Notes to the Accounts

For the year ended 31st December, 2005

1 GENERAL INFORMATION

Carry Wealth Holdings Limited (the "Company") and its subsidiaries (together the "Group") manufactures and trades garment products. The Group has production facilities in Indonesia, Lesotho, El Salvador and Mainland China.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 23rd March, 2006.

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, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Carry Wealth Holdings Limited 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 buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and investment properties, 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 Company'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)

(a) Standards, interpretations and amendments to published standards effective on or after 1st January, 2006 or later periods

At the date of authorisation of the financial statements, the Group has not early adopted the following standards and interpretations which have been issued but not yet effective. The Directors anticipate that the adoption of these Standards or Interpretations or Amendments in future periods will have no material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Present of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
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)

(b) The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

(i) The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, and 40 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associate and other disclosures.

- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and 40 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance in the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements. Entities where the functional currency differs from the presentation currency are translated based on the guidance of the revised standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) *The adoption of new/revised HKFRS (Continued)*

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(ii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value.

(iii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement and disclosure of financial instruments. Until 31st December, 2004, investments of the Group were classified as investment securities stated at cost less any provision for impairment losses and other investments stated at fair value in the balance sheet.

In accordance with HKAS 39, the investments have been reclassified into available-for-sale financial assets and financial assets at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently stated in the balance sheet at fair value. Balance of available-for-sale financial assets at 1st January, 2005 were re-measured at fair value with balance adjusted to retained earnings pursuant to the transitional provisions of HKAS 39. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the year in which they arise. Unrealised gains and losses arising from the changes in fair value of available-for-sale are recognised in equity. When securities classified as available-for-sale are derecognised at which time the cumulative gain or loss previously recognised in equity shall be recognised in income statement. When securities classified as available-for-sale are impaired, the cumulative loss that has been recognised directly in equity shall be removed from equity and recognised in income statement.

The Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as a collateralised bank advances prospectively on or after 1st January, 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) The adoption of new/revised HKFRS (Continued)

(iv) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December, 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January, 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the income statement of the respective periods.

(v) The adoption of HKAS 36, HKAS 38 and HKFRS 3 results in a change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

– Amortised on a straight line basis over its estimated useful life; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group has ceased amortisation of goodwill from 1st January, 2005;

– Accumulated amortisation as at 31st December, 2004 has been eliminated with corresponding decrease in the cost of goodwill;

– From the year ended 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

However, the adoption of HKFRS 3 has no significant effect on the Group's results for the year ended 31st December, 2005 and 2004.

(vi) All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 39 does not permit to recognise, derecognise and measure financial assets and financial liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investment securities and other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January, 2005; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) The adoption of new/revised HKFRS (Continued)

– HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information.

– HKFRS 2 requires only retrospective application for all equity instruments granted after 7th November, 2002 and not vested at 1st January, 2005.

– HKFRS 3 requires only prospective application after the adoption date.

(vii) The impact of adoption HKAS 17, HKAS 32, HKAS 36, HKAS 38, HKAS 39, HKFRS 2 and HKFRS 3 on the Group's consolidated income statement are as follows:

	For the year ended 31st December, 2005				For the year ended 31st December, 2004			
	HKAS 17	HKAS 32 and 39	HKFRS 2	HKAS 36, HKAS 38 and HKFRS 3	HKAS 17	HKAS 32 and 39	HKFRS 2	HKAS 36, HKAS 38 and HKFRS 3
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Increase/(decrease) in administrative expenses	382	–	2,200	(1,100)	286	–	–	–
Decrease /(increase) in profit for the year	382	–	2,200	(1,100)	286	–	–	–
Decrease/(increase) in basic earnings per share	0.11 HK cents	–	0.61 HK cents	(0.31 HK cents)	0.08 HK cents	–	–	–
Decrease/(increase) in diluted earnings per share	0.11 HK cents	–	0.61 HK cents	(0.31 HK cents)	N/A	N/A	N/A	N/A

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) The adoption of new/revised HKFRS (Continued)

(vii) The impact of adoption HKAS 17, HKAS 32, HKAS 36, HKAS 38, HKAS 39, HKFRS 2 and HKFRS 3 on the Group's consolidated income statement are as follows: (Continued)

The adoption of HKAS 17 resulted in a decrease in fixed assets revaluation reserve and retained earnings at 1st January, 2004 by HK$5,909,000 and HK$1,208,000 respectively. The adoption of HKAS 32 and HKAS 39 resulted in an increase in opening retained earnings as at 1st January, 2005 by HK$938,000. Effect of adopting HKASs 17, 32, 36, 38, 39, HKFRS 2 and HKFRS 3 on consolidated balance sheets as at 31st December, 2005 and 31st December, 2004 are as follows:

	As at 31st December, 2005				As at 31st December, 2004			
	HKAS 17	HKAS 32 and 39	HKFRS 2	HKAS 36, HKAS 38 and HKFRS 3	HKAS 17	HKAS 32 and 39	HKFRS 2	HKAS 36, HKAS 38 and HKFRS 3
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Decrease in goodwill amortisation	–	–	–	1,100	–	–	–	–
Decrease in properties, plant and equipment	10,823	–	–	–	24,486	–	–	–
Increase in leasehold land	3,097	–	–	–	17,142	–	–	–
Increase in available-for-sale financial assets	–	10,408	–	–	–	–	–	–
Decrease in investment securities	–	2,125	–	–	–	–	–	–
Increase in financial assets at fair value through profit or loss	–	5,228	–	–	–	–	–	–
Decrease in other investments	–	8,821	–	–	–	–	–	–
(Decrease)/increase in retained earnings	(1,844)	938	(2,200)	1,100	(1,480)	–	–	–
Increase in share-based compensation reserve	–	–	2,200	–	–	–	–	–
Decrease in available-for-sale investments reserve	–	455	–	–	–	–	–	–
Decrease in fixed assets revaluation reserve	5,497	–	–	–	5,497	–	–	–
Decrease in minority interests	385	–	–	–	367	–	–	–

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the "Group") made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors. 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.

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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange fluctuation reserve.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries. 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 income statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Company's balance sheet, the investment in the associate is stated at cost less provision for impairment losses. The results of the associate is accounted for by the Company on the basis of dividend received and receivable.

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.

The Group has determined that geographical segments by location of customers be presented as the primary reporting format. Business segments are not presented as the secondary reporting format because the Group's turnover and operations were solely contributed by garment manufacturing business.

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 Hong Kong dollars, which is the Company's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(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 recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are reported 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 other reserves.

(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 follow:

(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; and

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised 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 translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Properties, plant and equipment

Buildings, comprises mainly of factories and offices, are shown at fair value and is determined by directors based on valuations by external independent valuers which are performed on an annual basis. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. 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 recognised 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 year in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to fixed asset revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fixed asset revaluation reserve directly in equity and all other decreases are expensed in the income statement.

Properties, plant and equipment are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their useful lives to the Group on a straight-line basis. The principal annual rates are as follow:

Buildings	2% to 5%
Leasehold improvements	5% to 20%
Plant and machinery	10% to 30%
Furniture, office equipment and motor vehicles	10% to 30%

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.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Investment properties (Continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset.

The fair value of investment property reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property, while others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are expensed in the income statement during the financial year in which they are incurred.

Changes in fair values are recognised in the income statement.

If an item of properties, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of properties, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions is included in intangible assets. 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.

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investments

From 1st January, 2004 to 31st December, 2004:

The Group classified its investments in securities, other than subsidiaries and associate, as investment securities and other investments.

(a) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(b) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement.

From 1st January, 2005 onwards:

The Group classifies its financial assets into financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

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

This category consists of financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investments (Continued)

(b) Available-for-sale financial assets (Continued)

Purchases and sales of investments are recognised on trade-date that is the date on which the Group commits to purchase or sell the asset. Investments are intially recognised at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through profit or loss and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or 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 in the year in which they arise.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences resulting from changes in amortised costs are recognised in the income statement and other changes in amortised costs are recognised in equity. For changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, making maximum use of market inputs option pricing models.

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. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised 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. 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 amount of the provision is recognised in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortised cost where any difference between the proceeds (net of transaction costs) and the redemption value is recognised 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.

2.15 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 at taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except where the timing of the reversal of the temporary difference is controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group makes contributions to the mandatory provident fund scheme (the "MPF Scheme") in Hong Kong, the assets of which are generally held in separate trustee-administered fund. The pension plan is generally funded by payments from employees and by the Group. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the MPF Scheme are recognised as employee benefit expense when they are incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iii) *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 recognised 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. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

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.

2.17 Provisions

Provisions are recognised when the Group has a present legal and constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

2.18 Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when shipment is made.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and using the effective interest method.

Rental income is recognised on a straight-line basis over the lease period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases (as the lessee)

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 expensed in the income statement on a straight-line basis over the lease period.

2.20 Dividend distribution

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

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks namely credit risk, foreign exchange risk and interest rate risk. The Group's overall risk management programme focuses on minimising potential adverse effect of these risks on the Group's financial performance.

(a) Credit risk

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

(b) Foreign exchange risk

The Group operates internationally and is thus exposed to foreign exchange risk arising from currency exposures, primarily the movement of US dollars relative to Hong Kong dollars.

The Group may consider entering into foreign exchange contracts from time to time so as to better manage these foreign exchange exposures, when required.

(c) Liquidity risk

The Group has adequate cash and credit facilities for its operating requirements.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Interest rate risk

The Group is exposed to the effect of changes in interest rates attributable to interest earning cash balances and interest-bearing loans, most of which are at variable rates. The effective interest rates are stated in Note 28 to the financial statements.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and available-for-sale securities, is based on quoted market prices at balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

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 a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group reviews annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes. The Group recognises 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.

5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in garment manufacturing. Revenues recognised during the year are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Sale of apparel products	**1,103,762**	905,248
Other revenues		
Interest income	**1,632**	1,785
Rental income	**53**	–
	1,685	1,785
Total revenues	**1,105,447**	907,033

The Group's turnover was solely contributed by garment manufacturing business. The customers are located in five main geographical areas namely United States of America, Europe, Canada, Southeast Asia and other countries.

5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (Continued)

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by geographical segment is as follows:

Primary reporting format – geographical segments by location of customers for 2005

	United States of America HK$'000	Europe HK$'000	Canada HK$'000	Southeast Asia HK$'000	Other countries HK$'000	Group HK$'000
Turnover	1,011,776	16,737	40,846	24,303	10,100	1,103,762
Segment results	113,012	1,582	4,269	2,360	292	121,515
Unallocated other revenues						738
Unallocated fair value gain on investment properties						4,075
Unallocated administrative expenses						(42,502)
Operating profit						83,826
Finance costs						(4,692)
Share of profit of an associate						301
Profit before taxation						79,435
Income tax expense						(8,226)
Profit for the year						71,209
Segment assets	84,187	4,522	4,888	17,343	625	111,565
Unallocated assets						395,401
Total assets						506,966
Unallocated liabilities						250,207
Capital expenditure						27,181
Depreciation						15,609
Impairment of goodwill						187
Amortisation of leasehold land						544

Unallocated administrative expenses represent corporate expenses, including gains and losses of financial assets at fair value through profit or loss.

5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments by location of customers for 2004

	United States of America HK$'000	Europe HK$'000	Canada HK$'000	Southeast Asia HK$'000	Other countries HK$'000	Group HK$'000 (Restated)
Turnover	804,783	21,236	44,548	28,195	6,486	905,248
Segment results	7,404	(554)	(20)	(2,118)	193	4,905
Unallocated other revenues						284
Unallocated administrative expenses						(48,811)
Operating loss						(43,622)
Finance costs						(3,011)
Loss before taxation						(46,633)
Income tax credit						3,890
Loss for the year						(42,743)
Segment assets	59,704	5,128	761	16,762	391	82,746
Unallocated assets						405,010
Total assets						487,756
Unallocated liabilities						263,400
Capital expenditure						56,580
Depreciation						16,937
Amortisation of goodwill						1,286
Amortisation of leasehold land						611

Unallocated administrative expenses represent corporate expenses.

5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments by location of assets

	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
Hong Kong	**170,794**	**3,284**
Indonesia	**207,170**	**18,913**
Lesotho	**36,383**	**343**
El Salvador	**46,534**	**390**
Mainland China	**44,985**	**4,251**
	505,866	**27,181**
Unallocated assets	**1,100**	**–**
	506,966	**27,181**

	Total assets 2004 HK$'000 (Restated)	Capital expenditure 2004 HK$'000
Hong Kong	162,756	446
Indonesia	168,693	2,929
Lesotho	39,081	52
El Salvador	30,793	40
Vietnam	15,355	161
Mainland China	69,791	52,952
	486,469	56,580
Unallocated assets	1,287	–
	487,756	56,580

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	2005 HK$'000	2004 HK$'000 (Restated)
Crediting		
Unrealised gains on other investments	–	289
Unrealised gains on financial assets through profit and loss	**131**	–
Gain on disposal of fixed assets	**14**	49
Gain on deemed disposal of a subsidiary	**969**	–
Net exchange gain	–	666
Charging		
Cost of inventories sold	**889,223**	791,971
Quota charges	**486**	22,201
Depreciation of properties, plant and equipment	**15,609**	16,937
Amortisation of leasehold land	**544**	611
Employee benefit expense (excluding directors' emoluments) *(Note 12)*	**192,300**	167,961
Operating lease – land and buildings	**11,012**	10,547
Bad debt written off	–	4,895
Fixed assets written off	–	6,788
Impairment of goodwill	**187**	–
Amortisation of goodwill	–	1,286
Auditors' remuneration	**1,803**	1,692
Net exchange losses	**375**	–

7 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interests on bank borrowings and overdrafts wholly repayable within five years	**4,692**	3,011

8 INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	2005	2004
	HK$'000	HK$'000
Current income tax		
– Hong Kong profits tax	**5,508**	379
– overseas taxation	**2,962**	1,357
Over provision of Hong Kong profits tax in prior years	**(5)**	(6,014)
Deferred income tax *(Note 29)*	**(239)**	388
Income tax expense/(credit)	**8,226**	(3,890)

The tax on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit/(loss) before taxation	**79,435**	(46,633)
Calculated at tax rate of 17.5% (2004: 17.5%)	**13,901**	(8,161)
Effect of different taxation rates in other countries	**2,705**	3,866
Income not subject to taxation	**(5,720)**	(4,977)
Expenses not deductible for taxation purposes	**1,239**	2,562
Unrecognised deferred tax assets	**91**	8,834
Over provision of profits tax in prior years	**(5)**	(6,014)
Utilisation of previously unrecognised tax losses	**(3,985)**	–
Income tax expense/(credit)	**8,226**	(3,890)

9 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of profit of HK$38,979,000 (2004: loss of HK$48,000,000).

10 EARNINGS/(LOSS) PER SHARE

(i) Basic

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

	2005 HK$'000	2004 HK$'000 (Restated)
Profit/(loss) attributable to equity holders of the Company	**65,720**	(41,180)
Weighted average number of ordinary shares in issue (thousands)	**360,034**	360,034
Basic earnings/(loss) per share (HK cents per share)	**18.25**	(11.44)

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares that is share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005 HK$'000
Profit attributable to equity holders of the Company	**65,720**
Weighted average number of ordinary shares in issue (thousands)	**360,034**
Adjustments for share options (thousands)	**108**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**360,142**
Diluted earnings per share (HK cents per share)	**18.25**

No diluted loss per share is calculated for the year ended 31st December, 2004 since the exercise price of the Company's outstanding share options was higher than the average fair value per share of the Company during the year.

11 DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend paid of HK$0.02 (2004: HK$Nil) per ordinary share	**7,201**	–
Proposed final dividend of HK$0.05 (2004: HK$Nil) per ordinary share	**18,002**	–
	25,203	–

12 EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2005 HK$'000	2004 HK$'000
Wages and salaries	**185,085**	163,317
Termination benefits	**4,967**	3,115
Pension costs – Mandatory Provident Fund Schemes *(Note)*	**1,472**	1,529
Share options granted to employees *(Note 31)*	**776**	–
	192,300	167,961

Note:

Mandatory Provident Fund Schemes

(i) Pursuant to the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1st December, 2000.

(ii) The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$4,000 per month. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

12 EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(iii) For employees whose basic salaries are in excess of HK$20,000 per month, the employees may choose to make voluntary contributions at 5%, 7.5% or 10% of their salaries on a monthly basis. The Group shall then make 5% of their salaries as voluntary contributions for such employees. The employees are entitled to 100% of the Group's voluntary contributions after ten completed years of service, or at an increasing scale of between 30% to 90% after completion of three to nine years of service. Where an employee leaves the Group before the Group's contribution has fully vested, such forfeited contributions may be used by the Group to reduce its existing level of contributions. Forfeited contributions totalling HK$23,000 (2004: HK$105,000) were utilised during the year leaving HK$Nil (2004: HK$Nil) available at the year end to reduce future contributions.

(iv) HK$Nil (2004: HK$Nil) contribution was payable to the fund at the year end.

(v) The MPF Scheme cost charged to the consolidated income statement represents contributions payable by the Group to the MPF Scheme.

(vi) Except for the MPF Scheme, the Group did not have any other provident fund scheme available for its employees during the year.

13 EMPLOYEE BENEFIT EXPENSE – DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other Benefits[a] HK$'000	Employer's contribution to the MPF scheme HK$'000	Total HK$'000
Mr Rusli Hendrawan	100	2,500	1,725	614	103	5,042
Mr Lee Sheng Kuang, James	100	2,263	1,725	2,364	103	6,555
Mr Oey Tjie Ho	100	797	350	83	41	1,371
Mr Tang Chak Lam, Charlie	100	1,200	700	303	60	2,363
Mr Cheung Kwok Ming[b]	102	–	–	–	–	102
Mr Kwok Lam Kwong, Larry	180	–	–	–	–	180
Mr Lam Chi Kuen, Frank[c]	38	–	–	–	–	38
Mr Lau Siu Ki, Kevin	180	–	–	–	–	180

13 EMPLOYEE BENEFIT EXPENSE – DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of every Director for the year ended 31st December, 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other Benefits[a]	Employer's contribution to the MPF scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Rusli Hendrawan	100	2,624	–	80	112	2,916
Mr Lee Sheng Kuang, James	100	2,425	–	1,825	119	4,469
Mr Oey Tjie Ho	100	797	–	–	41	938
Mr Tang Chak Lam, Charlie	100	1,200	–	–	60	1,360
Mr Kwok Lam Kwong, Larry	150	–	–	–	–	150
Mr Lam Chi Kuen, Frank	150	–	–	–	–	150
Mr Lau Siu Ki, Kevin	150	–	–	–	–	150

Notes:

(a) Other benefits include leave pay, share option and housing allowances.

(b) Appointed on 27th April, 2005.

(c) Resigned on 27th April, 2005.

During the year, Mr Lee Sheng Kuang, James and Mr Rusli Hendrawan waived emoluments of HK$351,000 (2004: HK$189,000) and HK$195,000 (2004: HK$105,000) respectively.

13 EMPLOYEE BENEFIT EXPENSE – DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances other allowances and benefits-in-kind	**2,104**	1,040
Contributions to the MPF scheme	**12**	12
	2,116	1,052

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$1,000,001 – HK$1,500,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–