1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistics services. During the year, the Group acquired 50% equity interest in On Time International Limited ("On Time"), a company incorporated in the British Virgin Islands (the "BVI"). On Time is principally engaged in the design, sourcing and distribution of garments and other textile products.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of United States dollars (US$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 19 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to or have no significant impact on the Group's operations:

– HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;

– HKAS 21 (Amendment), Net Investment in a Foreign Operation;

– HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

– HKAS 39 (Amendment), The Fair Value Option;

– HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts;

– HKFRS 6, Exploration for and Evaluation of Mineral Resources;

– HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

– HK(IFRIC) – Int 4, Determining whether an Arrangement contains a Lease;

– HK(IFRIC) – Int 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

– HK(IFRIC) – Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations have been published but are not effective for 2006 and have not been early adopted:

– HK(IFRIC) – Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) – Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) – Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements;

– HK(IFRIC) – Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) – Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) – Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and

– HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

– HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC) – Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) – Int 7 is not relevant to the Group's operations; and

– HK(IFRIC) – Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) – Int 9 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars ("US$"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit and loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

The property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	5-15 years or over the unexpired period of the lease, whichever is shorter
Plant and machinery	5-10 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

2.6 Construction-in-progress

Construction-in-progress represents buildings, plants and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5 in this Section.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill on acquisitions of jointly controlled entities is included in "interests in jointly controlled entities" and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets

Other intangible assets, representing customer relationship, have definite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of other intangible assets over its estimated useful life of 14 to 15 years.

2.8 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (Note 2.11).

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within 'finance cost', in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivable

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax assets is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Employee benefits

(a) *Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to the income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Employee benefits (continued)

(b) *Long service payments*

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

(i) *Sale of goods*

Sale of goods is recognized when products have been delivered to its customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) *Freight forwarding and logistics service income*

Freight forwarding and logistics service income is recognized when services are rendered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (continued)

(iii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(iv) Rental income

Rental income is recognized on a straight-line basis over the lease periods.

(v) Management and commission income

Management and commission income is recognized when services are rendered.

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Most of the Group's operating activities are denominated in United States dollars, Hong Kong dollars and Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) *Currency risk (continued)*

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk.

(b) *Interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from bank borrowings. As at 31 December 2006, borrowings were primarily at floating rates. The Group generally has not used interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Scenarios are simulated taking into consideration of the change in interest rate.

(c) *Credit risk*

The carrying amount of trade receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivable has been made.

(d) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The Directors aim to maintain flexibility in funding by keeping credit lines available.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision for trade receivables and payables is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, and related depreciation and amortization charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortizable lives and therefore depreciation and amortization expense in future periods.

(c) Impairment of property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill)

Property, plant and equipment, leasehold land and land use rights, and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. The calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) 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 management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on two to four-year financial budgets approved by management and estimated terminal value at the end of the two to four-year period. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment reviews.

(e) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(f) Trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

(g) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining, among others, the expected volatility of the share price, the expected dividend yield, the risk-free interest rate for the life of the option, and the number of options that are expected to become exercisable as stated in Note 16. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vested period of the relevant share options.

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2006, the Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistics services. Revenue consists of sales from garment and textile products, and provision of freight forwarding and logistics services.

The segment results for the year ended 31 December 2006 are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Others US$'000	Group US$'000
Segment revenues				
Total segment revenue	644,416	16,737	3,629	664,782
Inter-segment revenue	–	(2,946)	–	(2,946)
Revenue	644,416	13,791	3,629	661,836
Segment result	13,105	428	–	13,533
Finance income	3,083	417	–	3,500
Finance costs	(6,608)	–	–	(6,608)
Share of profit of associated companies	–	54	–	54
Share of loss of jointly controlled entities	(435)	–	–	(435)
Profit before income tax				10,044
Income tax expense	(4,524)	(476)	–	(5,000)
Profit for the year				5,044
Minority interest	(2,458)	(77)	–	(2,535)
Profit attributable to the equity holders of the Company				2,509

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2005 are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Others US$'000	Group US$'000
Segment revenues				
Total segment revenue	578,362	14,692	2,884	595,938
Inter-segment revenue	–	(2,820)	–	(2,820)
Revenue	578,362	11,872	2,884	593,118
Segment result	19,252	1,823	–	21,075
Finance income	1,875	105	–	1,980
Finance costs	(3,474)	–	–	(3,474)
Share of loss of associated companies	–	(1,891)	–	(1,891)
Share of loss of jointly controlled entities	(257)	–	–	(257)
Profit before income tax				17,433
Income tax expense	(2,936)	3	–	(2,933)
Profit for the year				14,500
Minority interest	(1,247)	(13)	–	(1,260)
Profit attributable to the equity holders of the Company				13,240

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (continued)

Other segment items included in the consolidated income statement are as follows:

	Year ended 31 December 2006			Year ended 31 December 2005		
	Garment US$'000	**Freight forwarding/ logistics services US$'000**	**Group US$'000**	Garment US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Depreciation (Note 7)	**12,778**	**711**	**13,489**	10,690	542	11,232
Amortization (Notes 6 & 8)	**1,166**	**–**	**1,166**	572	–	572
Impairment of trade receivables	**343**	**25**	**368**	66	22	88
Provision for/(write-back) of inventory obsolescence	**1,047**	**–**	**1,047**	(980)	–	(980)
Provision for impairment of intangible assets	**827**	**–**	**827**	–	–	–
Provision for impairment of property, plant and equipment	**1,273**	**–**	**1,273**	–	–	–

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (continued)

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Segment assets	414,194	28,935	443,129
Associated companies	8	279	287
Jointly controlled entities	2,045	–	2,045
	416,247	29,214	445,461
Unallocated assets			433
Total assets			445,894
Segment liabilities	160,942	11,231	172,173
Unallocated liabilities			59,488
Total liabilities			231,661
Capital expenditure (Notes 6, 7 and 8)	49,003	2,548	51,551

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (continued)

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Segment assets	387,712	24,125	411,837
Associated companies	8	223	231
Jointly controlled entities	2,560	–	2,560
	390,280	24,348	414,628
Unallocated assets			792
Total assets			415,420
Segment liabilities	127,198	14,442	141,640
Unallocated liabilities			49,776
Total liabilities			191,416
Capital expenditure (Notes 6, 7 and 8)	43,486	1,033	44,519

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, investments in associated companies and jointly controlled entities, inventories, receivables, cash and cash equivalents and other operating assets. Unallocated assets comprise deferred taxation and financial assets at fair value through profit or loss.

Segment liabilities comprise operating liabilities and borrowing. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to leasehold land and land use rights (Note 6), property, plant and equipment (Note 7) and intangible assets (Note 8), including additions resulting from acquisitions through business combinations (Notes 6, 7, 8 and 32).

5 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting segments – geographical segments

The Group's revenue is mainly derived from customers located in the United States of America (the "United States" or "USA"), Asia and Europe, while the Group's business activities are conducted predominantly in Hong Kong, the People's Republic of China (the "PRC"), Commonwealth of Northern Mariana Islands, the Philippines and the United States.

	2006 **US$'000**	2005 US$'000
Revenue		
The United States	**429,869**	427,602
Europe	**115,664**	64,117
Japan	**64,325**	50,557
Canada	**5,308**	3,814
Commonwealth of Northern Mariana Islands	**7,100**	8,281
Hong Kong	**8,895**	7,330
Korea	**5,813**	3,866
The Philippines	**1,545**	1,692
Australia	**1,970**	2,362
Mexico	**1,413**	2,670
Others	**19,934**	20,827
	661,836	593,118

Revenue is allocated based on the places/countries in which customers are located.

5 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting segments – geographical segments (continued)

	2006 **US$'000**	2005 US$'000
Total Assets		
Hong Kong	**239,476**	206,998
The United States	**37,279**	37,483
The PRC	**106,079**	87,402
Commonwealth of Northern Mariana Islands	**18,234**	23,772
The Philippines	**36,264**	37,784
Others	**6,230**	19,190
	443,562	412,629
Associated companies	**287**	231
Jointly controlled entities	**2,045**	2,560
	445,894	415,420

Total assets are allocated based on where the assets are located.

	2006 **US$'000**	2005 US$'000
Capital expenditure		
Hong Kong	**33,128**	20,778
The United States	**1,101**	111
The PRC	**12,384**	20,462
Commonwealth of Northern Mariana Islands	**1,514**	881
The Philippines	**1,710**	1,760
Others	**1,714**	527
	51,551	44,519

Capital expenditure is allocated based on where the assets are located.

6 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analyzed as follows:

	2006	2005
	US$'000	US$'000
Leases of between 10 to 50 years held outside Hong Kong	**4,286**	4,727
Opening	**4,727**	3,515
Additions	**–**	1,359
Amortization of prepaid operating lease payments	**(102)**	(82)
Disposal	**–**	(65)
Exchange differences	**(339)**	–
	4,286	4,727

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
At 1 January 2005							
Cost	28,103	21,403	43,157	27,037	3,595	3,376	126,671
Accumulated depreciation	(4,053)	(13,768)	(17,162)	(16,996)	(2,497)	–	(54,476)
Net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
Year ended 31 December 2005							
Opening net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
Acquisition of a subsidiary (Note 30 (b))	–	238	1,221	261	54	–	1,774
Additions	151	1,049	5,006	6,196	680	9,927	23,009
Disposals	(118)	(776)	(605)	(59)	(58)	–	(1,616)
Transfer from construction-in-progress	4,256	921	(3)	16	–	(5,190)	–
Depreciation	(1,443)	(1,994)	(3,669)	(3,700)	(426)	–	(11,232)
Exchange differences	52	112	45	(51)	13	8	179
Closing net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
At 31 December 2005							
Cost	32,542	22,780	47,476	33,110	3,960	8,121	147,989
Accumulated depreciation	(5,594)	(15,595)	(19,486)	(20,406)	(2,599)	–	(63,680)
Net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2006							
Opening net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
Acquisition of a subsidiary (Note 30 (b))	–	671	–	597	339	–	1,607
Disposal of a subsidiary (Note 30 (c))	–	(1)	(48)	(129)	(19)	–	(197)
Additions	148	2,024	3,524	4,672	980	8,465	19,813
Disposals	–	(571)	(704)	(230)	(80)	–	(1,585)
Transfer from construction in progress	10,807	62	2,978	65	–	(13,912)	–
Depreciation	(2,069)	(2,108)	(4,835)	(3,862)	(615)	–	(13,489)
Provision for impairment	–	(738)	(339)	(135)	(61)	–	(1,273)
Exchange differences	738	24	422	65	4	205	1,458
Closing net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643
At 31 December 2006							
Cost	44,060	22,768	55,456	38,546	5,280	2,879	168,989
Accumulated depreciation and impairment	(7,488)	(16,220)	(26,468)	(24,799)	(3,371)	–	(78,346)
Net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643

(a) Depreciation expense of US$6,505,000 (2005: US$6,300,000) has been expensed in cost of goods sold, and US$6,984,000 (2005: US$4,932,000) has been expensed in general and administrative expenses.

(b) The construction-in-progress mainly represents factories and office buildings under construction in the PRC. Upon completion, the accumulated cost under construction-in-progress will be transferred to other property, plant and equipment.

8 INTANGIBLE ASSETS

	Goodwill US$'000	Other intangible assets US$'000	Total US$'000
At 1 January 2005			
Cost	3,965	–	3,965
Accumulated amortization and impairment	–	–	–
Net book value	3,965	–	3,965
Year ended 31 December 2005			
Opening net book amount	3,965	–	3,965
Acquisition of a subsidiary (Note 30(b))	8,098	10,279	18,377
Amortization (Note 23)	–	(490)	(490)
Closing net book amount	12,063	9,789	21,852
At 31 December 2005			
Cost	12,063	10,279	22,342
Accumulated amortization and impairment	–	(490)	(490)
Net book value	12,063	9,789	21,852
Year ended 31 December 2006			
Opening net book amount	**12,063**	**9,789**	**21,852**
Adjustment to contingent consideration	**2,765**	**–**	**2,765**
Acquisition of a subsidiary (Note 30(b))	**10,991**	**19,140**	**30,131**
Amortization (Note 23)	**–**	**(1,064)**	**(1,064)**
Provision for impairment (Note 23)	**(827)**	**–**	**(827)**
Closing net book amount	**24,992**	**27,865**	**52,857**
At 31 December 2006			
Cost	**25,819**	**29,419**	**55,238**
Accumulated amortization and impairment	**(827)**	**(1,554)**	**(2,381)**
Net book value	**24,992**	**27,865**	**52,857**

8 INTANGIBLE ASSETS (CONTINUED)

Amortization of US$1,064,000 (2005: US$ 490,000) is expensed in the general and administrative expenses.

The carrying amount of the goodwill has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in the general and administrative expenses in the consolidated income statement.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified. A summary of the goodwill allocation to different CGUs is presented below:

	2006 **US$'000**	2005 US$'000
Sweater division	**10,863**	8,098
Sleepwear division	**2,380**	2,380
Trading and sourcing division	**10,991**	–
Ladies' career wear division	**758**	1,585
	24,992	12,063

The recoverable amount of a CGU is determined based on the value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a two to four-year periods. Cash flows beyond the two to four-year periods are extrapolated using the estimated growth rates stated below.

8 INTANGIBLE ASSETS (CONTINUED)

The key assumptions other than the financial budgets covering a two to four-year periods used for value-in-use calculations are as follows:

	Sweater division	Sleepwear division	Trading and sourcing division	Ladies' career wear division
Growth rate (a)	2.0%	2.0%	3.5%	2.0%
Discount rate (b)	15.0%	15.0%	16.93%	15.0%

Notes:

a) Weighted average growth rate used to extrapolate cash flows beyond the budget period

b) Discount rate applied to the cash flow projections

These assumptions have been used for the analysis of each CGU.

Management has performed sensitivity analysis based on the following revised assumptions:

	Sweater division	Sleepwear division	Trading and sourcing division	Ladies career wear division
Growth rate	1.0%	1.0%	2.5%	1.0%
Discount rate	16.0%	16.0%	17.93%	16.0%

Based on the above assumptions, the Group does not have to recognize further impairment loss.

9 INVESTMENTS IN SUBSIDIARIES

	2006 US$'000	2005 US$'000
Unlisted shares	**71,564**	71,564
Amounts due from subsidiaries	**128,062**	130,062
	199,626	201,626

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries as at 31 December 2006:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Best Uni Limited	Hong Kong	Garment trading and sourcing overseas and in Hong Kong	10,000 ordinary share of HK$1 each	50%
Chelton Force Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Concorde Garment Manufacturing Corporation	Commonwealth of Northern Mariana Islands ("CNMI")	Garment manufacturing in CNMI	1,510,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc.	CNMI	Provision of freight forwarding and logistics services in CNMI	1,000,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services (FSM), Inc	Pohnpei	Provision of freight forwarding and logistics services in Pohnpei	100,000 ordinary shares of US$1 each	90%
Consolidated Transportation Services, Incorporated (Guam)	Guam	Provision of freight forwarding and logistics services in Guam	400,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc. (Palau)	Palau	Provision of freight forwarding and logistics services in Palau	100,000 ordinary shares of US$1 each	80%
CTSI Holdings Limited	BVI	Investment holding in the Philippines	1 ordinary share of US$1 each	100%
CTSI Logistics, Inc.	U.S.A.	Provision of freight forwarding and logistics services in the U.S.A.	10,000 ordinary shares with total paid-in capital of US$100,000	100%

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Logistics Inc.	Cambodia	Provision of freight forwarding and logistics services in Cambodia	100 ordinary shares of Riels 380,000 each	100%
CTSI Logistics (Korea), Inc.	Korea	Provision of freight forwarding and logistics services in Korea	60,000 ordinary shares of Won 5,000 each	60%
CTSI Logistics Limited	Hong Kong	Provision of freight forwarding and logistics services in Hong Kong	100,000 ordinary shares of HK$10 each	100%
CTSI Logistics Phils., Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	100,000 ordinary shares of Peso 100 each	100%
Dongguan Luen Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of HK$225,350,000 with total paid-in capital of HK$225,350,000	100%
Dongguan Quan Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	HK$8,000,000	100%
Fortune Investment Overseas Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
GJM (HK) Limited	Hong Kong	Sourcing, manufacturing and trading of garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
G.J.M. (H.K.) Manufacturing Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$100 each	100%
GJM (Qingyuan) Light Industrial Development Limited	The PRC	Garment manufacturing in the PRC	Registered capital of HK$102,000,000 with total paid-in capital of HK$77,458,757	100%

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
GJM (UK) Limited	United Kingdom ("UK")	Distribution of garment in the UK	1 ordinary share of GBP 1 each	100%
Golden Dragon Apparel, Inc.	The Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	100%
Hongquan Consulting Services (Shenzhen) Co., Ltd.	The PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
Kingsmere, Inc.	U.S.A.	Investment holding in the U.S.A.	100 ordinary shares with total paid-in capital of US$310,000	100%
L & T International Group Phils., Inc.	The Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	100%
L & T Macao Garment Manufacturing Company Limited	Macau	Garment manufacturing in Macau	MOP$25,000	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
Luen Thai Macao Commercial Offshore Company Limited	Macau	Sourcing, manufacturing and trading of textile and garment products in Macau	MOP$25,000	100%
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,804 ordinary share of US$1 each	100%
Manhattan Limited	Hong Kong	Garment trading and sourcing overseas and in Hong Kong	10,000 ordinary shares of HK$1 each	50%

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
On Time International Limited	BVI	Investment holding in Hong Kong	500 ordinary share of US$1 each	50%
Panyu G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	Registered capital of US$5,700,000 with total paid-in capital of US$4,874,560	100%
Philippine Luen Thai Holdings Corporation	The Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	100%
Partner Joy Group Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US$1 each	71%
Power Might Limited	BVI	Investment holding in Hong Kong	12,207,164 ordinary shares of US$1 each	100%
Sunny Force Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
TellaS Ltd.	U.S.A.	Import and distribution of garments in the U.S.A.	100 ordinary shares with total paid-in capital of US$100,000	100%
Tien-Hu Knitters Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
TMS Fashion (H.K.) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK$1 each	50%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK$500 each	50%

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

All subsidiaries of the Company are indirectly held except for Luen Thai Overseas Limited.

The outstanding balances with subsidiaries are interest free and not repayable in the coming twelve months.

10 INTERESTS IN ASSOCIATED COMPANIES

	2006 US$'000	2005 US$'000
Share of net assets	**287**	231
Unlisted investments, at cost	**156**	156

The Group's interest in its principal associated companies as at 31 December 2006 were as follows:

Name	**Particulars of issued share capital**	**Place of issued shares held**	**Principal activities and place of operations**	**Interest held**
CTSI Logistics (Taiwan), Inc.	1,420,000 ordinary shares of TWD 10 each	Taiwan	Provision of freight forwarding and logistics services in Taiwan	49%
LT Investment Co. Ltd.	25 ordinary shares of US$8,000 each	Cambodia	Property holding in Cambodia	49%

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006	2005
	US$'000	US$'000
Share of net liabilities	**(599)**	(84)
Loan to a jointly controlled entity	**2,644**	2,644
	2,045	2,560
Unlisted investments, at cost	**3,750**	2,461

The loan to a jointly controlled entity is unsecured, non-interest bearing and not repayable within the next twelve months.

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

The Group's interest in its principal jointly controlled entities as at 31 December 2006 were as follows:

Name	Place of issued shares held	Principal activities and place of operations	Particulars of issued share capital	Interest held	Assets US$'000	Liabilities US$'000	Revenues US$'000	Profit/ (loss) US$'000
Shenzhen Guangthai International Co. Ltd.	The PRC	Garment trading in the PRC	HK$20,000,000	50%	2,379	313	–	(563)
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	RMB2,400,000	25%	1,918	1,493	4,743	2
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$2,050,000	50%	3,350	983	4,145	78
Yuen Thai Industrial Company Limited	Hong Kong	Sourcing, manufacturing and trading of sports and active wear in the PRC	2 ordinary shares of HK$1 each	50%	17,979	21,116	20,556	(971)
Yuen Thai Holdings Limited	BVI	Investment holding in Hong Kong and in the Philippines	2 ordinary shares of US$1 each	50%	5,639	5,641	–	(1)
Yuenthai Philippines, Inc.	The Philippines	Garment manufacturing in the Philippines	Peso 4,000,000	50%	2,936	4,628	2,976	(1,711)

12 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
	US$'000	US$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**311**	792
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**3,849**	401

The gross movement on the deferred income tax account is as follows:

	2006	2005
	US$'000	US$'000
Beginning of the year	**(391)**	(822)
Recognized in the income statement (Note 26)	**525**	427
Acquisition of a subsidiary (Note 30(b))	**3,350**	4
Exchange differences	**16**	–
Disposal of subsidiary (Note 30(c))	**38**	–
End of the year	**3,538**	(391)

12 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provision US$'000	Accelerated tax depreciation US$'000	Intangible assets US$'000	Others US$'000	Total US$'000
At 1 January 2005	280	63	–	479	822
(Charged)/credited to the income statement	(18)	(414)	–	5	(427)
Acquisition of a subsidiary	–	(4)	–	–	(4)
At 31 December 2005	262	(355)	–	484	391
Charged to the income statement	**(224)**	**(171)**	**–**	**(130)**	**(525)**
Acquisition of a subsidiary	**–**	**–**	**(3,350)**	**–**	**(3,350)**
Disposal of a subsidiary	**–**	**(38)**	**–**	**–**	**(38)**
Exchange difference	**–**	**(1)**	**–**	**(15)**	**(16)**
At 31 December 2006	**38**	**(565)**	**(3,350)**	**339**	**(3,538)**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US$7,091,000 (2005: US$4,705,000) in respect of losses amounting to US$17,246,000 (2005: US$11,443,000) that can be carried forward against future taxable income. These tax losses have expiry dates from 2006 to 2013.

13 TRADE AND OTHER RECEIVABLES

	2006 US$'000	2005 US$'000
Trade and bills receivables	**95,102**	73,217
Less: provision for impairment of receivables	**(1,250)**	(1,899)
Trade and bills receivables – net	**93,852**	71,318
Deposits, prepayments and other receivables	**19,227**	11,492
Amounts due from related companies	**2,397**	3,273
Amounts due from associated companies and jointly controlled entities	**6,778**	2,045
	122,254	88,128
Less: non-current portion	**(3,627)**	(4,558)
Current portion	**118,627**	83,570

The carrying amount of trade receivables approximates its fair value.

The Group normally grants credit terms to its customers ranging from 30 to 60 days. The ageing analysis of the trade receivables is as follows:

	2006 US$'000	2005 US$'000
Current	**54,129**	41,851
0 to 30 days	**26,845**	15,831
31 to 60 days	**6,442**	4,902
61 to 90 days	**1,768**	2,704
Over 91 days	**5,918**	7,929
	95,102	73,217

The Group has recognized a loss of US$368,000 (2005: US$88,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in general and administrative expenses in the consolidated income statement.

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2006, certain of the Group's trade and bills receivable with an amount of US$11,863,000 was denominated in Euro, which is subject to currency risk.

The creation and release of provision for impaired receivables have been included in the general and administrative expenses in the consolidated income statement (Note 23).

14 INVENTORIES

	2006	2005
	US$'000	US$'000
Raw materials	**30,986**	29,270
Work-in-progress	**20,378**	15,175
Finished goods	**13,968**	20,338
	65,332	64,783

The cost of inventories recognized as expense and included in cost of sales amounted to US$444,219,000 (2005: US$386,939,000).

As at 31 December 2006, certain inventories were held under trust receipts bank loan arrangement.

15 CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank and in hand	**42,951**	53,047	**430**	73
Short-term bank deposits	**64,125**	94,991	**–**	–
Cash and cash equivalents in the balance sheets	**107,076**	148,038	**430**	73
Time deposit with maturity beyond three months but less than one year	**–**	(56,674)		
Bank overdrafts (Note 18)	**(10,099)**	(11,361)		
Cash and cash equivalents in the consolidated cash flow statement	**96,977**	80,003		

15 CASH AND CASH EQUIVALENTS (CONTINUED)

As at 31 December 2006, certain of the Group's bank deposits with an amount of US$1,969,000 and US$2,376,000 were denominated in Euro and Chinese Renminbi, respectively, which are subject to currency risk.

The effective interest rate on short-term bank deposits was 4.33% (2005: 2.7%) per annum; these deposits have an average maturity of 62 days (2005: 62 days).

As at 31 December 2006, a pledged bank deposit has a maturity period of 90 days. Certain of the Group's banking facilities were pledged by such bank deposit of US$681,000 (2005: Nil).

16 SHARE CAPITAL

	Number of shares	**Nominal value** US$'000
Authorized – ordinary shares of US$0.01 each		
At 31 December 2005 and 2006	1,500,000,000	15,000
Issued and fully paid – ordinary shares of US$0.01 each		
At 1 January 2005	902,300,000	9,023
Issue of new shares	90,200,000	902
At 31 December 2005 and 2006	992,500,000	9,925

Share option

The Company has adopted a share option scheme (the "Scheme") which is effective for a period of 10 years commencing 27 June 2004 pursuant to a written resolution of the then sole shareholder of the Company on 27 June 2004.

Under the Scheme, the Company may grant options to selected full-time employees and directors of the Company and its subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

16 SHARE CAPITAL (CONTINUED)

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Movements in the number of share options are as follows:

			Number of shares			
Date of grant	**Exercisable period**	**Subscription price per share**	**Beginning of year**	**Granted**	**Cancelled**	**End of year**
			'000	'000	'000	'000
28 December 2004	From 28 December 2004 to 27 December 2007	HK$4.10	7,757	–	(137)	7,620
26 January 2006	From 26 January 2007 to 25 January 2011	HK$2.52	–	8,710	(290)	8,420
10 November 2006	From 10 November 2007 to 9 November 2011	HK$1.28	–	9,031	–	9,031
			7,757	17,741	(427)	25,071

16 SHARE CAPITAL (CONTINUED)

On 26 January 2006 and 10 November 2006, the Group has granted 8,710,000 and 9,031,000 share options to directors and employees, respectively. The weighted average fair value of options granted during the year determined using the Binomial Lattice Model was HK$0.78 and HK$0.46 per option, respectively. The significant inputs into the model were as follows:

	Share options granted at	
	26 January 2006	**10 November 2006**
Weighted average share price at grant date	HK$2.50	HK$1.28
Volatility	37%	43%
Dividend yield	2.1%	1.7%
Expected option life	3 to 5 years	3 to 5 years
Annual risk free interest rate	4.0%	3.76% for the first 3 years and 3.9% for the next 2 years

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	**Exercise price**	**Number of share options**	
		2006	2005
27 December 2007	HK$4.10	**7,620**	7,757
25 January 2011	HK$2.52	**8,420**	–
9 November 2011	HK$1.28	**9,031**	–
		25,071	7,757

17 OTHER RESERVES

(a) Group

	Share premium US$'000	Capital reserve (Note (i)) US$'000	Other reserves US$'000	Share based compensation reserve US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2005	71,686	11,722	–	–	(3,609)	79,799
Net proceeds from issuance of new shares	45,312	–	–	–	–	45,312
Recognition of financial liability arising from acquisition of a subsidiary (Note 20)	–	–	(6,579)	–	–	(6,579)
Revaluation deficit	–	–	(349)	–	–	(349)
Exchange differences arising from translation of foreign subsidiaries	–	–	–	–	(457)	(457)
As at 31 December 2005	116,998	11,722	(6,928)	–	(4,066)	117,726
At 1 January 2006	**116,998**	**11,722**	**(6,928)**	**–**	**(4,066)**	**117,726**
Recognition of financial liability arising from acquisition of a subsidiary (Note 20)	**–**	**–**	**(20,383)**	**–**	**–**	**(20,383)**
Acquisition of a subsidiary	**–**	**–**	**(1,450)**	**–**	**–**	**(1,450)**
Share based compensation expense	**–**	**–**	**–**	**539**	**–**	**539**
Exchange differences arising from translation of foreign subsidiaries	**–**	**–**	**–**	**–**	**2,196**	**2,196**
As at 31 December 2006	**116,998**	**11,722**	**(28,761)**	**539**	**(1,870)**	**98,628**

17 OTHER RESERVES (CONTINUED)

(b) Company

	Share premium US$'000	Capital reserve (Note (ii)) US$'000	Share based compensation reserve US$'000	Total US$'000
At 1 January 2005	71,686	71,564	–	143,250
Net proceeds from issuance of new shares	45,312	–	–	45,312
At 31 December 2005	116,998	71,564	–	188,562
At 1 January 2006	**116,998**	**71,564**	**–**	**188,562**
Share based compensation expense	**–**	**–**	**539**	**539**
At 31 December 2006	**116,998**	**71,564**	**539**	**189,101**

Notes:

(i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the IPO reorganization and the nominal value of the Company's shares issued in exchange thereof.

(ii) The Company's capital reserve represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries through the share exchange under the Group's IPO reorganization.

18 BORROWINGS

	2006 US$'000	2005 US$'000
Non-current		
Bank borrowings	**38,250**	386
Current		
Bank overdrafts	**10,099**	11,361
Collateralized borrowings	**327**	740
Current portion of non-current bank loans	**4,900**	46,399
Trust receipt bank loans	**15,858**	24,801
	31,184	83,301
Total borrowings	**69,434**	83,687

At 31 December 2006, the Group's borrowings were repayable as follows:

	Bank overdrafts		Trust receipt bank loans		Bank loans		Total	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
Within 1 year	**10,099**	11,361	**15,858**	24,801	**5,227**	47,139	**31,184**	83,301
Between 1 to 2 years	**–**	–	**–**	–	**4,500**	386	**4,500**	386
Between 2 to 5 years	**–**	–	**–**	–	**13,500**	–	**13,500**	–
Wholly repayable within 5 years	**10,099**	11,361	**15,858**	24,801	**23,227**	47,525	**49,184**	83,687
Over 5 years	**–**	–	**–**	–	**20,250**	–	**20,250**	–
	10,099	11,361	**15,858**	24,801	**43,477**	47,525	**69,434**	83,687

The carrying amounts of the borrowings are denominated in the following currencies:

	2006 US$'000	2005 US$'000
Hong Kong dollars	**7,301**	10,459
US dollars	**62,133**	73,228
	69,434	83,687

18 BORROWINGS (CONTINUED)

The effective interest rates at the balance sheet date were as follows:

	2006		2005	
	US$	**HK$**	US$	HK$
Bank loans	**4.62%**	**–**	4.08%	–
Trust receipt bank loans	**5.23%**	**4.07%**	4.78%	3.03%
Bank overdrafts	**8.00%**	**8.00%**	6.75%	6.25%

Bank borrowings are secured by the corporate guarantee provided by the Company. Collateralized borrowings are secured by trade receivables.

The carrying amounts of the borrowings approximately equal their fair values.

19 RETIREMENT BENEFIT OBLIGATIONS

	2006	2005
	US$'000	US$'000
Balance sheet obligation for:		
Defined benefit plans	**1,813**	1,667
Provision for long service payments	**482**	374
	2,295	2,041
Income statement charge for (Note 24):		
– Defined benefit plans	**838**	523
– Provision for long service payment	**80**	74
	918	597

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in the Philippines are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$636,000 for the year ended 31 December 2006 (2005: US$603,000).

(b) Defined benefit plans

The amounts recognized in the consolidated balance sheet are determined as follows:

	2006	2005
	US$'000	US$'000
Present value of unfunded obligations	**1,791**	1,199
Unrecognized actuarial gains	**22**	468
Liability in the consolidated balance sheet	**1,813**	1,667

The amounts recognized in the consolidated income statement are as follows:

	2006	2005
	US$'000	US$'000
Current service cost	**372**	374
Interest cost	**137**	148
Actuarial (gain)/loss recognized during the year	**(35)**	1
Curtailment/settlement loss	**364**	–
Total, included in staff costs (Note 24)	**838**	523

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (continued)

The movements of the liability recognized in the consolidated balance sheet are as follows:

	2006 US$'000	2005 US$'000
At 1 January	**1,667**	1,129
Total expense – included in staff costs as shown above	**838**	523
Contributions paid	**(809)**	(2)
Exchange difference	**117**	17
At 31 December	**1,813**	1,667

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	**9.0%**	12.0%
Future salary increase rate	**7.5%**	7.5%

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. Such long service payment obligations are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2006 US$'000	2005 US$'000
Present value of unfunded obligations	**605**	656
Unrecognized actuarial losses	**(123)**	(282)
Liability in the consolidated balance sheet	**482**	374

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments (continued)

The amounts recognized in the consolidated income statement are as follows:

	2006	2005
	US$'000	US$'000
Current service cost	**19**	16
Interest cost	**24**	18
Net actuarial losses recognized	**37**	40
Total, included in employee benefit expense (Note 24)	**80**	74

The above charges were included in general and administrative expenses.

Movements of the provision for long service payments of the Group are as follows:

	2006	2005
	US$'000	US$'000
At 1 January	**374**	468
Total expenses – included in staff costs as shown above	**80**	74
Contributions paid	**(106)**	(168)
MPF refund received	**134**	–
At 31 December	**482**	374

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	**3.7%**	4.0%
Future salary increase rate	**3.0%**	3.5%

20 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprised:

	2006 **US$'000**	2005 US$'000
Consideration payable for acquisition of subsidiaries	**1,690**	3,717
Financial liabilities in connection with the put options granted for the acquisition of subsidiaries	**20,383**	6,579
	22,073	10,296

The consideration payable represented the balance of consideration payable for the acquisition of 50% equity interest in On Time International Limited ("On time") and 71% equity interest in Partner Joy Group Limited ("Partner Joy"). Financial liabilities represented the amounts payable for the put options granted to the vendors of On Time and Partner Joy to sell their 40% and 29% interest in On Time and Partner Joy, respectively to the Group.

The repayment schedule of the consideration payable and financial liabilities is as follows:

	2006 **US$'000**	2005 US$'000
Consideration payable:		
– Within one year	**6,302**	5,559
– Between two and five years	**1,905**	3,973
Financial liabilities:		
– Within one year	**9,097**	–
– Between two and five years	**26,004**	6,825
	43,308	16,357
Less: Amount representing interest element	**(5,836)**	(502)
Present value of consideration payable and financial liabilities	**37,472**	15,855
Less: Current portion included in other payables and accruals	**(15,399)**	(5,559)
	22,073	10,296

21 TRADE AND OTHER PAYABLES

	2006	2005
	US$'000	US$'000
Trade and bills payables	**43,906**	31,558
Amounts due to related companies	**1,499**	2,775
Amount due to jointly controlled entities and associated companies	**84**	–
Other payables and accruals	**76,032**	58,068
	121,521	92,401

At 31 December 2006, the ageing analysis of trade and bills payables was as follows:

	2006	2005
	US$'000	US$'000
Current	**17,283**	16,242
0 to 30 days	**17,242**	8,464
31 to 60 days	**4,059**	909
61 to 90 days	**819**	1,602
Over 91 days	**4,503**	4,341
	43,906	31,558

As at 31 December 2006, certain of the Group's trade and bills payables with an amount of US$8,130,000 and US$927,000, were denominated in Euro and Chinese Renminbi respectively, which are subject to currency risk.

22 REVENUE

	2006 US$'000	2005 US$'000
Sales of garment and textile products	**644,416**	578,362
Freight forwarding and logistics service fee	**13,791**	11,872
Management income from a related company, jointly controlled entity and an associated company	**427**	594
Rental income from a related company and a jointly controlled entity	**198**	176
Commission income from a related company and an associated company	**1,749**	998
Others	**1,255**	1,116
	661,836	593,118

23 EXPENSES BY NATURE

	2006	2005
	US$'000	US$'000
Changes in inventories of finished goods and work-in-progress	**161,949**	100,312
Raw materials used	**282,270**	286,627
Provision for/(write-back of) inventory obsolescence	**1,047**	(980)
Exchange difference, net	**727**	638
Loss on disposal of property, plant and equipment and leasehold land	**115**	426
Auditors' remuneration	**733**	689
Amortization of leasehold land and land use rights	**102**	82
Amortization of intangible assets	**1,064**	490
Provision for impairment of intangible asset	**827**	–
Depreciation of property, plant and equipment	**13,489**	11,232
Provision for impairment of property, plant and equipment	**1,273**	–
Provision for claims	**2,082**	2,173
Provision for impairment of receivables	**368**	88
Operating leases		
– office premises and warehouses	**5,539**	4,222
– plant and machinery	**1,717**	1,559
Quota expenses	**2,343**	280
Employee benefit expense (Note 24)	**118,033**	113,985
Transportation	**3,886**	2,981
Commission	**1,527**	1,384
Legal and professional fee	**2,904**	3,740
Communication, supplies and utilities	**21,737**	26,472
Write-back of other payables	**(778)**	(5,401)
Other expenses	**25,349**	21,044
	648,303	572,043
Representing:		
Cost of sales	**537,565**	479,445
Selling and distribution expenses	**19,168**	14,325
General and administrative expenses	**91,570**	78,273
	648,303	572,043

24 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses during the year are as follows:

	2006 US$'000	2005 US$'000
Wages, salaries and allowances	113,195	110,282
Termination benefits	2,207	502
Share options granted to directors and employees	539	–
Pension costs		
– Defined contribution plans (Note 19(a))	636	603
– Defined benefit plans (Note 19(b))	838	523
– Long service payments (Note 19(c))	80	74
Others	538	2,001
	118,033	113,985

(b) Directors' and senior management

The remuneration of each Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits [1] US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
Mr. Tan Siu Lin	–	128	–	–	–	128
Mr. Tan Henry	–	332	–	13	2	347
Mr. Tan Cho Lung, Raymond	–	289	–	9	2	300
Ms. Mok Siu Wan Anne	–	414	–	32	18	464
Mr. Tan Sunny [3]	–	112	–	19	2	133
Non-executive director						
Mr. Tan Willie [2]	88	149	–	17	–	254
Independent non-executive directors						
Mr. Chan Henry	13	–	–	–	–	13
Mr. Cheung Siu Kee	13	–	–	–	–	13
Mr. Seing Nea Yie	13	–	–	–	–	13

24 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Directors' and senior management (continued)

The remuneration of each Director for the year ended 31 December 2005 is set out below:

Name of Director	Fee US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits [1] US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive Directors						
Mr. Tan Siu Lin	–	128	–	–	–	128
Mr. Tan Henry	–	331	–	–	2	333
Mr. Tan Willie	–	321	–	–	–	321
Mr. Tan Cho Lung, Raymond	–	240	19	–	2	261
Ms. Mok Siu Wan Anne	–	433	300	–	2	735
Independent non-executive Directors						
Mr. Chan Henry	13	–	–	–	–	13
Mr. Cheung Siu Kee	13	–	–	–	–	13
Mr. Seing Nea Yie	13	–	–	–	–	13
Mr. Fok Kwan Wing (deceased on 21 January 2005)	1	–	–	–	–	1

1 Other benefits include leave pay, share option, insurance premium and club membership.

2 Mr. Tan Willie resigned as an executive Director and was redesignated as a non-executive Director with effect from 26 May 2006.

3 Mr. Tan Sunny was appointed as an executive Director with effect from 26 May 2006.

None of the Directors waived any emoluments paid by the Group companies during the year.

24 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year (2005: three) are as follows:

	2006	2005
	US$'000	US$'000
Basic salaries, other allowances and benefit in kind	**733**	654
Discretionary bonuses	**480**	609
Pension scheme contributions	**12**	12
Others	**28**	–
	1,253	1,275

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
US$258,001 to US$323,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**–**	–
US$323,001 to US$387,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	–
US$387,001 to US$452,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**–**	3
US$452,001 to US$516,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**2**	–
	3	3

During the year, no emoluments have been paid to the Directors or the five highest paid individuals as an inducement to join or as compensation for loss of office.

25 FINANCE INCOME AND COSTS

	2006	2005
	US$'000	US$'000
Interest expense on bank loans and overdrafts	**4,091**	3,474
Change in estimates of financial liabilities	**2,517**	–
Finance costs	**6,608**	3,474
Finance income – interest income	**(3,500)**	(1,980)
Net finance costs	**3,108**	1,494

26 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006	2005
	US$'000	US$'000
Current income tax:		
– Hong Kong profits tax	**1,774**	742
– Overseas taxation	**3,213**	5,102
Over-provision in prior years	**(512)**	(3,338)
Deferred income tax (Note 12)	**525**	427
	5,000	2,933

26 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2006 US$'000	2005 US$'000
Profit before income tax	**10,044**	17,433
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**1,758**	3,051
Effect of different taxation rates in other countries	**(90)**	3,090
Income not subject to tax	**(790)**	(1,991)
Expenses not deductible for taxation purposes	**1,818**	871
Tax losses for which no deferred income tax asset was recognized	**3,356**	1,284
Utilization of previously unrecognized tax losses	**(22)**	(34)
Tax effect of share of results of associated companies and jointly controlled entities	**(518)**	–
Over-provision in prior years	**(512)**	(3,338)
Tax charge	**5,000**	2,933

Subsequent to year end, a subsidiary has received from the Hong Kong Inland Revenue Department an additional assessment relating to assessment year 2000/01 for taxation amounting to approximately US$1,080,000. This additional assessment relates to a dispute on the non-taxable claim of certain non-Hong Kong sourced income for tax assessment purposes. The directors believe that the Group has grounds to contest the additional assessment and have taken appropriate action to object the additional assessment. Therefore, no provision has been made in the financial statements for the year ended 31 December 2006 in relation to the above additional assessment of US$1,080,000.

27 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$1,368,000 (2005: US$4,459,000).

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
	US$'000	US$'000
Profit attributable to equity holders of the Company	**2,509**	13,240
Weighted average number of ordinary shares in issue	**992,500,000**	983,356,000
Basic earnings per share (US cents per share)	**0.3**	1.3

There was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

29 DIVIDENDS

	2006	2005
	US$'000	US$'000
Interim dividend paid of US0.186 cent (2005: US0.244 cent) per ordinary share	**1,846**	2,422
Proposed final dividend of Nil (2005: US0.156 cent) per ordinary share	**–**	1,548
	1,846	3,970

30 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2006 **US$'000**	2005 US$'000
Profit before income tax	**10,044**	17,433
Adjustment for:		
Share of (profits)/losses of associated companies	**(54)**	1,891
Share of losses of jointly controlled entities	**435**	257
Finance income (Note 25)	**(3,500)**	(1,980)
Finance costs (Note 25)	**6,608**	3,474
Amortization of intangible assets (Note 8)	**1,064**	490
Amortization of leasehold land and land use nights (Note 6)	**102**	82
Depreciation of property, plant and equipment (Note 7)	**13,489**	11,232
Impairment of property, plant and equipment	**1,273**	–
Impairment of intangible asset	**827**	–
Loss on disposal of property, plant and equipment, net	**115**	361
Loss on disposal of leasehold land	**–**	65
Gain on disposal of a subsidiary	**(35)**	–
Gain on disposal of an associate	**–**	(98)
Share based compensation expense	**539**	–
Operating profit before working capital changes	**30,907**	33,207
Inventories	**(554)**	9,390
Trade and bills receivables	**(5,709)**	12,774
Amounts due from related companies	**458**	(859)
Amounts due from associated companies and jointly controlled entities	**(4,733)**	2,638
Deposits, prepayments and other receivables	**(5,032)**	3,395
Amounts due to related companies	**(479)**	(4,223)
Amounts due to associated companies and jointly controlled entities	**84**	(644)
Trade and bills payables	**(2,456)**	(6,927)
Other payables and accruals	**4,818**	8,379
Retirement benefit obligation	**254**	444
Cash generated from operations	**17,558**	57,574

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(a) Cash generated from operations (continued)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006	2005
	US$'000	US$'000
Net book amount (Note 7)	**1,585**	1,616
Loss on disposal of property, plant and equipment	**(115)**	(361)
Proceeds from disposal of property, plant and equipment	**1,470**	1,255

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Acquisition of a subsidiary

	2006 US$'000	2005 US$'000
Property, plant and equipment	**1,607**	1,774
Inventories	**–**	11,605
Bank deposits maturing beyond three months	**–**	4,448
Trade and bills receivables	**16,825**	8,977
Deposits, prepayments and other receivables	**469**	1,451
Amount due from related companies	**452**	–
Intangible asset	**19,140**	10,279
Goodwill	**1,037**	–
Cash and bank deposits	**5,567**	2,226
Trade and bills payables	**(14,804)**	(8,419)
Other payables and accruals	**(3,307)**	(586)
Taxation payable	**(8,108)**	(531)
Amount due to related companies	**(174)**	(6,503)
Bank borrowings	**–**	(11,848)
Deferred tax liabilities	**(3,350)**	(4)
Net assets	**15,354**	12,869
Minority interest	**(7,677)**	(3,732)
	7,677	9,137
Reimbursement receivable	**3,309**	–
Total net assets acquired	**10,986**	9,137
Goodwill	**9,954**	8,098
	20,940	17,235
Satisfied by:		
Cash	**19,250**	7,959
Balance of consideration payable	**1,690**	9,276
	20,940	17,235

30 CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(b) Acquisition of a subsidiary (continued)

Analysis of the net cash outflow in respect of the acquisition of a subsidiary:

	2006 **US$'000**	2005 US$'000
Acquisition consideration settled in cash	**19,250**	7,959
Cash and cash equivalents in the subsidiary acquired	**(5,567)**	(2,226)
Net cash outflow in respect of the acquisition of a subsidiary	**13,683**	5,733

(c) Disposal of a subsidiary

	2006 **US$'000**
Property, plant and equipment	**197**
Inventories	**5**
Deferred tax assets	**38**
Deposits, prepayment and other receivables	**22**
Cash and bank balances	**4**
Amount due from related companies	**870**
Amounts due to related companies	**(971)**
Net assets disposed	**165**
Gain on disposal of a subsidiary	**35**
Satisfied by:	
Cash	**200**

Analysis of the net cash inflow in respect of the disposal of a subsidiary:

	2006 **US$'000**
Cash consideration	**200**
Cash and bank balances transferred	**(4)**
Net cash inflow in respect of the disposal of a subsidiary	**196**

31 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	2005
	US$'000	US$'000
Property, plant and equipment		
– Contracted but not provided for	**3,545**	3,878

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
	US$'000	US$'000
Land and buildings		
– No later than 1 year	**2,066**	4,292
– Later than 1 year but no later than 5 years	**2,024**	5,614
– Later than 5 years	**3,877**	3,287
	7,967	13,193
Facilities and equipment		
– No later than 1 year	**73**	218
– Later than 1 year but no later than 5 years	**89**	623
	162	841

32 BUSINESS COMBINATIONS

On 10 March 2006, the Group entered into a sale and purchase agreement in respect of the acquisition of 50% equity interest in On Time. On Time is principally engaged in the trading of garment products. The acquisition consideration is based on the audited consolidated results of On Time for the three years ending 31 December 2008 and is subject to a minimum of US$19,250,000 and a maximum of US$33,000,000. The acquisition was completed on 3 April 2006. During the year, an upfront cash consideration of US$19,250,000 was paid.

32 BUSINESS COMBINATIONS (CONTINUED)

In addition, certain call options have been granted to the Group in connection with the acquisition of On Time which allow the Group to acquire the remaining 50% of the entire share capital in On Time from the other shareholder of On Time under certain terms and conditions as stipulated in the shareholders' agreement. The call options were exercisable starting from 10 September 2006. In the circumstances, the Group is able to control the financial and operating policies of On Time with the additional voting right in On Time's Board of Directors upon the exercise of the first 10% call option. In addition, certain put options have also been granted to the other shareholder which allow the other shareholder to sell its 40% of equity interests in On Time to the Group under certain terms and conditions as stipulated in the shareholders' agreement.

Details of net assets acquired and goodwill are as follows:

	US$'000
Acquisition consideration:	
– Cash paid	19,250
– Balance of consideration payable	1,690
Total acquisition consideration	20,940
Fair value of net assets acquired	(10,986)
Goodwill (Note 30(b))	9,954

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of On Time.

32 BUSINESS COMBINATIONS (CONTINUED)

Details of the assets and liabilities arising from the acquisition are as follows:

	Fair value US$'000	Acquiree's carrying amount US$'000
Property, plant and equipment	1,607	1,607
Trade and bills receivables	16,825	16,825
Deposits, prepayments and other receivables	469	469
Amount due from related companies	452	452
Intangible asset	19,140	–
Goodwill	1,037	1,037
Cash and bank deposits	5,567	5,567
Trade and bills payables	(14,804)	(14,804)
Other payables and accruals	(3,307)	(3,307)
Taxation payable	(8,108)	(8,108)
Amount due to related companies	(174)	(174)
Deferred tax liabilities	(3,350)	–
	15,354	(436)
Minority interest	(7,677)	
	7,677	
Reimbursement receivable	3,309	
Net assets acquired	10,986	

33 RELATED PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the BVI, owns 61.89% in the Company's shares. The directors regard the ultimate holding company of the Company to be Helmsley Enterprises Limited, a company incorporated in the Bahamas.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies, associated companies and jointly controlled entities. Related companies are companies which are beneficially owned, or controlled, by Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny, executive Directors of the Company, individually, jointly or collectively, or together with their close family members (collectively referred to as the "Tan's Family").

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

(i) Provision of goods and services

	2006 **US$'000**	2005 US$'000
Management fee income from		
– related companies	**146**	–
– an associated company	**–**	261
– a jointly controlled entity	**281**	333
	427	594
Commission income from		
– a related company	**1,749**	36
– an associated company	**–**	962
	1,749	998
Freight forwarding and logistics service income from		
– related companies	**426**	1,288
– an associated company	**27**	–
– a jointly controlled entity	**66**	10
	519	1,298
Sales to a jointly controlled entity	**8,074**	12,926
Subcontracting income from a jointly controlled entity	**–**	53
Rental income from		
– a related company	**198**	173
– a jointly controlled entity	**–**	3
	198	176
Recharge of administrative expenses from related companies	**308**	–

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

(ii) Purchases of goods and services

	2006 US$'000	2005 US$'000
Management fee charged by related companies	**1**	10
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	**1,546**	1,001
Office supplies charged by related companies	**95**	267
Packaging expenses charged by related companies	**658**	1,001
Insurance expenses charged by related companies	**504**	888
Traveling related service fees charged by related companies	**567**	967
Professional and technological support service fees to related companies	**2,018**	2,068
Repair and maintenance expenses charged by related companies	**107**	182
Freight forwarding and logistics services charged by related companies	**634**	1,059
Property, plant and machinery acquired from a related company	**777**	–
Subcontracting fees charged by jointly controlled entities	**1,416**	1,592
Administrative and support service fees charged by related companies	**2,530**	5,320
Recharge of material costs and other expenses to		
– related companies	**–**	528
– associated company and jointly controlled entities	**2,657**	5,738
	2,657	6,266
Handling service fee paid/payable to PT. Best Indo*	**918**	–
Property, plant and machinery acquired from PT. Best Indo* and PT. Bestex*	**412**	–

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

(ii) Purchases of goods and services (continued)

* PT. Best Indo and PT. Bestex are companies incorporated in Indonesia and owned by Mr. Frank Fleischer, a minority shareholder of On Time and his family member.

The above related party transactions were carried out in accordance with the terms mutually agreed by the respective parties.

(b) Key management compensation

	2006 **US$'000**	2005 US$'000
Basic salaries and allowance	**3,492**	3,049
Bonus	**511**	1,114
Pension scheme contributions	**38**	26
Others	**191**	–
	4,232	4,189

(c) Banking facilities

As at 31 December 2006, certain banking facilities of certain subsidiaries of the Group were secured by the corporate guarantees given by the Company.

The Company also provided corporate guarantees to the extent of HK$30,000,000 to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

(d) Amount due from/(to) related companies, jointly controlled entities and associated companies

As at 31 December 2006, the outstanding balances with the related companies, jointly controlled entities and associated companies are unsecured, interest-free and repayable on demand.

34 CONTINGENT LIABILITIES AND LITIGATION

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the financial statements.

35 EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

On 3 April 2007, a wholly owned subsidiary of the Company has exercised in full its rights of the first 10% call options granted to require the minority shareholder of On Time to sell and transfer its 10% interest in the issued share capital of On Time. The estimated cost to acquire these shares in On Time is approximately US$4,231,000. Upon completion, On Time will become a 60% owned subsidiary of the Group.