuneration packages are generally structured by reference to market terms and individual qualification. 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 Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. 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. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options are granted to select eligible participants, with a view to provide directors, employees and other persons in appropriate incentive package for the growth of the Group.

Major Customers and Suppliers

For the Year, sales to the Group's five largest customers accounted for 32.5% (2010: 33.5%) of total sales and sales to the largest customer included therein accounted for 10.7% (2010: 11.9%).

Purchases from the Group's five largest suppliers accounted for 35.4% (2010: 36.9%) of total purchases and purchases from the largest supplier therein accounted for 11.9% (2010: 10.5%).

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

Segment Information

For the Year, sales to the five largest regions (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) accounted for 91.1% (2010: (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) 93.0%) of total sales of the Group and sales to the largest region (Singapore) included therein accounted for 31.8% (2010: 34.0%) of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2011, the Group's assets located in the fabric operation accounted for 96.0% (2010: 91.3%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 81.7% (2010: 94.2%) of the total capital expenditure of the Group.

Material Acquisition and Disposal

On 31 January 2011, the Group entered into the disposal agreement with independent third party (the "Purchaser"), pursuant to which, among other things, the Group has agreed to dispose of and the Purchaser has agreed to acquire the Group's partial interest in the associates, thereby diluting the Group's beneficial interest in the mining project of Soalala. The disposal was completed on 1 February 2011 and the resulting net gain from the disposal was amounted to approximately HK$12.8 million. Details of the disposal were set out in the announcement and circular of the Company dated 31 January 2011 and 23 February 2011, respectively.

There was no material acquisition by the Group during the Year.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining 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 of the Company. Having made specific enquiry of all Directors, the Company has confirmed that the Directors have confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2011.

BOARD OF DIRECTORS

As at 31 December 2011, the Board comprised nine Directors, including six executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 21 to 25 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
	Mr. Wong Wai Kong, Elmen
Independent Non-executive Directors:	Mr. Chan Yuk Tong, Jimmy
	Ms. Chu Hak Ha, Mimi
	Mr. Ho Gilbert Chi Hang

CORPORATE GOVERNANCE REPORT

There is no relationship among members of the Board except for the family relationship among 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.

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 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 2011, the Board convened five 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)*		5/5	100%
Mr. Tai Chin Wen		4/5	80%
Ms. Cheung So Wan		5/5	100%
Ms. Wong Siu Yuk		5/5	100%
Mr. Chong Chau Lam		5/5	100%
Mr. Wong Wai Kong, Elmen		5/5	100%
Non-executive Director:			
Mr. Lee Cheuk Yin, Dannis	(i)	3/4	75%
Independent Non-executive Directors:			
Mr. Chan Yuk Tong, Jimmy		5/5	100%
Ms. Chu Hak Ha, Mimi		5/5	100%
Mr. Ho Gilbert Chi Hang		4/5	80%

Note:

(i) Mr. Lee Cheuk Yin, Dannis ceased to be a Non-executive Director of the Company on 15 September 2011.

CORPORATE GOVERNANCE REPORT

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 in that one of the three independent non-executive Directors possesses the requisite appropriate professional accounting qualifications.

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.

NON-EXECUTIVE DIRECTOR

The term of independent non-executive Directors is specified for two to three years subject to retirement by rotation and re-election at annual general meeting under the Company's articles of association.

CORPORATE GOVERNANCE REPORT

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 three independent non-executive Directors, namely Ms. Chu Hak Ha, Mimi (Chairman), Mr. Chan Yuk Tong, Jimmy and Mr. Ho Gilbert Chi Hang, 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 2011, the remuneration committee convened three meetings and the individual attendance of each committee member at these meeting is set out below:

Name of Director	Attendance	Rate (%)
Independent Non-executive Directors:		
Ms. Chu Hak Ha, Mimi *(Chairman)*	3/3	100%
Mr. Chan Yuk Tong, Jimmy	3/3	100%
Mr. Ho Gilbert Chi Hang	2/3	67%
Executive Directors:		
Mr. Tai Chin Chun	3/3	100%
Mr. Tai Chin Wen	3/3	100%

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 three independent non-executive Directors, namely Ms. Chu Hak Ha, Mimi (Chairman), Mr. Chan Yuk Tong, Jimmy and Mr. Ho Gilbert Chi Hang 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2011, the nomination committee convened one meeting and the individual attendance of each committee member at that meeting is set out below:

Name of Director	Attendance	Rate (%)
Independent Non-executive Directors:		
Ms. Chu Hak Ha, Mimi *(Chairman)*	1/1	100%
Mr. Chan Yuk Tong, Jimmy	1/1	100%
Mr. Ho Gilbert Chi Hang	1/1	100%
Executive Directors:		
Mr. Tai Chin Chun	1/1	100%
Mr. Tai Chin Wen	1/1	100%

The nomination committee meeting was held to review the structure, size and composition including the skills, knowledge and experience of the Board. During the year under review, the nomination committee 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.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period to ensure such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, 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$2.3 million and HK$0.4 million, respectively.

The responsibilities of the external auditors of the Company are set out in the "Independent Auditors' Report" on page 35 of this report.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The audit committee of the Company, comprising all the three independent non-executive Directors, has met with the external auditors of the Company, Messrs. Ernst & Young, to review the accounting principles and practices adopted by the Group and the annual result of the Group for the Year.

During the year ended 31 December 2011, the audit committee convened two meetings and the individual attendance of each committee member at these meetings is set out below:

Name of Director	Attendance	Rate (%)
Independent Non-executive Directors:		
Mr. Chan Yuk Tong, Jimmy *(Chairman)*	2/2	100%
Ms. Chu Hak Ha, Mimi	2/2	100%
Mr. Ho Gilbert Chi Hang	2/2	100%

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.

The audit committee also made recommendation to the Board on the re-appointment of the external auditor. The Board has not taken a different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of the external auditors.

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 2011, 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. 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 and the Board also considered that there are adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided.

CORPORATE GOVERNANCE REPORT

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 to introduce and release information of the Group, (iv) the Company's share registrars serve the shareholders on all share registration matters, and (v) maintain a corporate website at www.kamhingintl.com, 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 50, is the Chairman of the Board, an executive Director 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 conferred an Honorary Consulate of The Republic of Mauritius in Hong Kong Special Administration Region ("HKSAR") in January 2010. Mr. Tai obtained the "World Outstanding Chinese Award 2008" from United World Chinese Association and conferred an Honorary Doctor Degree by The University of West Alabama (Regional University), USA. Mr. Tai is an Executive Director of Guangdong Chamber of Foreign Investors (廣東外商公會常務理事), a member of Guangdong Committee of CPPCC and Panyu District Committee of CPPCC (中國人民政治協商會議廣東省委員會委員、廣州市番禺區委員會委員). He is also a Vice Chairman and life honorary president of Pan Yue Industrial and Commercial Fellowship Association Limited (香港番禺工商聯誼會有限公司副主席及永遠榮譽會長). He has also been awarded honorary citizenship of Guangzhou Municipal (廣州市榮譽市民), life honorary president of Fujian Tai's Clan Hong Kong Association, Panyu Charity Federation, Guangzhou Municipal (福建旅港戴氏宗親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 56, is an executive Director, the Chief Executive Officer and founder of the Group. He is in charge of the Group's day-to-day management. He has over 25 years of management experience in the manufacturing industry. Mr. Tai is a standing member of Hubei Committee of CPPCC and Guangdong Enping Committee of CPPCC, a member of the Fujian Nan An Committee of CPPCC and Jiangmen Committee of CPPCC (中國人民政治協商會議湖北省委員會常務委員及廣東省恩平市委員會常務委員, 福建省南安市委員會委員及江門市委員會委員). 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 Jiangmen (廣州市榮譽市民及江門市榮譽市民), life honorary president of Hong Kong Fujian Nan An Association (香港福建南安公會永遠榮譽會長). 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 48, is an executive Director. 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Wong Siu Yuk (黃少玉), aged 50, is an executive Director. 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.

Mr. Chong Chau Lam (莊秋霖), aged 62, is an executive Director. He is responsible for overall management of the textile business of the Group. Mr. Chong obtained a high 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.

Mr. Wong Wai Kong, Elmen (黃偉桄), aged 46, is an executive Director. Mr. Wong is responsible for the strategic planning and corporate development of the Group. 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.

Independent Non-executive Directors

Mr. Chan Yuk Tong, Jimmy (陳育棠), aged 49, 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 an independent non-executive director of Ausnutria Dairy Corporation Ltd, BYD Electronic (International) Company Limited, Daisho Microline Holdings Limited, Global Sweeteners Holdings Limited, Sinopoly Battery Company Limited (formerly known as Thunder Sky Battery Company Limited), Trauson Holdings Company Limited and Xinhua Winshare Publishing and Media Co., Ltd., 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 retired/resigned as an executive director of Asia Cassava Resources Holdings Limited on 3 August 2010, an independent non-executive director of Great Wall Motor Company Limited on 26 November 2010 and a non-executive director of Vitop Bioenergy Holdings Limited on 24 May 2011, all of which are listed companies in Hong Kong. Mr. Chan joined the Group on 30 March 2004.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chu Hak Ha, Mimi (朱克遐), aged 48, is a solicitor practising in HKSAR 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. Ho Gilbert Chi Hang (何智恒), age 35, is the senior investment director of New World Development Company Limited, a company listed on the Stock Exchange and an executive director of New World Strategic Investment Limited. Mr. Gilbert Ho has extensive experience in the area of corporate management, investments, corporate finance and merger and acquisition transactions and was a partner of an international law firm, Fried, Frank, Harris, Shriver and Jacobson LLP, prior to joining New World Development Company Limited. He is a Committee Member of the Chinese People's Political Consultative Conference of Shenyang and a Committee Member of the Youth Federation of Inner Mongolia.

Mr. Gilbert Ho holds a bachelor of Commerce degree and a bachelor of Laws degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales. Mr. Ho joined the Group on 4 May 2010.

SENIOR MANAGEMENT

Mr. Kung Wai Chung (龔衛忠), aged 54, 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 the brother-in-law of both Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Mr. Wong Yi Ming (黃一鳴), aged 47, is the deputy managing director of Guangzhou Kamhing Textile Dyeing Co., Ltd. (the "Guangzhou KH"), a wholly-owned subsidiary of the Group, and is responsible for the overall management and administration of Guangzhou KH. 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 over 16 years, where he was responsible for financial and business management. Mr. Wong is the younger brother of Ms. Wong Siu Yuk.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chin Tai Wing (錢棣榮), aged 61, is the Director and Chief Executive Officer of Kam Wing International Textile Company Limited ("Kam Wing"), a subsidiary of the Group which is the holding company of the Group's fabric factory in Enping, the PRC. Mr. Chin is in charge of the corporate development and management of Kam Wing and its subsidiary. Mr. Chin has more than 30 years of experience in the textile industry and has been actively engaged in the textile business of dyeing, finishing, printing, knitting and sales of fabric. Mr. Chin joined the Group in January 2007. Mr. Chin is the father-in-law of a son of Mr. Tai Chin Wen.

Mr. Liu Zhi Gang (劉志剛), aged 45, is the factory manager of the fabric dyeing operation of Guangzhou KH, 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 59, is the deputy general manager of the knitting operation of Guangzhou KH, 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. Wong Yin Ming (王燕明), aged 50, is the factory manager of the yarn dyeing operation of Guangzhou KH 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.

Mr. Chan Ying Wah (陳映華), aged 56, is the production control manager of the knitting and dyeing operations of Guangzhou KH and is responsible for the monitoring of the Group's knitting and dyeing production. Prior to joining the Group in January 2003, Mr. Chan worked for knitting companies for over 20 years.

Mr. Ho Yi Piu, Bill (何宜標), aged 43, is the director of Kam Hing Piece Works (S) Pte Limited, a wholly-owned subsidiary of the Group. Mr. Ho is the sales director in charge of the Group's sales and marketing function in the Singapore region. 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 the son-in-law of the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Ms. Leung Mei Yin (梁美賢), aged 47, is the sales director in charge of the Group's sales and marketing function in the Hong Kong Region. Ms. Leung has over 20 years of experience in the textile industry. Ms. Leung joined the Group in December 2008.

Mr. Lam Hau Hei (林厚禧), aged 60, is the sales director in charge of the Group's sales and marketing function in the PRC region. 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tai Tang Tat (戴騰達), aged 31, is the general manager and sales director of Kam Hing Piece Works Limited, a wholly-owned subsidiary of the Group. Mr. Tai is the sales director in charge of sales and marketing function in the PRC and Korea region. Mr. Tai obtained a diploma in Computer Science from the Sydney Institute of Business and Technology, Australia. Mr. Tai is the son of Mr. Tai Chin Wen. Mr. Tai joined the Group in March 2002.

Mr. Lui Yuen Hang (雷遠航), aged 44, is the director of Kam Hing Madagascar and Kwok Hing Garment Madagascar, both being wholly-owned subsidiaries of the Group. Mr. Lui is the chief executive officer of the Group's garment section in charge of the Group's garment operation. Prior to joining the Group in 2006, Mr. Lui has over 5 years of experience in the textile and garment industries. Mr. Lui is the nephew of Ms. Wong Siu Yuk.

Mr. Pong Chi Ho, Terence (龐志豪), aged 42, is the sales director of Kam Hing Global Garment Company Limited, a wholly-owned subsidiary of the Group, and is responsible for the sales and marketing of the Group' garment section. Mr. Pong obtained a certificate in Fashion and Clothing Manufacture awarded by the Hong Kong Polytechnic University. Prior to joining the Group in September 2006, Mr. Pong has worked for both garment factory and garment trading company and he has over 15 years of experience in the garment industry.

Mr. Lei Heong Man, Ben (李向民), aged 51, 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. Lei has over 18 years of experience in regional financial and operational management in multinational corporations and listed companies, and he is a fellow member of the Assoication of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lei holds a bachelor degree in Accountancy, Finance and Economics from the University of Essex, and a Master of Business Administration degree from The University of Wales, United Kingdom. Mr. Lei joined the Group in June 2009.

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 2011.

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 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 37 to 137.

Directors recommend the payment of a final dividend of HK3.3 cents (2010: HK2.7 cents) per ordinary share in respect of the year, to be payable to the shareholders whose names appear on the register of members of the Company on 15 June 2012.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 138. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

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 30 and 31 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.

REPORT OF THE DIRECTORS

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 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, 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$978,232,000, of which HK$28,707,000 have been proposed as final dividend for the year after the reporting period. The amount of HK$978,232,000 includes the Company's share premium account and capital reserve of HK$848,112,000 in aggregate as at 31 December 2011, 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$4,291,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 32.5% (2010: 33.5%) of the total sales and sales to the largest customer included therein accounted for 10.7% (2010: 11.9%). Purchases from the Group's five largest suppliers accounted for 35.4% (2010: 36.9%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 11.9% (2010: 10.5%).

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.

REPORT OF THE DIRECTORS

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
Mr. Wong Wai Kong, Elmen

Non-executive Director:

Mr. Lee Cheuk Yin, Dannis (term expired on 15 September 2011)

Independent non-executive Directors:

Ms. Chu Hak Ha, Mimi
Mr. Chan Yuk Tong, Jimmy
Mr. Ho Gilbert Chi Hang

In accordance with article 87(1) of the Company's articles of association, Mr. Tai Chin Chun, Ms. Cheung So Wan and Mr. Ho Gilbert Chi Hang, 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 two to three years.

The Company has received annual confirmations of independence from Ms. Chu Hak Ha, Mimi, Mr. Chan Yuk Tong, Jimmy and Mr. Ho Gilbert Chi Hang, and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 25 of the annual report.

REPORT OF THE DIRECTORS

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 two to three years, respectively and is subject to termination by either party by giving not less than three months' and one month's written notice, respectively.

Under the service contracts, after each complete year of service, the remuneration payable to each of the executive Directors may, subject to the discretion of the Board, be 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the related party transactions disclosures in note 38 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 or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests and short positions of the Directors or the chief executive of the Company 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 of Hong Kong Limited (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 and underlying shares of the Company:

		Capacity and nature of interest				Approximate
Name of director	Notes	**Beneficial owner (shares)**	**Interest of spouse (shares)**	**Interest in controlled corporation (shares)**	**Total interests (shares)**	**percentage of the Company's issued share capital (%)**
Mr. Tai Chin Chun	1	3,000,000	1,000,000	332,600,000	336,600,000	38.69
Mr. Tai Chin Wen	2	2,000,000	1,000,000	96,000,000	99,000,000	11.38
Ms. Cheung So Wan	3	1,000,000	335,600,000	–	336,600,000	38.69
Ms. Wong Siu Yuk	4	1,000,000	98,000,000	–	99,000,000	11.38
Mr. Chong Chau Lam		300,000	–	–	300,000	0.03

Notes:

1. 332,600,000 shares are held by Exceed Standard Limited ("Exceed Standard"), a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company. As Ms. Cheung So Wan is his spouse, Mr. Tai Chin Chun is deemed to be interested in the 1,000,000 shares held by Ms. Cheung So Wan under the SFO.

2. 96,000,000 shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen. As Ms. Wong Siu Yuk is his spouse, Mr. Tai Chin Wen is deemed to be interested in the 1,000,000 shares held by Ms. Wong Siu Yuk under the SFO.

3. Ms. Cheung So Wan is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Chun, under the SFO.

4. Ms. Wong Siu Yuk is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Wen, under the SFO.

Save as disclosed above, as at 31 December 2011, none of the Directors nor the chief executive of the Company 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 of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the 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 31 to the financial statements.

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

Name of category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of the Company's shares at the grant date of options***	Weighted average closing price immediately before the exercise date
	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2011			HK$ per share	HK$ per share	HK$ per share
Director											
Mr. Wong Wai Kong, Elmen	1,000,000	–	–	–	(1,000,000)	–	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24	N/A
Subtotal	1,000,000	–	–	–	(1,000,000)	–					
Non-director employees											
In aggregate	1,151,000	–	–	–	(91,000)	1,060,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24	N/A
	4,300,000	–	(200,000)	–	(4,100,000)	–	3 July 2009	3 July 2010 to 2 January 2011	0.66	0.65	1.29
	5,451,000	–	(200,000)	–	(4,191,000)	1,060,000					
Others											
In aggregate	220,000	–	–	–	–	220,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24	N/A
	300,000	–	–	–	(300,000)	–	3 July 2009	3 July 2010 to 2 January 2011	0.66	0.65	N/A
	520,000	–	–	–	(300,000)	220,000					
Total	6,971,000	–	(200,000)	–	(5,491,000)	1,280,000					

* 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 price of the Company's shares disclosed at the grant date of options is the closing price of the Company's shares on the Stock Exchange on the trading day or the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately prior to the date of offer of the grant of the options.

REPORT OF THE DIRECTORS

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV 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	Beneficial owner	332,600,000	38.23%
Power Strategy	Beneficial owner	96,000,000	11.04%

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 in the notes under the section headed "Directors' interests and short positions in shares and underlying shares" above.

Save as disclosed above, as at 31 December 2011, no person, other than the Directors or the chief executive of the Company whose interests are set out under the sections headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme" above, had an interest or 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.

REPORT OF THE DIRECTORS

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreements of the Company and of a subsidiary of the Company, which contain covenants requiring performance obligations of the controlling shareholders of the Company.

(a) Pursuant to a facility agreement dated 3 May 2010 and entered into between the Company as borrower and China Development Bank Corporation, Hong Kong Branch as lender, a term loan facility in an aggregate sum of US$12.0 million is made available to the Company repayable in three equal instalments on the dates falling 24, 30 and 36 months after the drawdown date. An event of default would arise if Mr. Tai Chin Chun and Mr. Tai Chin Wen together, either cease to remain as the single largest shareholder of the Company or cease to maintain a beneficial shareholding interest (directly or indirectly) of not less than 35% in the issued share capital of the Company, the commitments under the loan facility may be cancelled and all amounts outstanding under the loan facility may become immediately due and payable.

(b) Pursuant to another facility agreement dated 12 August 2011 and entered into among the Company and two other subsidiaries of the Company as guarantors, a wholly-owned subsidiary of the Company as the borrower and a syndicate of banks as lenders, a term loan facility in an aggregate sum of HK$690.0 million for a term of three and a half years is made available to the subsidiary of the Company repayable in four equal instalments on the dates falling 24, 30, 36 and 42 months after the date of the facility agreement. An event of default would arise if, either of or taken together, Mr. Tai Chin Chun and Mr. Tai Chin Wen either: (i) do not or cease to own, directly or indirectly, at least 40% of the beneficial interest in the Company, carrying at least 40% of the voting right, free from any security interest; (ii) are not or cease to be the single largest shareholder of the Company, (iii) do not or cease to have management control of the Group or (iv) do not or cease to appoint or nominate the majority of the Board or is not the chairman of the Company, the commitments under the loan facility may be cancelled and all amounts outstanding under the loan facility may become immediately due and payable.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

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
27 March 2012

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Kam Hing International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 137, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
27 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**4,065,355**	3,267,785
Cost of sales		**(3,475,905)**	(2,756,147)
Gross profit		**589,450**	511,638
Other income and gains, net	5	**24,468**	24,358
Selling and distribution costs		**(111,751)**	(99,342)
Administrative expenses		**(319,881)**	(286,444)
Other operating income/(expenses), net		**10,195**	(4,099)
Gain on disposal of a subsidiary	33	**12,797**	–
Finance costs	6	**(41,526)**	(27,818)
Share of profits less losses of a jointly-controlled entity		**(6,668)**	4,124
Share of profits less losses of associates		**(2,500)**	(256)
PROFIT BEFORE TAX	7	**154,584**	122,161
Income tax expense	10	**(27,352)**	(17,778)
PROFIT FOR THE YEAR		**127,232**	104,383
Attributable to:			
Ordinary equity holders of the Company	11	**114,587**	96,484
Non-controlling interests		**12,645**	7,899
		127,232	104,383
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK13.2 cents**	HK11.9 cents
Diluted		**HK13.2 cents**	HK11.4 cents

Details of the dividend are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**127,232**	104,383
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Exchange differences on translation of foreign operations		**103,112**	(2,435)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**230,344**	101,948
Attributable to:			
Ordinary equity holders of the Company	11	**215,316**	94,049
Non-controlling interests		**15,028**	7,899
		230,344	101,948

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,622,430**	1,512,328
Prepaid land lease payments	15	**72,109**	61,463
Intangible assets	16	**–**	–
Interest in a jointly-controlled entity	18	**33,041**	39,709
Interests in associates	19	**48,848**	206,992
Deposits paid	20	**27,553**	20,730
Deferred tax assets	29	**5,020**	2,881
Total non-current assets		**1,809,001**	1,844,103
CURRENT ASSETS			
Inventories	21	**899,011**	988,548
Accounts and bills receivable	22	**872,463**	570,257
Prepayments, deposits and other receivables		**56,124**	39,340
Equity investment at fair value through profit or loss	23	**159**	607
Derivative financial instruments	26	**1,960**	2,143
Due from a jointly-controlled entity	18	**14,505**	42,441
Tax recoverable		**748**	–
Pledged deposits	24	**121,790**	87,415
Cash and cash equivalents	24	**553,108**	252,355
Total current assets		**2,519,868**	1,983,106
CURRENT LIABILITIES			
Accounts and bills payable	25	**812,820**	754,032
Accrued liabilities and other payables		**131,529**	225,437
Derivative financial instruments	26	**6,614**	10,696
Loan from a shareholder of an associate	38(c)(i)	**77,800**	–
Due to an associate	19	**–**	1,600
Tax payable		**46,009**	33,675
Bank advances for discounted bills	22	**114,783**	24,239
Interest-bearing bank and other borrowings	27	**491,513**	825,815
Total current liabilities		**1,681,068**	1,875,494

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NET CURRENT ASSETS		**838,800**	107,612
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,647,801**	1,951,715
NON-CURRENT LIABILITIES			
Loan from a non-controlling shareholder	38(c)(ii)	**–**	12,000
Interest-bearing bank and other borrowings	27	**752,775**	251,093
Deferred tax liabilities	29	**697**	684
Total non-current liabilities		**753,472**	263,777
Net assets		**1,894,329**	1,687,938
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	30	**86,992**	86,972
Reserves	32(a)	**1,746,062**	1,554,122
		1,833,054	1,641,094
Non-controlling interests		**61,275**	46,844
Total equity		**1,894,329**	1,687,938

Tai Chin Chun
Director

Tai Chin Wen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to ordinary equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		86,972	445,952	1,480	104,804	33,636	224,279	743,971	1,641,094	46,844	1,687,938
Profit for the year		–	–	–	–	–	–	114,587	114,587	12,645	127,232
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	100,729	–	100,729	2,383	103,112
Total comprehensive income for the year		–	–	–	–	–	100,729	114,587	215,316	15,028	230,344
Final 2010 dividend declared		–	–	–	–	–	–	(23,488)	(23,488)	–	(23,488)
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	(597)	(597)
Issue of shares	30	20	112	–	–	–	–	–	132	–	132
Transfer to share premium account upon exercise of share options	30	–	41	(41)	–	–	–	–	–	–	–
Transfer to statutory surplus reserve		–	–	–	–	3,541	–	(3,541)	–	–	–
Transfer to retained profits		–	–	(1,149)	–	–	–	1,149	–	–	–
At 31 December 2011		86,992	446,105*	290*	104,804*	37,177*	325,008*	832,678*	1,833,054	61,275	1,894,329

* These reserve accounts comprise the consolidated reserves of HK$1,746,062,000 (2010: HK$1,554,122,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

		Attributable to ordinary equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		77,349	328,579	8,595	104,804	32,138	226,714	669,073	1,447,252	40,345	1,487,597
Profit for the year		–	–	–	–	–	–	96,484	96,484	7,899	104,383
Other comprehensive expense for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	(2,435)	–	(2,435)	–	(2,435)
Total comprehensive income for the year		–	–	–	–	–	(2,435)	96,484	94,049	7,899	101,948
Final 2009 dividend declared		–	–	–	–	–	–	(20,088)	(20,088)	–	(20,088)
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	(1,400)	(1,400)
Issue of shares	30	9,623	107,448	–	–	–	–	–	117,071	–	117,071
Transfer to share premium account upon exercise of share options	30	–	13,720	(13,720)	–	–	–	–	–	–	–
Share issue expenses	30	–	(3,795)	–	–	–	–	–	(3,795)	–	(3,795)
Equity-settled share option arrangements	31	–	–	6,605	–	–	–	–	6,605	–	6,605
Transfer to statutory surplus reserve		–	–	–	–	1,498	–	(1,498)	–	–	–
At 31 December 2010		86,972	445,952*	1,480*	104,804*	33,636*	224,279*	743,971*	1,641,094	46,844	1,687,938

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**154,584**	122,161
Adjustments for:			
Gain on disposal of a subsidiary	33	**(12,797)**	–
Share of profits less losses of a jointly-controlled entity		**6,668**	(4,124)
Share of profits less losses of associates		**2,500**	256
Bank interest income	5	**(5,372)**	(984)
Fair value (gains)/losses, net:			
Equity investment at fair value through profit or loss	5	**448**	(34)
Derivative financial instruments – transactions not qualified as hedges but matured during the year	5	**700**	(5,022)
Derivative financial instruments – transactions not qualified as hedges and not yet matured	5	**4,654**	8,553
Finance costs	6	**39,046**	26,333
Amortisation of bank charges on a syndicated loan	6	**2,480**	1,485
Depreciation of items of property, plant and equipment	7	**207,266**	184,445
Amortisation of prepaid land lease payments	7	**1,728**	1,501
Amortisation of intangible assets	7	**–**	261
Gain on disposal of items of property, plant and equipment	7	**(89)**	(546)
Impairment of intangible assets	7	**–**	2,319
Impairment of accounts receivable	7	**3,142**	4,190
Write-off of accounts receivable	7	**416**	–
Write-back of impairment allowance for accounts receivable	7	**(1,900)**	(348)
Write-back of impairment allowance for other receivable	7	**–**	(286)
Impairment of inventories	7	**31,883**	–
Write-back of provision for a legal claim	7	**–**	(2,120)
Equity-settled share option expense	31	**–**	6,605
		435,357	344,645

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Decrease/(increase) in inventories		**57,654**	(467,556)
Increase in accounts and bills receivable		**(303,864)**	(189,388)
Increase in prepayments, deposits and other receivables		**(19,760)**	(7,271)
Decrease/(increase) in an amount due from a jointly-controlled entity		**27,936**	(35,556)
Increase in accounts and bills payable		**58,788**	254,464
Increase/(decrease) in accrued liabilities and other payables	34(e)	**(92,081)**	141,738
Purchase of derivative financial instruments – transactions not qualified as hedges		**(9,253)**	(8,100)
Cash generated from operations		**154,777**	32,976
Interest received	34(b)	**1,859**	984
Interest paid	34(e)	**(40,286)**	(23,771)
Interest element of finance lease rental payments		**(587)**	(735)
Hong Kong profits tax paid		**(9,725)**	(4,431)
Overseas taxes paid		**(7,873)**	(8,604)
Net cash flows from/(used in) operating activities		**98,165**	(3,581)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	34(a)	**(214,051)**	(244,024)
Prepayment of land leases	15	**(8,419)**	–
Proceeds from disposal of items of property, plant and equipment	34(d)	**111**	861
Capital contribution to a jointly-controlled entity		**–**	(8,169)
Capital contribution to an associate	34(c)	**–**	(1,556)
Proceeds from disposal of a subsidiary, net of associated cost	33	**166,841**	–
Advance to an associate	34(f)	**–**	(200,505)
Increase in pledged time deposits		**(34,375)**	(47,033)
Net cash flows used in investing activities		**(89,893)**	(500,426)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in bank advances for discounted bills		**90,544**	24,239
Proceeds from issue of shares	30	**132**	117,071
Share issue expenses	30	**–**	(3,795)
Capital element of finance lease rental payments		**(18,291)**	(17,233)
Drawdown of bank loans		**2,856,085**	2,186,660
Repayment of bank loans		**(2,573,605)**	(2,032,379)
Drawdown of other loans		**–**	108,920
Repayment of other loans		**(108,920)**	–
Advance of loan from a non-controlling shareholder		**–**	4,000
Repayment of loan from a non-controlling shareholder		**(12,000)**	–
Advance of loan from a shareholder of an associate		**77,800**	–
Dividend paid		**(23,488)**	(20,088)
Dividend paid to a non-controlling shareholder		**(597)**	(1,400)
Net cash flows from financing activities		**287,660**	365,995
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**295,932**	(138,012)
Cash and cash equivalents at beginning of year		**252,355**	390,821
Effect of foreign exchange rate changes, net		**4,821**	(454)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**553,108**	252,355
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**538,326**	241,348
Non-pledged time deposits with original maturity of less than three months when acquired		**14,782**	11,007
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**553,108**	252,355

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**402,207**	402,207
CURRENT ASSETS			
Prepayments		**92**	–
Due from subsidiaries	17	**754,856**	775,784
Cash and cash equivalents	24	**2,279**	9,386
Total current assets		**757,227**	785,170
CURRENT LIABILITIES			
Accrued liabilities and other payables		**560**	682
Interest-bearing bank borrowings	27	**62,240**	–
Total current liabilities		**62,800**	682
NET CURRENT ASSETS		**694,427**	784,488
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,096,634**	1,186,695
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**31,120**	93,360
Net assets		**1,065,514**	1,093,335
EQUITY			
Issued capital	30	**86,992**	86,972
Reserves	32(b)	**978,522**	1,006,363
Total equity		**1,065,514**	1,093,335

Tai Chin Chun
Director

Tai Chin Wen
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 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.

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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, 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 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated income statement or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 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 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
HKFRS 9	*Financial Instruments* [6]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

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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 interests 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 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

(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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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 an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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:

Leasehold land under finance leases	Over the lease terms
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 least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 sale 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 when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Exploration licences and assets

Exploration licences and assets are stated at cost less impairment losses, if any. Exploration licences and assets include the cost of acquiring exploration licences, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine.

Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the appropriate method based on the proven and probable mineral reserves. Exploration licences and assets are written off to the income statement if the exploration property is abandoned.

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 2011

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 held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

The Group's financial assets include cash and bank balances, pledged deposits, accounts and bills receivable, other receivables, amounts due from a jointly-controlled entity, an equity investment at fair value through profit or loss and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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 when:

- the rights to receive cash flows from the asset have expired; or

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include accounts and bills payable, other payables, interest-bearing bank and other borrowings, bank advances for discounted bills, derivative financial instruments, an amount due to an associate and loans from a non-controlling shareholder and a shareholder of an associate.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities 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 interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

Borrowing costs

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. 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 of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification (continued)

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when 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, associates and a jointly-controlled entity, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when 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, associates and a jointly-controlled entity, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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

Revenue recognition

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

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

(ii) from the rendering of services, when the relevant services 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 shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using the Binomial/Black-Scholes option pricing models, further details of which are given in note 31 to the financial statements.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is 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.

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, 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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on item whose fair value gain or loss is recognised in other comprehensive income or income statement are also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain overseas subsidiaries, associates and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

Research and development costs

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 end of the reporting period. 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:

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by the management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considered that if the profits will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

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

Impairment allowance for accounts and bills receivable

The Group makes impairment allowance for 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 impairment allowance for accounts and bills receivable in the year in which such estimate has been changed.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the fabric products segment engages in the production and sale of knitted fabric, dyed yarn and provision of related subcontracting services;

(b) the garment products segment engages in the production and sale of garment products and provision of related subcontracting services; and

(c) the "others" segment includes provision of air and ocean freight services and mining.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Intersegment revenue and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	Fabric HK$'000	Garment HK$'000	Others HK$'000	Total HK$'000
Segment revenue:				
Revenue from external customers	3,816,115	249,240	–	4,065,355
Intersegment revenue	69,045	–	–	69,045
	3,885,160	249,240	–	4,134,400
Elimination of intersegment revenue				(69,045)
Total revenue				4,065,355
Segment profits	175,175	16,937	369	192,481
Gain on disposal of a subsidiary	–	–	12,797	12,797
Finance costs	(41,157)	(227)	(142)	(41,526)
Share of profits less losses of a jointly-controlled entity	(6,668)	–	–	(6,668)
Share of profits less losses of associates	–	–	(2,500)	(2,500)
Profit before tax	127,350	16,710	10,524	154,584
Income tax expense	(26,147)	(1,160)	(45)	(27,352)
Profit for the year	101,203	15,550	10,479	127,232
Assets and liabilities				
Segment assets	4,116,704	121,686	3,570	4,241,960
Interest in a jointly-controlled entity	33,041	–	–	33,041
Interests in associates	–	–	48,848	48,848
Deferred tax assets	5,020	–	–	5,020
Total assets	4,154,765	121,686	52,418	4,328,869
Segment liabilities	2,385,973	39,304	8,566	2,433,843
Deferred tax liabilities	697	–	–	697
Total liabilities	2,386,670	39,304	8,566	2,434,540

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011 (continued)

	Fabric	Garment	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Other segment information:				
Depreciation and amortisation	204,450	4,535	9	208,994
Loss/(gain) on disposal of items of property, plant and equipment	(111)	22	–	(89)
Impairment of accounts receivable	3,142	–	–	3,142
Write-off of accounts receivable	416	–	–	416
Write-back of impairment allowance for accounts receivable	(1,900)	–	–	(1,900)
Impairment of inventories	31,883	–	–	31,883
Capital expenditure*	231,848	242	51,748	283,838

* Capital expenditure consists of additions of property, plant and equipment, additions of prepaid land lease payments and the capital contribution to an associate during the year ended 31 December 2011.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010

	Fabric HK$'000	Garment HK$'000	Others HK$'000	Total HK$'000
Segment revenue:				
Revenue from external customers	3,035,308	232,477	–	3,267,785
Intersegment revenue	65,813	–	–	65,813
	3,101,121	232,477	–	3,333,598
Elimination of intersegment revenue				(65,813)
Total revenue				3,267,785
Segment profits/(loss)	116,562	31,890	(2,341)	146,111
Finance costs	(27,309)	(255)	(254)	(27,818)
Share of profits less losses of a jointly-controlled entity	4,124	–	–	4,124
Share of profits less losses of associates	–	–	(256)	(256)
Profit/(loss) before tax	93,377	31,635	(2,851)	122,161
Income tax expense	(15,622)	(1,963)	(193)	(17,778)
Profit/(loss) for the year	77,755	29,672	(3,044)	104,383
Assets and liabilities				
Segment assets	3,451,154	122,951	3,522	3,577,627
Interest in a jointly-controlled entity	39,709	–	–	39,709
Interests in associates	–	–	206,992	206,992
Deferred tax assets	2,881	–	–	2,881
Total assets	3,493,744	122,951	210,514	3,827,209
Segment liabilities	2,087,326	36,973	14,288	2,138,587
Deferred tax liabilities	684	–	–	684
Total liabilities	2,088,010	36,973	14,288	2,139,271

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010 (continued)

	Fabric HK$'000	Garment HK$'000	Others HK$'000	Total HK$'000
Other segment information:				
Depreciation and amortisation	182,302	3,576	329	186,207
Loss/(gain) on disposal of items of property, plant and equipment	(573)	27	–	(546)
Impairment of intangible assets	–	–	2,319	2,319
Impairment of accounts receivable	4,179	–	11	4,190
Write-back of impairment allowance for accounts receivable	–	(348)	–	(348)
Write-back of impairment allowance for other receivable	–	(286)	–	(286)
Write-back of provision for a legal claim	–	(2,120)	–	(2,120)
Capital expenditure*	248,966	13,636	1,557	264,159

* Capital expenditure consists of additions of property, plant and equipment and capital contribution to a jointly-controlled entity and an associate during the year ended 31 December 2010.

Geographical information

(a) Revenue from external customers

	2011 HK$'000	2010 HK$'000
Singapore	**1,291,971**	1,111,330
Korea	**755,169**	384,147
Hong Kong	**744,520**	745,156
Mainland China	**561,896**	519,978
Taiwan	**351,493**	278,436
Others	**360,306**	228,738
	4,065,355	3,267,785

The revenue information above is based on the location of the customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2011	2010
	HK$'000	HK$'000
Mainland China	**1,691,550**	1,562,197
Hong Kong	**91,940**	255,751
Madagascar	**19,755**	22,491
Singapore	**75**	79
Others	**661**	704
	1,803,981	1,841,222

The non-current assets information above is based on the location of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK$434,407,000 (2010: HK$389,692,000) was derived from sales by the fabric products segment and subcontracting services by the garment products segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

5. REVENUE, OTHER INCOME AND GAINS, NET

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.

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

	Note	**2011 HK$'000**	2010 HK$'000
Revenue			
Production and sale of knitted fabric, dyed yarn and provision of related subcontracting services		**3,816,115**	3,035,308
Production and sale of garment products and provision of related subcontracting services		**249,240**	232,477
		4,065,355	3,267,785
Other income			
Fee income from freight handling services		**4,830**	4,723
Bank interest income		**5,372**	984
Gross rental income		**497**	389
Others		**19,571**	21,759
		30,270	27,855
Gains, net			
Fair value gains/(losses), net:			
Equity investment at fair value through profit or loss – held for trading	7	**(448)**	34
Derivative financial instruments – transactions not qualified as hedges but matured during the year	7	**(700)**	5,022
Derivative financial instruments – transactions not qualified as hedges and not yet matured	7	**(4,654)**	(8,553)
		(5,802)	(3,497)
Other income and gains, net		**24,468**	24,358

NOTES TO FINANCIAL STATEMENTS

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6. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**38,188**	23,771
Interest on finance leases	**587**	735
Interest on other loans	**271**	1,827
Amortisation of bank charges on a syndicated loan	**2,480**	1,485
	41,526	27,818

7. PROFIT BEFORE TAX

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

	Notes	**2011**	2010
		HK$'000	HK$'000
Cost of inventories sold and services provided		**3,475,905**	2,756,147
Auditors' remuneration		**2,330**	2,223
Research and development costs		**6,301**	6,206
Depreciation of items of property, plant and equipment	14	**207,266**	184,445
Amortisation of prepaid land lease payments	15	**1,728**	1,501
Amortisation of intangible assets	16	**–**	261
Employee benefits expense (excluding directors' remuneration-note 8):			
Wages and salaries		**342,930**	277,420
Equity-settled share option expense		**–**	6,605
Pension scheme contributions		**19,081**	13,935
		362,011	297,960

NOTES TO FINANCIAL STATEMENTS

31 December 2011

7. PROFIT BEFORE TAX (continued)

	Notes	2011 HK$'000	2010 HK$'000
Minimum lease payments under operating leases in respect of land and buildings		**7,241**	6,232
Gain on disposal of items of property, plant and equipment		**(89)**	(546)
Impairment of intangible assets	16	**–**	2,319
Impairment of accounts receivable	22	**3,142**	4,190
Write-off of accounts receivable		**416**	–
Write-back of impairment allowance for accounts receivable	22	**(1,900)**	(348)
Write-back of impairment allowance for other receivable		**–**	(286)
Impairment of inventories		**31,883**	–
Write-back of provision for a legal claim	41	**–**	(2,120)
Fair value losses/(gains), net:			
Equity investment at fair value through profit or loss – held for trading		**448**	(34)
Derivative financial instruments – transactions not qualified as hedges but matured during the year		**700**	(5,022)
Derivative financial instruments – transactions not qualified as hedges and not yet matured		**4,654**	8,553
Foreign exchange differences, net		**(11,769)**	(1,491)
Subsidy income from the People's Republic of China (the "PRC") government		**(2,381)**	(4,559)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

7. PROFIT BEFORE TAX (continued)

The cost of inventories sold and services provided includes depreciation and staff costs of HK$442,927,000 (2010: HK$363,126,000), which are also included in the respective total amounts disclosed separately above, and impairment of inventories of HK$31,883,000 (2010: Nil).

The research and development costs include depreciation and staff costs of HK$5,505,000 for the year ended 31 December 2011 (2010: HK$5,324,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: 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	
	2011	2010
	HK$'000	HK$'000
Fees	**795**	900
Other emoluments:		
Salaries, allowances and benefits in kind	**14,505**	13,715
Discretionary bonuses	**2,600**	–
Pension scheme contributions	**72**	85
	17,177	13,800
	17,972	14,700

NOTES TO FINANCIAL STATEMENTS

31 December 2011

8. DIRECTORS' REMUNERATION (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2011					
Executive directors:					
Tai Chin Chun	–	4,160	960	12	5,132
Tai Chin Wen	–	3,380	780	12	4,172
Cheung So Wan	–	1,710	395	12	2,117
Wong Siu Yuk	–	1,710	395	12	2,117
Chong Chau Lam	–	1,805	70	12	1,887
Wong Wai Kong, Elmen	–	1,740	–	12	1,752
Non-executive director:					
Lee Cheuk Yin, Dannis	255	–	–	–	255
Independent non-executive directors:					
Chu Hak Ha, Mimi	180	–	–	–	180
Chan Yuk Tong, Jimmy	180	–	–	–	180
Ho Gilbert Chi Hang	180	–	–	–	180
Total	795	14,505	2,600	72	17,972

NOTES TO FINANCIAL STATEMENTS

31 December 2011

8. DIRECTORS' REMUNERATION (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2010					
Executive directors:					
Tai Chin Chun	–	3,950	–	12	3,962
Tai Chin Wen	–	3,200	–	12	3,212
Cheung So Wan	–	1,560	–	12	1,572
Wong Siu Yuk	–	1,560	–	12	1,572
Chong Chau Lam	–	1,755	–	12	1,767
Wong Wai Kong, Elmen	–	1,690	–	12	1,702
Non-executive director:					
Lee Cheuk Yin, Dannis	360	–	–	4	364
Independent non-executive directors:					
Chu Hak Ha, Mimi	180	–	–	3	183
Chan Yuk Tong, Jimmy	180	–	–	3	183
Ho Gilbert Chi Hang	118	–	–	–	118
Chan Chung Yuen, Lawrence	62	–	–	3	65
Total	900	13,715	–	85	14,700

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2010: five) directors, details of whose remuneration are set out in note 8 above.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

10. INCOME TAX

	Group	
	2011	2010
	HK$'000	HK$'000
Current tax – Hong Kong		
Charge for the year	**13,060**	8,791
Overprovision in prior years	**(2,229)**	(813)
Current tax – Elsewhere		
Charge for the year	**18,297**	12,436
Underprovision in prior years	**56**	69
Deferred tax credit (note 29)	**(1,832)**	(2,705)
Total tax charge for the year	**27,352**	17,778

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2010: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

The Group has estimated tax losses arising in Hong Kong of HK$6,699,000 (2010: HK$6,699,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries in which the losses arose. The Group also has estimated tax losses arising in Mainland China of HK$20,547,000 (2010: HK$6,540,000) that will expire in one to five years for offsetting against future taxable profits of the respective subsidiaries in which the losses arose. 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.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is unified to 25% for all enterprises in Mainland China.

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

During the year, Guangzhou Kam Sing Textile and Dyeing Company Limited ("Kam Sing") and En Ping Kam Hing Textile and Dyeing Co. Ltd. ("En Ping KH"), two wholly-owned PRC subsidiaries of the Company, were entitled to a 50% reduction in corporate income tax in the PRC. The applicable tax rate of Kam Sing and En Ping KH, after the 50% reduction, was 12.5%.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions/countries in which the Company and the majority of its subsidiaries, a jointly-controlled entity and associates operate to the tax expense at the effective tax rates is as follows:

Group – 2011

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Profit before tax	65,716	64,931	23,937	154,584
Tax at the statutory tax rate	10,843	16,233	2,383	29,459
Lower tax rate enacted by local authority	–	(5,059)	–	(5,059)
Profits less losses attributable to a jointly-controlled entity and associates	1,512	–	–	1,512
Adjustments in respect of current tax of prior years	(2,229)	60	(4)	(2,173)
Lower tax rate due to tax holiday	–	–	(2,402)	(2,402)
Income not subject to tax	(1,539)	(7,468)	–	(9,007)
Expenses not deductible for tax	2,181	8,604	70	10,855
Tax losses not recognised	–	3,502	–	3,502
Others	76	589	–	665
Tax charge at the Group's effective rate	10,844	16,461	47	27,352

NOTES TO FINANCIAL STATEMENTS

31 December 2011

10. INCOME TAX (continued)

Group – 2010

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Profit before tax	35,198	68,389	18,574	122,161
Tax at the statutory tax rate	5,807	17,097	1,898	24,802
Lower tax rate enacted by local authority	–	(3,505)	(48)	(3,553)
Profits less losses attributable to a jointly-controlled entity and associates	(638)	–	–	(638)
Adjustments in respect of current tax of prior years	(813)	73	(4)	(744)
Lower tax rate due to tax holiday	–	–	(1,855)	(1,855)
Income not subject to tax	(422)	(5,279)	(11)	(5,712)
Expenses not deductible for tax	4,297	1,798	52	6,147
Others	(70)	(663)	64	(669)
Tax charge at the Group's effective rate	8,161	9,521	96	17,778

The share of tax credit attributable to a jointly-controlled entity amounting to HK$943,000 (2010: share of tax of HK$945,000), and is included in "Share of profits less losses of a jointly-controlled entity" in the consolidated income statement.

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 2011 includes a loss of HK$4,465,000 (2010: profit of HK$32,616,000) which has been dealt with in the financial statements of the Company (note 32(b)).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

12. DIVIDEND

The proposed final dividend for the year of HK3.3 cents (2010: HK2.7 cents) per ordinary share, in aggregate of approximately HK$28.7 million (2010: approximately HK$23.5 million), 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 amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$114,587,000 (2010: HK$96,484,000), and the weighted average of 869,917,904 (2010: 814,112,534) ordinary shares deemed to have been in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$114,587,000 (2010: HK$96,484,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

The calculations of basic and diluted earnings per share are based on:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company	**114,587**	96,484

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**869,917,904**	814,112,534
Effect of dilution – weighted average number of ordinary shares:		
Share options	**7,863**	33,325,113
	869,925,767	847,437,647

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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 2011						
Cost:						
At 1 January 2011	**358,417**	**1,916,957**	**62,381**	**27,289**	**59,323**	**2,424,367**
Additions	**–**	**38,304**	**3,817**	**5,279**	**176,282**	**223,682**
Disposals	**–**	**(1,644)**	**(48)**	**–**	**–**	**(1,692)**
Transfers	**1,135**	**60,808**	**644**	**1,525**	**(64,112)**	**–**
Exchange realignment	**21,672**	**124,161**	**3,147**	**1,080**	**10,718**	**160,778**
At 31 December 2011	**381,224**	**2,138,586**	**69,941**	**35,173**	**182,211**	**2,807,135**
Accumulated depreciation:						
At 1 January 2011	**86,343**	**753,185**	**54,363**	**18,148**	**–**	**912,039**
Charge for the year	**17,958**	**182,777**	**2,941**	**3,590**	**–**	**207,266**
Disposals	**–**	**(1,644)**	**(26)**	**–**	**–**	**(1,670)**
Exchange realignment	**6,265**	**57,414**	**2,690**	**701**	**–**	**67,070**
At 31 December 2011	**110,566**	**991,732**	**59,968**	**22,439**	**–**	**1,184,705**
Net book value:						
At 31 December 2011	**270,658**	**1,146,854**	**9,973**	**12,734**	**182,211**	**1,622,430**
31 December 2010						
Cost:						
At 1 January 2010	337,592	1,650,565	58,936	24,905	103,857	2,175,855
Additions	612	29,583	3,588	4,499	216,152	254,434
Disposals	–	(1,147)	(93)	(2,052)	–	(3,292)
Transfers	21,072	239,560	54	–	(260,686)	–
Exchange realignment	(859)	(1,604)	(104)	(63)	–	(2,630)
At 31 December 2010	358,417	1,916,957	62,381	27,289	59,323	2,424,367
Accumulated depreciation:						
At 1 January 2010	69,149	595,924	49,188	17,060	–	731,321
Charge for the year	17,343	158,797	5,322	2,983	–	184,445
Disposals	–	(1,047)	(82)	(1,841)	–	(2,970)
Exchange realignment	(149)	(489)	(65)	(54)	–	(757)
At 31 December 2010	86,343	753,185	54,363	18,148	–	912,039
Net book value:						
At 31 December 2010	272,074	1,163,772	8,018	9,141	59,323	1,512,328

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2011 HK$'000	2010 HK$'000
Medium-term leases		
– in Hong Kong	**2,453**	2,659
– outside Hong Kong	**268,205**	269,415
	270,658	272,074

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

	2011 HK$'000	2010 HK$'000
Plant and machinery	**43,940**	57,578
Motor vehicles	**1,368**	1,814
	45,308	59,392

As at 31 December 2011, the Group was in the process of applying the building ownership certificates in respect of certain self-used properties with net book value of HK$13.4 million (2010: HK$13.4 million) and HK$97.7 million (2010: HK$96.1 million) situated in Panyu, the PRC and En Ping, the PRC, respectively. The Company's directors confirmed that, based on the advice from the Company's legal counsel, as the Group has properly obtained the land use right certificates in respect of the land on which the aforementioned self-used properties are located, there is no legal barrier or otherwise for the Group to obtain the building ownership certificates from the relevant Mainland China authority.

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**62,964**	64,573
Additions during the year	**8,419**	–
Amortised during the year	**(1,728)**	(1,501)
Exchange realignment	**4,289**	(108)
Carrying amount at 31 December	**73,944**	62,964
Current portion included in prepayments, deposits and other receivables	**(1,835)**	(1,501)
Non-current portion	**72,109**	61,463

The Group's prepaid land lease payments comprise:

Land outside Hong Kong:		
Long-term lease	**1,037**	1,049
Medium-term leases	**72,907**	61,915
	73,944	62,964

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16. INTANGIBLE ASSETS

Group

	Exploration licences and assets	
	2011	2010
	HK$'000	HK$'000
Cost at 1 January, net of accumulated amortisation	**–**	2,580
Amortisation provided during the year	**–**	(261)
Impairment during the year	**–**	(2,319)
At 31 December	**–**	–
At 31 December:		
Cost	**3,575**	3,365
Accumulated amortisation and impairment	**(3,575)**	(3,365)
Net carrying amount	**–**	–

During the year ended 31 December 2010, an impairment loss of HK$2,319,000 was recognised as the directors considered the recoverable amount of the intangible assets through use was minimal.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted investments, at cost	**402,207**	402,207

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

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17. INTERESTS 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
			2011	2010	
Directly held:					
Joint Result Holdings Limited ("Joint Result")*	BVI/ Hong Kong	US$10,000	**100**	100	Investment holding
Indirectly held:					
Kam Hing International Limited ("Kam Hing International")*	BVI/ Hong Kong	US$26,610,000 (2010: US$10,000)	**N/A (Note (j))**	100	Investment holding
Highkeen Enterprises Limited*	BVI/ Hong Kong	US$1,000	**100**	100	Investment holding
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000,000 (Note (a))	**100**	100	Investment holding
Strong View International Limited*	BVI/ Hong Kong	US$400,000	**65**	65	Investment holding and provision of customer services
Kam Wing International Textile Company Limited	Hong Kong	HK$107,500,000	**60**	60	Investment holding and trading of finished fabrics

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17. INTERESTS 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 2011	2010	Principal activities
Indirectly held: (continued)					
Guangzhou Kwok Hing Garment Limited ("Kwok Hing GZ")*	PRC/ Mainland China	HK$10,000,000 (Note (b))	**100**	100	Manufacture and trading of garment products
Kam Hing Madagascar*	Madagascar	Malagasy Ariary ("MGA") 10,000,000	**100**	100	Manufacture and trading of garment products
Kwok Hing Garment Madagascar*	Madagascar	MGA100,000,000	**100**	100	Manufacture and trading of garment products
Jiangmen Yingxing Garment Limited ("Yingxing")*	PRC/ Mainland China	HK$25,000,000 (2010: HK$10,000,000) (Note (c))	**100**	100	Manufacture and trading of garment products
En Ping KH*	PRC/ Mainland China	US$11,822,000 (Note (d))	**100**	100	Manufacture and trading of knitted and dyed fabrics
En Ping Kam Lap Textile and Dyeing Co. Ltd. ("En Ping KL")*	PRC/ Mainland China	US$12,420,000 (2010: US$9,426,000) (Note (e))	**60**	60	Manufacture and trading of knitted and dyed fabrics
Kam Sing*	PRC/ Mainland China	HK$6,000,000 (Note (f))	**100**	100	Manufacture and trading of knitted and dyed fabrics

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17. INTERESTS 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
			2011	2010	
Indirectly held: (continued)					
Guangzhou Kamhing Textile Dyeing Co., Ltd. ("Guangzhou KH")*	PRC/ Mainland China	US$117,610,000 (2010: US$97,610,000) (Note (g))	**100**	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited	Hong Kong	HK$3,800,000	**92**	92	Provision of air and ocean freight services
Kam Hing Korea Limited*	Korea	WON50,000,000	**65**	65	Provision of customer services
Kam Hing Piece Works (S) Pte Limited*	Singapore	S$100,000	**100**	100	Provision of customer services
Guangzhou Kam Yam Garment Design Co. Ltd. ("Kam Yam")*	PRC/ Mainland China	HK$400,000 (Note (h))	**100**	100	Provision of knitting and dyeing services and trading of finished fabrics
Guangzhou Gong Zhan Plastic Products Limited ("Gong Zhan")*	PRC/ Mainland China	HK$500,000 (Note (i))	**100**	100	Manufacture and trading of plastic products
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	**100**	100	Sourcing agent and trading of yarns and dyeing materials

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17. INTERESTS 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
			2011	2010	
Indirectly held: (continued)					
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$1,000,010 (Note (a))	**100**	100	Trading of finished fabrics
Kam Hing Global Garment Company Limited	Hong Kong	HK$10,000,000	**100**	100	Trading of garment

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) 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.

(c) Yingxing is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 7 September 2010. The registered capital of Yingxing increased from HK$20,000,000 to HK$30,000,000 during the year ended 31 December 2011, of which HK$25,000,000 (2010: HK$10,000,000) was paid up as at 31 December 2011. The remaining unpaid capital contribution of HK$5,000,000 (2010: HK$10,000,000) was included as capital commitments at 31 December 2011 as disclosed in note 37 to the financial statements.

(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$75,000,000 and the remaining unpaid capital contribution of US$63,178,000 (2010: US$63,178,000) (equivalent to approximately HK$491,525,000 (2010: HK$491,525,000)) was included as capital commitments at 31 December 2011 as disclosed in note 37 to the financial statements.

(e) 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 increased from US$12,000,000 to US$20,000,000 during the year ended 31 December 2011, of which US$12,420,000 (2010: US$9,426,000) was paid up as at 31 December 2011. The remaining unpaid capital contribution of US$7,580,000 (2010: US$2,574,000) (equivalent to approximately HK$58,972,000 (2010: HK$20,026,000)) was included as capital commitments at 31 December 2011 as disclosed in note 37 to the financial statements.

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17. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(f) 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.

(g) Guangzhou KH 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 increased from US$97,610,000 to US$127,610,000 during the year ended 31 December 2011, of which US$117,610,000 (2010: US$97,610,000) was paid up as at 31 December 2011. The remaining unpaid capital contribution of US$10,000,000 (equivalent to approximately HK$77,800,000) (2010: Nil), was included as capital commitments at 31 December 2011 as disclosed in note 37 to the financial statements.

(h) 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.

(i) Gong Zhan is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 28 July 2009.

(j) On 31 January 2011, the Group entered into a disposal agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") pursuant to which the Group disposed of 75% equity interest in Kam Hing International and assigned 75% of the amount due from Kam Hing International to the Group (the "Disposal"). The Disposal was completed on 1 February 2011. Further details of the transaction are included in notes 19 and 33 to the financial statements.

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

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.

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**33,041**	39,709

The amount due from the jointly-controlled entity included in the Group's current assets of HK$14,505,000 (2010: HK$42,441,000) represents accounts receivable of HK$13,468,000 (2010: HK$27,887,000), which is unsecured, interest-free and repayable within one month, and prepayments for purchases of HK$1,037,000 (2010: HK$14,554,000), which are unsecured, interest-free and have no fixed terms of repayment.

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18. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of registered shares	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Honghu Xing Ye Textile Co Ltd. ("Honghu")	Registered share capital of Renminbi ("RMB") 130,000,000	PRC/ Mainland China	25	40	25	Manufacture and trading of cotton spinning

Honghu is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2011 HK$'000	2010 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**27,850**	30,903
Current assets	**21,695**	35,996
Current liabilities	**(16,504)**	(27,190)
Net assets	**33,041**	39,709
Share of the jointly-controlled entity's results:		
Revenue	**51,861**	62,859
Total expenses	**(59,472)**	(57,790)
Tax	**943**	(945)
Profit/(loss) after tax	**(6,668)**	4,124

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19. INTERESTS IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**48,848**	1,600
Advance to an associate	**–**	205,392
	48,848	206,992

The amount due to an associate included in the Group's current liabilities and the advance to an associate as at 31 December 2010 were unsecured, interest-free and had no fixed terms of repayment. In the opinion of the directors, this advance was considered as a quasi-equity investment in the associate as at 31 December 2010.

Kam Hing International, a former wholly-owned subsidiary of the Group, held the amount due to an associate and the advance to an associate as at 31 December 2010. During the year, the Group disposed of 75% equity interest in Kam Hing International and assigned 75% of the amount due from Kam Hing International to the Group of HK$206,948,000 (note 33) to the Purchaser for a total consideration of US$30,000,000 (HK$233,400,000 equivalent). Upon completion of the Disposal, Kam Hing International was classified as an associate of the Group.

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group		Principal activity
			2011	2010	
Kam Hing International *	Ordinary shares of US$1 each	BVI	**25**	N/A	Investment holding
Wisco Kam Hing Resources Limited ("Wisco Kam Hing") *	Ordinary shares of HK$1 each	Hong Kong	**N/A**	40	Investment holding
Hong Kong Wisco Guangxin Kam Wah Resources Limited ("Hong Kong Wisco")	Ordinary shares of HK$1 each	Hong Kong	**N/A**	20	Investment holding
Madagascar Wisco Guangxin Kam Wah Resources S.A. ("Madagascar Wisco")*	Ordinary shares of MGA200,000 each	Madagascar	**N/A**	20	Mining investment and exploration and exploitation for natural resources

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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19. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2011, the Group's shareholding in Kam Hing International is held through a wholly-owned subsidiary of the Company.

As at 31 December 2010, the Group's shareholding in Wisco Kam Hing and Hong Kong Wisco were held through Kam Hing International, a wholly-owned subsidiary of the Company. Madagascar Wisco was a wholly-owned subsidiary of Hong Kong Wisco as at 31 December 2010.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	Group	
	2011	2010
	HK$'000	HK$'000
Assets	**196,954**	1,064,652
Liabilities	**(1,866)**	(1,064,061)
Loss	**(10,209)**	(5,060)

20. DEPOSITS PAID

	Group	
	2011	2010
	HK$'000	HK$'000
Deposits paid for acquisition of:		
Property, plant and equipment	**5,528**	–
Land use rights	**22,025**	20,730
	27,553	20,730

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21. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**588,441**	711,051
Work in progress	**177,505**	140,455
Finished goods	**133,065**	137,042
	899,011	988,548

22. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Accounts and bills receivable	**878,604**	579,719
Impairment	**(6,141)**	(9,462)
	872,463	570,257

The Group's trading terms with its customers are generally on credit with terms of up to two months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to four months). The Group seeks to maintain strict control over its outstanding receivable and has a credit control department to minimise credit risk. 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

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22. ACCOUNTS AND BILLS RECEIVABLE (continued)

An aged analysis of the Group's accounts and bills receivable as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 1 month	**336,470**	307,266
1 to 2 months	**231,916**	174,662
Over 2 months	**304,077**	88,329
	872,463	570,257

Included in the above accounts and bills receivable as at 31 December 2011, amounts totalling HK$114,783,000 (2010: HK$24,239,000) were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" on the face of the consolidated statement of financial position.

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**9,462**	6,817
Impairment losses recognised (note 7)	**3,142**	4,190
Write-back of impairment losses (note 7)	**(1,900)**	(348)
Write-off as uncollectible	**(4,563)**	(1,197)
At 31 December	**6,141**	9,462

Included in the above impairment allowance for accounts and bills receivable is an allowance for individually impaired accounts receivable in aggregate of HK$6,141,000 (2010: HK$9,462,000) with a carrying amount before impairment allowance in aggregate of HK$6,141,000 (2010: HK$9,462,000). The individually impaired accounts receivable relate to customers that were in default or delinquency in payments.

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22. ACCOUNTS AND BILLS RECEIVABLE (continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**631,359**	417,653
Less than 1 month past due	**159,637**	113,851
1 to 6 months past due	**79,478**	38,085
Over 6 months past due	**1,989**	668
	872,463	570,257

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.

23. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Equity investment listed outside Hong Kong, at market value	**159**	607

The above equity investment was classified as held for trading at 31 December 2011 and 2010.

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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**538,326**	241,348	**2,279**	9,386
Time deposits		**136,572**	98,422	**–**	–
		674,898	339,770	**2,279**	9,386
Less: Pledged time deposits for banking facilities	27	**(121,790)**	(87,415)	**–**	–
Cash and cash equivalents		**553,108**	252,355	**2,279**	9,386

As at 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$241,573,000 (2010: HK$153,929,000). 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 time deposits are deposited with creditworthy banks with no recent history of default.

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25. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 3 months	**702,965**	576,934
3 to 6 months	**106,749**	170,730
6 to 12 months	**3,106**	2,365
Over 1 year	**–**	4,003
	812,820	754,032

The accounts and bills payable are non-interest-bearing and are normally settled on credit terms of two to four months.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2011	2010	**2011**	2010
Group	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Forward currency contracts	**1,960**	2,143	**6,184**	1,035
Interest rate swaps	**–**	–	**430**	9,661
	1,960	2,143	**6,614**	10,696

The Group has entered into various forward currency contracts and interest rate swaps to manage its exchange rate and interest rate exposures. These forward currency contracts and interest rate swaps are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives, net, amounting to HK$5,354,000 (2010: HK$3,531,000) were charged to the income statement during the year.

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2011			2010		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current (Note)						
Finance lease payables (note 28)	**1.6 to 8.4**	**2012**	**17,026**	1.6 to 8.4	2011	27,240
Bank loans – unsecured	**Weighted average of HIBOR/LIBOR/ SIBOR/PBOC + 1.15 to 3**	**2012**	**474,487**	Weighted average of HIBOR/LIBOR/ SIBOR/PBOC + 0.8 to 5.84	2011	689,655
Other loans – unsecured	**–**	**–**	**–**	2.93	On demand	108,920
			491,513			825,815
Non-current						
Finance lease payables (note 28)	**2.3 to 3.3**	**2013 - 2014**	**6,759**	2.5 to 8.4	2012 – 2013	5,205
Bank loans – unsecured	**Weighted average of HIBOR/LIBOR + 2.25 to 3**	**2013 - 2015**	**746,016**	HIBOR + 2.4 to 90% of PBOC	2013	245,888
			752,775			251,093
			1,244,288			1,076,908

NOTES TO FINANCIAL STATEMENTS

31 December 2011

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group	
	2011	2010
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand (Note)	**474,487**	689,655
In the second year	**236,682**	84,665
In the third to fifth years, inclusive	**509,334**	161,223
	1,220,503	935,543
Other loans repayable:		
On demand	**–**	108,920
Finance lease payables:		
Within one year or on demand (Note)	**17,026**	27,240
In the second year	**4,587**	3,790
In the third to fifth years, inclusive	**2,172**	1,415
	23,785	32,445
	1,244,288	1,076,908

Note: For the purpose of the above analysis, the Group's bank loans in the amount of HK$7,794,000 (2010: HK$17,675,000) and finance lease payables in the amount of HK$220,000 (2010: HK$10,016,000) containing a repayment on demand clause are included within current interest-bearing bank and other borrowings and analysed into bank loans and finance lease payables within one year or on demand, respectively.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK$466,693,000 (2010: HK$671,980,000) payable within one year or on demand; HK$239,195,000 (2010: HK$100,965,000) payable in the second year; and HK$514,615,000 (2010: HK$162,598,000) payable in the third to fifth years, inclusive.

Based on the maturity terms of the finance lease payables, the amounts repayable in respect of the finance lease payables are: HK$16,806,000 (2010: HK$17,224,000) payable within one year; HK$4,807,000 (2010: HK$13,586,000) payable in the second year; and HK$2,172,000 (2010: HK$1,635,000) payable in the third to fifth years, inclusive.

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

	2011			2010		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current (Note)						
Bank loan – unsecured	**LIBOR+3**	**2012**	**62,240**	–	–	–
Non-current						
Bank loan – unsecured	**LIBOR+3**	**2013**	**31,120**	LIBOR + 3	2013	93,360
			93,360			93,360

	Company	
	2011	2010
	HK$'000	HK$'000
Analysed into:		
Bank loan repayable:		
Within one year or on demand	**62,240**	–
In the second year	**31,120**	62,240
In the third to fifth years, inclusive	**–**	31,120
	93,360	93,360

The Group's other loans as at 31 December 2010, which were advanced by two joint-venture partners, were unsecured, bore interest at 2.93% per annum and were fully settled during the year.

As at 31 December 2011, the banking facilities of the Group were secured by the Group's pledged bank deposits of HK$121,790,000 (2010: HK$87,415,000) (note 24), and were supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

As at 31 December 2011, the finance lease payables were supported by corporate guarantees executed by the Company and/or certain subsidiaries of the Company and the underlying property, plant and equipment (note 28).

As at 31 December 2011, except for the bank loans of HK$12,917,000 (2010: Nil), nil (2010: HK$271,507,000) and HK$352,719,000 (2010: HK$303,365,000) which were denominated in Singapore dollar, RMB and US$, respectively, and the other loans of HK$108,920,000 as at 31 December 2010, which were denominated in US$, all borrowings were denominated in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS

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28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, 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 three years.

At 31 December 2011, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments**		**Present value of minimum lease payments**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**17,443**	27,891	**17,026**	27,240
In the second year	**4,703**	3,923	**4,587**	3,790
In the third to fifth years, inclusive	**2,194**	1,434	**2,172**	1,415
Total minimum finance lease payments	**24,340**	33,248	**23,785**	32,445
Future finance charges	**(555)**	(803)		
Total net finance lease payables	**23,785**	32,445		
Portion classified as current liabilities (Note) (note 27)	**(17,026)**	(27,240)		
Non-current portion (note 27)	**6,759**	5,205		

At 31 December 2011, the finance lease payables were supported by corporate guarantees executed by the Company and/or certain subsidiaries of the Company and the underlying property, plant and equipment.

Note: For the purpose of the above analysis, the Group's finance lease payables in the amount of HK$220,000 (2010: HK$10,016,000) containing a repayment on demand clause are included within current interest-bearing bank and other borrowings and analysed into finance lease payables within one year or on demand.

Based on the maturity terms of the finance lease payables, the amounts repayable in respect of the finance lease payables are: HK$16,806,000 (2010: HK$17,224,000) payable within one year; HK$4,807,000 (2010: HK$13,586,000) payable in the second year; and HK$2,172,000 (2010: HK$1,635,000) payable in the third to fifth years, inclusive.

NOTES TO FINANCIAL STATEMENTS

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29. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	
	2011	2010
	HK$'000	HK$'000
At 1 January	**684**	508
Deferred tax charged to the income statement during the year (note 10)	**11**	176
Exchange realignment	**2**	–
At 31 December	**697**	684

Deferred tax assets

	Deductible temporary difference	
	2011	2010
	HK$'000	HK$'000
At 1 January	**2,881**	–
Deferred tax credited to the income statement during the year (note 10)	**1,843**	2,881
Exchange realignment	**296**	–
At 31 December	**5,020**	2,881

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entity established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and the jointly-controlled entity will distribute such earnings in the foreseeable future.

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

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30. SHARE CAPITAL

	2011 HK$'000	2010 HK$'000
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
869,919,000 (2010: 869,719,000) ordinary shares of HK$0.1 each	**86,992**	86,972

A summary of the movements during the year in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010		773,489,000	77,349	328,579	405,928
Share options exercised	(a)	66,230,000	6,623	41,448	48,071
Placement of new shares	(b)	30,000,000	3,000	66,000	69,000
		96,230,000	9,623	107,448	117,071
		869,719,000	86,972	436,027	522,999
Share issue expenses		–	–	(3,795)	(3,795)
Transfer from share option reserve		–	–	13,720	13,720
At 31 December 2010 and 1 January 2011		869,719,000	86,972	445,952	532,924
Share options exercised	(a)	200,000	20	112	132
		869,919,000	86,992	446,064	533,056
Transfer from share option reserve		–	–	41	41
At 31 December 2011		869,919,000	86,992	446,105	533,097

NOTES TO FINANCIAL STATEMENTS

31 December 2011

30. SHARE CAPITAL (continued)

Notes:

(a) During the year, the subscription rights attaching to 200,000 share options were exercised at the subscription prices of HK$0.66 per share (note 31), resulting in the issue of 200,000 shares of HK$0.1 each for a total cash consideration, before related issuance expenses, of approximately HK$132,000.

During the year ended 31 December 2010, the subscription rights attaching to 66,230,000 share options were exercised, of which 7,030,000 and 59,200,000 share options were exercised at the subscription prices of HK$1.28 per share and HK$0.66 per share, respectively (note 31), resulting in the issue of 66,230,000 shares of HK$0.1 each for a total cash consideration, before related issuance expenses, of approximately HK$48,071,000.

(b) On 15 January 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the Company has agreed to place 30,000,000 new shares of the Company of HK$0.1 each through the placing agent to an independent third party, at the subscription price of HK$2.3 per share.

On 25 January 2010, 30,000,000 shares of HK$0.1 each were issued for cash at a subscription price of HK$2.3 per share pursuant to the placing agreement dated 15 January 2011 for a total cash consideration, before related expenses, of HK$69,000,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. 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 non-controlling 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 Company has sought the approval by its shareholders in the annual general meeting of the Company held on 26 May 2008 for refreshing its scheme mandate limit such that the maximum number of shares which may be allotted and issued upon the exercise of the share options to be granted under the Scheme is 64,458,300 shares, representing 10% of the share capital of the Company as at the date of refreshment of the scheme mandate limit. 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.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME (continued)

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 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 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.

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

	2011		2010	
	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	**0.84**	**6,971**	0.74	73,201
Exercised during the year	**0.66**	**(200)**	0.73	(66,230)
Lapsed during the year	**0.78**	**(5,491)**	–	–
At 31 December	**1.28**	**1,280**	0.84	6,971

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.40 (2010: HK$1.39) per share.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options '000	Exercise price HK$ per share	Exercise period
1,280	1.28	6 October 2005 to 5 October 2014

2010

Number of options '000	Exercise price HK$ per share	Exercise period
2,371	1.28	6 October 2005 to 5 October 2014
4,600	0.66	3 July 2010 to 2 January 2011
6,971		

During the year, no new share options were granted by the Company.

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 were disclosed in the annual report of the Company for the year ended 31 December 2005.

For the share options granted on 3 July 2009, the fair value of these share options at the date of grant of HK$13,066,000 was estimated using the Binomial Option Pricing model and of which the Group recognised share option expenses of HK$6,461,000 and HK$6,605,000 in the share option reserve during the years ended 31 December 2009 and 31 December 2010, respectively. Details of the underlying inputs to the model were disclosed in the annual report of the Company for the year ended 31 December 2009.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME (continued)

The 200,000 share options exercised during the year resulted in the issue of 200,000 ordinary shares of the Company and new share capital of HK$20,000 and share premium of HK$112,000 (before related issuance expenses), as further detailed in note 30 to the financial statements.

The 1,280,000 share options outstanding as at 31 December 2011 under the Scheme, represented approximately 0.1% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,280,000 additional ordinary shares of the Company and additional share capital of HK$128,000 and share premium of HK$1,510,000 (before related issuance expenses).

At the date of approval of these financial statements, the Company had 1,280,000 share options outstanding under the Scheme, which represented approximately 0.1% of the Company's shares in issue as at that date.

32. 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.

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32. 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 2010	328,579	8,595	402,007	144,396	883,577
Final 2009 dividend declared	–	–	–	(20,088)	(20,088)
Issue of shares (note 30)	107,448	–	–	–	107,448
Equity-settled share option arrangements (note 31)	–	6,605	–	–	6,605
Transfer to share premium account upon exercise of share options (note 30)	13,720	(13,720)	–	–	–
Share issue expenses (note 30)	(3,795)	–	–	–	(3,795)
Profit and total comprehensive income for the year	–	–	–	32,616*	32,616
At 31 December 2010 and 1 January 2011	445,952	1,480	402,007	156,924	1,006,363
Final 2010 dividend declared	–	–	–	(23,488)	(23,488)
Issue of shares (note 30)	112	–	–	–	112
Transfer to share premium account upon exercise of share options (note 30)	41	(41)	–	–	–
Transfer to retained profits	–	(1,149)	–	1,149	–
Loss and total comprehensive expense for the year	–	–	–	(4,465)	(4,465)
At 31 December 2011	446,105	290	402,007	130,120	978,522

* The balance included dividend from a subsidiary of HK$50,000,000.

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32. RESERVES (continued)

(b) Company (continued)

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.

33. DISPOSAL OF A SUBSIDIARY AND DEEMED ACQUISITION OF AN ASSOCIATE

On 1 February 2011, the Group disposed of 75% equity interest in Kam Hing International, which has 20% equity interest in Hong Kong Wisco and Madagascar Wisco, and 40% equity interest in Wisco Kam Hing, the associates of Kam Hing International, and assigned 75% of the amount due from Kam Hing International to the Group of HK$206,948,000, at a total cash consideration of US$30,000,000 (HK$233,400,000 equivalent). Immediately after the Disposal, the Group's interest in Kam Hing International is reduced to 25% and Kam Hing International became an associate of the Group.

The net liabilities of Kam Hing International and its associates attributable to the Group of HK$1,556,000 at the date of the Disposal consisted of interests in associates of HK$206,992,000, comprising share of equity of HK$1,600,000 and an advance to an associate of HK$205,392,000, an amount due to Joint Result, the then immediate holding company of Kam Hing International, of HK$206,948,000 and an amount due to an associate of HK$1,600,000 as at the date of the Disposal. The gain on the Disposal, net of cost associated with the Disposal of HK$66,559,000, amounted to HK$12,797,000 was recognised in the consolidated income statement for the year.

The cash consideration of HK$233,400,000 was satisfied by cash.

NOTES TO FINANCIAL STATEMENTS

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34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year, the Group entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK$9,631,000 (2010: HK$10,410,000).

(b) During the year, bank interest income of HK$3,513,000 (2010: Nil), on the Group's pledged time deposits were not yet received, and the related interest receivables were included in prepayments, deposits and other receivables as at 31 December 2011.

(c) During the year, Kam Hing International issued 6,650,000 shares of US$1 each to the Group after the completion of the Disposal at a total consideration of HK$51,737,000, which was settled through the amount due from this associate and had no cash flow impact to the Group.

(d) During the year ended 31 December 2010, the proceeds of HK$7,000 from disposal of an item of property, plant and equipment was used to settle the payment for a finance lease of the same amount.

(e) During the year ended 31 December 2010, the interest expense of HK$1,827,000 on the Group's other loans remained unpaid, and the related interest payables were included in accrued liabilities and other payables as at 31 December 2010, which were fully settled during the year ended 31 December 2011.

(f) During the year ended 31 December 2010, an associate of the Group made advance of HK$4,887,000 to another associate of the Group on behalf of the Group and had no cash flow impact to the Group.

NOTES TO FINANCIAL STATEMENTS

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35. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2011	2010
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to and utilised by subsidiaries	**1,697,212**	1,365,337
Guarantees given to a shareholder of an associate in connection with a loan advanced to a subsidiary	**77,800**	–
	1,775,012	1,365,337

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**345**	133
In the second to fifth years, inclusive	**236**	282
After five years	**102**	105
	683	520

NOTES TO FINANCIAL STATEMENTS

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36. 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 twenty years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**3,592**	6,414
In the second to fifth years, inclusive	**8,700**	8,250
After five years	**26,781**	27,214
	39,073	41,878

The Company had no significant operating lease commitments at 31 December 2011 (2010: Nil).

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments as at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Contracted but not provided for:		
Purchases of machinery	**117,411**	23,807
Construction in progress	**29,782**	17,306
	147,193	41,113

NOTES TO FINANCIAL STATEMENTS

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37. COMMITMENTS (continued)

The Group had outstanding commitments amounted to HK$633,297,000 (2010: HK$521,551,000) as at the end of the reporting period in respect of the investments in subsidiaries.

The Group had outstanding commitments amounted to HK$303,911,000 (2010: HK$295,862,000) as at the end of the reporting period in respect of irrevocable letters of credit.

The Company had no significant commitments at 31 December 2011 (2010: Nil).

38. 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:

	Notes	**2011** **HK$'000**	2010 HK$'000
Rental expenses on office premises and a staff quarter paid to Tai Chin Chun and Tai Chin Wen	(i)	**498**	447
Rental expenses on staff quarters paid to Cheung So Wan and Wong Siu Yuk	(ii)	**212**	212
Rental expenses on an office premise and car parks paid to Chin Tai Wing	(iii)	**263**	263
Sales of raw materials to a jointly-controlled entity	(iv)	**34,334**	35,590
Purchases of yarns from a jointly-controlled entity	(v)	**109,255**	125,616

NOTES TO FINANCIAL STATEMENTS

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38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(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, adjusted to HK$32,500 starting from 1 March 2010, and HK$9,000 (2010: HK$6,000) for terms of one year and ten months and one year, respectively, based on the terms mutually agreed by both parties.

(ii) The Group entered into tenancy agreements with Ms. Cheung So Wan and Ms. Wong Siu Yuk, directors of the Company, for staff quarters at monthly rentals of approximately HK$18,000 for a term of one year, based on the terms mutually agreed by both parties.

(iii) The Group entered into tenancy agreements with Mr. Chin Tai Wing, a key management personnel of the Group, for the rental of an office premise and two car parks at monthly rentals of approximately HK$22,000 for a term of three years on 30 December 2009, based on the then prevailing market rentals.

(iv) The sales of raw materials to the jointly-controlled entity was determined based on the terms mutually agreed by both parties.

(v) The cost of purchases of yarns from the jointly-controlled entity was determined based on the terms mutually agreed by both parties.

(b) 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 work permit in respect of a six-storey factory building, with a net book value of approximately HK$3.2 million (2010: HK$3.3 million) as at 31 December 2011.

Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with their respective spouses, who are also deemed as the shareholders of the Company under the Securities and Futures Ordinance, have given joint and several indemnities in favour of the Group in respect of aforementioned buildings/structures.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated statement of financial position, the Group had an outstanding loan from a shareholder of an associate of HK$77,800,000 (2010: Nil) as at the end of the reporting period. The loan is secured by the Group's equity interest in an associate, interest-free and repayable within one year.

(ii) As disclosed in the consolidated statement of financial position, the Group had an outstanding loan from a non-controlling shareholder of HK$12,000,000 as at 31 December 2010. The loan was unsecured, interest-free and fully settled during the year (2010: repayable on 31 January 2012).

(iii) Details of the Group's balances with its jointly-controlled entity and associates as at the end of the reporting period are disclosed in notes 18 and 19 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

38. RELATED PARTY TRANSACTIONS (continued)

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

	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**17,900**	14,615
Post-employment benefits	**72**	85
	17,972	14,700

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

(e) As at 31 December 2010, the Group's non-controlling shareholder has given counter-indemnity up to HK$36,200,000 in favour of the Company in respect of the corporate guarantee up to HK$90,500,000 executed by the Company given to banks in connection with facilities granted to a subsidiary of the Company as at 31 December 2010 (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011 **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	–	872,463	872,463
Financial assets included in prepayments, deposits and other receivables	–	37,237	37,237
Equity investment at fair value through profit or loss	159	–	159
Derivative financial instruments	1,960	–	1,960
Due from a jointly-controlled entity	–	13,468	13,468
Pledged deposits	–	121,790	121,790
Cash and cash equivalents	–	553,108	553,108
	2,119	1,598,066	1,600,185

NOTES TO FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2011 **Group**

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	–	812,820	812,820
Financial liabilities included in accrued liabilities and other payables	–	47,922	47,922
Derivative financial instruments	6,614	–	6,614
Loan from a shareholder of an associate	–	77,800	77,800
Bank advances for discounted bills	–	114,783	114,783
Interest-bearing bank and other borrowings	–	1,244,288	1,244,288
	6,614	2,297,613	2,304,227

NOTES TO FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2010 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	–	570,257	570,257
Financial assets included in prepayments, deposits and other receivables	–	10,539	10,539
Equity investment at fair value through profit or loss	607	–	607
Derivative financial instruments	2,143	–	2,143
Due from a jointly-controlled entity	–	27,887	27,887
Pledged deposits	–	87,415	87,415
Cash and cash equivalents	–	252,355	252,355
	2,750	948,453	951,203

NOTES TO FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2010 **Group**

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	–	754,032	754,032
Financial liabilities included in accrued liabilities and other payables	–	34,660	34,660
Derivative financial instruments	10,696	–	10,696
Due to an associate	–	1,600	1,600
Bank advances for discounted bills	–	24,239	24,239
Interest-bearing bank and other borrowings	–	1,076,908	1,076,908
Loan from a non-controlling shareholder	–	12,000	12,000
	10,696	1,903,439	1,914,135

2011 **Company**

Financial assets

	Loans and receivables HK$'000
Due from subsidiaries	**754,856**
Cash and cash equivalents	**2,279**
	757,135

NOTES TO FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2011 — **Company**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Financial liabilities included in accrued liabilities and other payables	**560**
Interest-bearing bank borrowings	**93,360**
	93,920

2010 — Company

Financial assets

	Loans and receivables HK$'000
Due from subsidiaries	775,784
Cash and cash equivalents	9,386
	785,170

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Financial liabilities included in accrued liabilities and other payables	132
Interest-bearing bank borrowings	93,360
	93,492

NOTES TO FINANCIAL STATEMENTS

31 December 2011

40. FAIR VALUE AND FAIR VALUE HIERARCHY

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

	Level 1 HK$'000	**Level 2** HK$'000	**Total** HK$'000
As at 31 December 2011			
Equity investment at fair value through profit or loss	**159**	**–**	**159**
Derivative financial instruments	**–**	**1,960**	**1,960**
	159	**1,960**	**2,119**
As at 31 December 2010			
Equity investment at fair value through profit or loss	607	–	607
Derivative financial instruments	–	2,143	2,143
	607	2,143	2,750

NOTES TO FINANCIAL STATEMENTS

31 December 2011

40. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Liabilities measured at fair value:

Group

	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
As at 31 December 2011			
Derivative financial instruments	**–**	**6,614**	**6,614**
As at 31 December 2010			
Derivative financial instruments	–	10,696	10,696

As at 31 December 2011, the Group had no financial instruments measured at fair value under Level 3.

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 December 2011 (2010: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: Nil).

41. LITIGATION

In 2008, one of the Group's customers filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States and the outstanding accounts receivable balance from that customer was HK$3,706,000. As a result, the Group recognised an impairment of HK$3,706,000 in the income statement for the year ended 31 December 2008. A claim was filed by the Group's legal representatives to recover the outstanding amount. The Group successfully recovered HK$2,205,000 of the impaired balance during the year ended 31 December 2009. However, in October 2009, the liquidator of the customer filed an objection for claiming part of the accounts receivable balance of HK$2,120,000 (the "Claim") on the basis that such amount was made during the ninety days prior to the bankruptcy filing of the customer under the Chapter 11 of the Bankruptcy Code in the United States. The directors of the Company have made a provision for the Claim in the financial statements as at 31 December 2009. A reversal of the provision for such claim was recorded in the financial statements for the year ended 31 December 2010 after the liquidator and the Group's legal representatives reached an agreement to release the Claim.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings 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, other receivables, accounts and bills payable, other payables, amounts due from/to a jointly-controlled entity and an associate and loans from a non-controlling shareholder and a shareholder of an associate, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate risk and currency risk arising from the Group's operations and its source of finance.

The main risks arising from the Group's financial instruments are interest rate risk, market 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, PBOC, etc. The Group believes that the exposure to the risk of changes in market interest rates is not significant. In order to minimise the impact of interest rate exposure, the Group has entered into interest rate swaps with creditworthy banks to manage its interest rate exposure.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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
2011		
Hong Kong dollar – HIBOR	**0.3**	**1,739**
United States dollar – LIBOR	**0.1**	**93**
RMB – PBOC	**0.5**	**347**
2010		
Hong Kong dollar – HIBOR	0.3	1,066
United States dollar – LIBOR	0.1	265
RMB – PBOC	0.5	937

Market risk

The Group trades in financial instruments, including derivatives and equity securities.

Market risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The Group is exposed to market risk through its derivative financial instruments and other investments.

Commodity price risk

The major raw materials used in the production of the Group's products include fabrics, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 is conducted by the Group's subsidiaries in US$ and RMB with the counterparties.

The Group's assets and liabilities are primarily denominated in Hong Kong dollars and RMB. 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 end of the reporting period 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).

	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
2011			
If Hong Kong dollar weakens against RMB	**3**	**25,099**	**–**
If Hong Kong dollar strengthens against RMB	**(3)**	**(25,099)**	**–**
2010			
If Hong Kong dollar weakens against RMB	3	15,655	–
If Hong Kong dollar strengthens against RMB	(3)	(15,655)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 recognised 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, amounts due from a jointly-controlled entity and an associate 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 35 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.

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, bank advances for discounted bills, interest-bearing bank and other borrowings and loans from a non-controlling shareholder and a shareholder of an associate to meet its working capital and capital expenditure requirements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group		**2011**	
	On demand or less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Accounts and bills payable	**812,820**	**–**	**812,820**
Financial liabilities included in accrued liabilities and other payables	**47,922**	**–**	**47,922**
Derivative financial instruments	**6,614**	**–**	**6,614**
Loan from a shareholder of an associate	**77,800**	**–**	**77,800**
Bank advances for discounted bills	**114,783**	**–**	**114,783**
Interest-bearing bank and other borrowings *	**499,027**	**768,176**	**1,267,203**
	1,558,966	**768,176**	**2,327,142**

Group		2010	
	On demand or less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Accounts and bills payable	754,032	–	754,032
Financial liabilities included in accrued liabilities and other payables	34,660	–	34,660
Derivative financial instruments	10,696	–	10,696
Loan from a non-controlling shareholder	–	12,000	12,000
Due to an associate	1,600	–	1,600
Bank advances for discounted bills	24,239	–	24,239
Interest-bearing bank and other borrowings *	826,737	251,245	1,077,982
	1,651,964	263,245	1,915,209

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

* Included in interest-bearing bank and other borrowings are bank loans of HK$7,794,000 (2010: HK$17,675,000) and finance lease payables of HK$220,000 (2010: HK$10,016,000) containing a repayment on demand clause giving the lender the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, these amounts are classified as "on demand".

Notwithstanding the above repayment on demand clause, the directors do not believe that the bank loans and finance lease payables will be called in its entirety within 12 months, and they consider that the bank loans and finance lease payables will be repaid in accordance with the maturity dates as set out in the respective agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the bank loans and finance lease payables, the maturity terms at 31 December 2011 are HK$491,011,000 in 2012, HK$251,218,000 in 2013, HK$349,790,000 in 2014 and HK$175,184,000 in 2015 (2010: HK$798,943,000 in 2011, HK$114,785,000 in 2012, HK$164,254,000 in 2013).

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company		**2011**	
	On demand or less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Financial liabilities included in accrued liabilities and other payables	**560**	**–**	**560**
Interest-bearing bank borrowings	**62,240**	**31,120**	**93,360**
	62,800	**31,120**	**93,920**

Company		2010	
	On demand or less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Financial liabilities included in accrued liabilities and other payables	132	–	132
Interest-bearing bank borrowings	–	93,360	93,360
	132	93,360	93,492

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are 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 shareholders' 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 for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt comprises all interest-bearing bank and other borrowings, bank advances for discounted bills, loans from a non-controlling shareholder and a shareholder of an associate, an amount due to an associate, accounts and bills payable, and accrued liabilities and other payables less cash and cash equivalents. The total equity comprises owners' equity as stated in the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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 end of the reporting periods were as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**1,244,288**	1,076,908
Accounts and bills payable	**812,820**	754,032
Accrued liabilities and other payables	**131,529**	225,437
Loan from a non-controlling shareholder	**–**	12,000
Loan from a shareholder of an associate	**77,800**	–
Due to an associate	**–**	1,600
Bank advances for discounted bills	**114,783**	24,239
Less: Cash and cash equivalents	**(553,108)**	(252,355)
Net debt	**1,828,112**	1,841,861
Equity attributable to ordinary equity holders of the Company and total capital	**1,833,054**	1,641,094
Capital and net debt	**3,661,166**	3,482,955
Gearing ratio	**49.9%**	52.9%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2011

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**4,065,355**	3,267,785	2,523,245	2,586,617	2,230,764
Profit before tax	**154,584**	122,161	90,534	91,656	127,535
Income tax expense	**(27,352)**	(17,778)	(9,859)	(11,015)	(17,617)
Profit for the year	**127,232**	104,383	80,675	80,641	109,918
Attributable to:					
Ordinary equity holders of the Company	**114,587**	96,484	83,115	81,700	109,960
Non-controlling interests	**12,645**	7,899	(2,440)	(1,059)	(42)
	127,232	104,383	80,675	80,641	109,918

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**4,328,869**	3,827,209	2,940,425	2,600,829	2,053,599
TOTAL LIABILITIES	**(2,434,540)**	(2,139,271)	(1,452,828)	(1,409,405)	(1,093,332)
NON-CONTROLLING INTERESTS	**(61,275)**	(46,844)	(40,345)	(43,305)	(17,275)
	1,833,054	1,641,094	1,447,252	1,148,119	942,992