

Notes to the Accounts

For the year ended 31st December, 2005

14 GOODWILL

	HK\$'000
At 1st January, 2004	
Cost	8,048
Accumulated amortisation and impairment losses	<u>(5,475)</u>
Net book amount	<u><u>2,573</u></u>
Year ended 31st December, 2004	
Opening net book amount	2,573
Amortisation expense	<u>(1,286)</u>
Closing net book amount	<u><u>1,287</u></u>
At 31st December, 2004	
Cost	8,048
Accumulated amortisation and impairment losses	<u>(6,761)</u>
Net book amount	<u><u>1,287</u></u>
Year ended 31st December, 2005	
Opening net book amount	1,287
Impairment losses	<u>(187)</u>
Closing net book amount	<u><u>1,100</u></u>
At 31st December, 2005	
Cost	8,048
Accumulated amortisation and impairment losses	<u>(6,948)</u>
Net book amount	<u><u>1,100</u></u>

Notes to the Accounts

For the year ended 31st December, 2005

14 GOODWILL (Continued)

Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation.

A segment level summary of the goodwill is presented below:

	2005 Manufacturing HK\$'000	2004 Manufacturing HK\$'000
El Salvador	1,100	1,100
Lesotho	–	187
	<u>1,100</u>	<u>1,287</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five year period.

Key assumptions used for value-in-use calculation:

	Manufacturing %
Gross margin	20
Growth rate	3
Discount rate	<u>7</u>

The assumptions have been used for the analysis of the CGU within the business segment.

Notes:

- (a) Management determined budgeted gross margin based on past performance and its expectations for the market development.
- (b) The growth rate applied is consistent with the forecasts for the industry.
- (c) The discount rates used are pre-tax and reflect risks relating to the relevant segment.

Notes to the Accounts

For the year ended 31st December, 2005

15 PROPERTIES, PLANT AND EQUIPMENT

	Group							
	Buildings				Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in Mainland China	Held in Indonesia	Held in Lesotho				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004								
Cost or valuation	4,062	-	42,775	8,567	12,982	52,427	26,950	147,763
Accumulated depreciation and impairment losses	-	-	-	-	(9,456)	-	(16,165)	(25,621)
Net book amount	<u>4,062</u>	<u>-</u>	<u>42,775</u>	<u>8,567</u>	<u>3,526</u>	<u>52,427</u>	<u>10,785</u>	<u>122,142</u>
Year ended 31st December, 2004								
Opening net book amount	4,062	-	42,775	8,567	3,526	52,427	10,785	122,142
Exchange differences	-	-	(1,354)	64	-	(3,066)	(155)	(4,511)
Revaluation deficit	-	-	(5,969)	-	-	-	-	(5,969)
Additions	-	13,088	144	-	13	41,160	2,175	56,580
Disposals	-	-	-	-	-	(455)	(177)	(632)
Written-off	-	-	-	-	(28)	(6,007)	(753)	(6,788)
Depreciation	(326)	(160)	(2,727)	(511)	(1,018)	(9,232)	(2,963)	(16,937)
Closing net book amount	<u>3,736</u>	<u>12,928</u>	<u>32,869</u>	<u>8,120</u>	<u>2,493</u>	<u>74,827</u>	<u>8,912</u>	<u>143,885</u>
At 31st December, 2004								
Cost or valuation	3,736	12,928	32,869	8,120	12,598	74,827	26,581	171,659
Accumulated depreciation and impairment losses	-	-	-	-	(10,105)	-	(17,669)	(27,774)
Net book amount	<u>3,736</u>	<u>12,928</u>	<u>32,869</u>	<u>8,120</u>	<u>2,493</u>	<u>74,827</u>	<u>8,912</u>	<u>143,885</u>

Notes to the Accounts

For the year ended 31st December, 2005

15 PROPERTIES, PLANT AND EQUIPMENT (Continued)

	Group							
	Buildings				Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in Mainland China	Held in Indonesia	Held in Lesotho				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December, 2005								
Opening net book amount	3,736	12,928	32,869	8,120	2,493	74,827	8,912	143,885
Exchange differences	-	-	(855)	-	(3)	(914)	(287)	(2,059)
Revaluation surplus	-	-	798	-	-	-	-	798
Additions	-	-	285	-	2,309	20,267	4,320	27,181
Transfer to investment properties (Note 16)	(3,573)	-	-	-	-	-	-	(3,573)
Disposals	-	(12,800)	-	-	(26)	(40,453)	(1,417)	(54,696)
Depreciation	(163)	(128)	(1,995)	(503)	(1,579)	(7,610)	(3,631)	(15,609)
Closing net book amount	-	-	31,102	7,617	3,194	46,117	7,897	95,927
At 31st December, 2005								
Cost or valuation	-	-	31,102	7,617	6,057	52,155	26,369	123,300
Accumulated depreciation and impairment losses	-	-	-	-	(2,863)	(6,038)	(18,472)	(27,373)
Net book amount	-	-	31,102	7,617	3,194	46,117	7,897	95,927

The Group's buildings were revalued at 31st December, 2005 and at 31st December, 2004. Valuations were made on the basis of open market value carried out by:

- (i) Vigers Appraisal and Consulting Limited (formerly known as Vigers Hong Kong Limited), an independent valuer in Hong Kong.
- (ii) PT VPC Hagai Sejahtera, an independent qualified surveyor in Indonesia; and
- (iii) Japie Van Dlerk, an independent qualified surveyor in Lesotho.

The revaluation surplus/(deficit) net of applicable deferred income taxes was credited/(debited) to fixed assets revaluation reserve in shareholders' equity (Note 33).

Notes to the Accounts

For the year ended 31st December, 2005

15 PROPERTIES, PLANT AND EQUIPMENT (Continued)

Depreciation expense of HK\$9,486,000 (2004: HK\$8,979,000) has been expensed to cost of goods sold, HK\$625,000 (2004: HK\$715,000) to selling expenses and HK\$5,498,000 (2004: HK\$7,243,000) to administrative expenses.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2005	2004
	HK\$'000	HK\$'000
Cost	28,468	47,413
Accumulated depreciation and impairment losses	(10,734)	(11,238)
Net book amount	17,734	36,175

The analysis of the cost or valuation at 31st December, 2005 of the above assets is as follows:

	Buildings					Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in Mainland China	Held in Indonesia	Held in Lesotho					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
At cost	-	-	-	-	6,057	52,155	26,369	84,581	
At 2005 valuation	-	-	31,102	7,617	-	-	-	38,719	
	<u>-</u>	<u>-</u>	<u>31,102</u>	<u>7,617</u>	<u>6,057</u>	<u>52,155</u>	<u>26,369</u>	<u>123,300</u>	

The analysis of the cost or valuation at 31st December, 2004 of the above assets is as follows:

	Buildings					Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in Mainland China	Held in Indonesia	Held in Lesotho					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
At cost	-	-	-	-	12,598	74,827	26,581	114,006	
At 2004 valuation	3,736	12,928	32,869	8,120	-	-	-	57,653	
	<u>3,736</u>	<u>12,928</u>	<u>32,869</u>	<u>8,120</u>	<u>12,598</u>	<u>74,827</u>	<u>26,581</u>	<u>171,659</u>	

Notes to the Accounts

For the year ended 31st December, 2005

16 INVESTMENT PROPERTIES

	2005 HK\$'000
Transfer from:	
– building at net book value (Note 15)	3,573
– leasehold land at net book value (Note 17)	14,652
Fair value gains	4,075
	<hr/>
End of the year	22,300
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The investment properties were revalued at 31 December, 2005 by an independent valuer, Vigers Appraisal and Consulting Limited. Valuations were based on current prices in an active market for all properties.

The Group's interests in the investment properties at their net book values are analysed as follows:

	2005 HK\$'000
In Hong Kong, held on:	
Leases of between 10 to 50 years	22,300
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Details of the investment properties are as follows:

Locations	Lease period	Existing use
Workshops Nos. 1 and 2, 2nd Floor, Charm Centre, No. 700 Castle Peak Road, Kowloon, Hong Kong	From 1st July, 1973 to 30th June, 2047	These properties are leased to independent parties for office usage where the lease shall expire on 31st January, 2009.

Investment properties of the Group, comprising leasehold land and buildings, have been pledged as securities for the secured bank borrowings.

Notes to the Accounts

For the year ended 31st December, 2005

17 LEASEHOLD LAND

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

	2005 HK\$'000	2004 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	–	14,814
In Indonesia held on:		
Leases of between 10 to 50 years	2,042	2,328
Leases of less than 10 years	1,055	–
	<u>3,097</u>	<u>17,142</u>

Bank borrowings are secured on land in Hong Kong for the carrying amount of HK\$Nil (2004: HK\$14,814,000).

	2005 HK\$'000	2004 HK\$'000
Beginning of the year	17,142	17,753
Additions	1,151	–
Transfer of leasehold land at net book value to investment properties (<i>Note 16</i>)	(14,652)	–
Amortisation of prepaid operating lease payments	(544)	(611)
End of the year	<u>3,097</u>	<u>17,142</u>

18 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Costs, unlisted shares	165,939	165,939
Impairment loss	–	(48,000)
	<u>165,939</u>	<u>117,939</u>

Details of principal subsidiaries are set out in Note 37 to the financial statements.

Notes to the Accounts

For the year ended 31st December, 2005

19 INTEREST IN AN ASSOCIATE

	2005 HK\$'000
Addition	36,672
Share of associate's results	
– profit before taxation	301
Exchange difference	1,082
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End of the year	38,055
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The Group's interest in its associate, which is unlisted, was as follows:

Name	Registered and paid up capital	Country of incorporation	Assets HK\$'000	Liabilities HK\$'000	Revenues HK\$'000	Profit HK\$'000	Interest held %
山東魏橋恒富針織 印染有限公司 (ShanDong WeiQiao HengFu Textile Limited)	US\$12,375,000	People's Republic of China	<u>43,905</u>	<u>5,850</u>	<u>17,206</u>	<u>301</u>	<u>40</u>

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005 HK\$'000
Beginning of the year	2,125
Opening balance adjustment arising from the adoption of HKASs 32 and 39	938
Additions	7,800
Revaluation deficit transfer to equity (Note 32)	(455)
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End of the year	10,408
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There were no disposals or impairment provisions on available-for-sale financial assets in 2005.

Notes to the Accounts

For the year ended 31st December, 2005

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

	2005 HK\$'000
Listed securities:	
– Equity securities – Hong Kong	<u>2,650</u>
Market value of listed securities	<u>2,650</u>
Unlisted securities:	
– Structured Note – Hong Kong	<u>7,758</u>

21 INVESTMENT SECURITIES

As at 31st December, 2004, the Group had investments in equity securities listed in Hong Kong at cost of HK\$2,125,000 and the market value of these equity securities approximate HK\$3,063,000.

These investments in equity securities have been reclassified to available-for-sale financial assets for the year ended 31st December, 2005, as disclosed in Note 20 above.

22 AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

23 INVENTORIES, AT COST

	2005 HK\$'000	2004 HK\$'000
Raw materials	75,422	70,820
Work in progress	52,537	38,834
Finished goods	28,597	25,223
Goods in transit	–	9,152
	<u>156,556</u>	<u>144,029</u>

Notes to the Accounts

For the year ended 31st December, 2005

24 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade receivables	95,349	70,834	–	–
Prepayments, deposits and other receivables	25,493	21,452	1,118	745
	<u>120,842</u>	<u>92,286</u>	<u>1,118</u>	<u>745</u>

The carrying amount of the trade receivables approximates their fair value.

The majority of the Group's sales to customers is on letter of credit at sight to 90 days. The remaining sales are on an open account basis with credit terms ranging from 30 to 45 days. As at 31st December, 2005 and 2004, the ageing analysis of trade receivables was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	77,131	50,439
31-60 days	14,841	11,100
61-90 days	3,316	1,564
Over 90 days	61	7,731
	<u>95,349</u>	<u>70,834</u>

- (i) There is no concentration of credit risk with respect of trade receivables, as the Group's customer base is dispersed.
- (ii) The Group has recognised a loss of HK\$Nil (2004: HK\$4,895,000) for the impairment of its trade receivables during the year ended 31st December, 2005. The loss of HK\$4,895,000 for the year ended 31st December, 2004 was included in administrative expenses in the income statement.

Notes to the Accounts

For the year ended 31st December, 2005

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Unlisted securities:
– Mutual funds – Indonesia

2005
HK\$'000

5,228

The carrying amounts of the above financial assets are classified as follows:

Designated at fair value through profit or loss on
adoption of HKAS 39

2005
HK\$'000

5,228

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (Note 34).

Changes in fair values of financial assets at fair value through profit or loss of HK\$348,000 are recorded in the income statement.

26 OTHER INVESTMENTS

As at 31st December, 2004, the Group had investments in mutual funds in Indonesia of HK\$8,821,000. These investments in mutual funds have been reclassified to financial assets at fair value through profit or loss for the year ended 31st December, 2005, as disclosed in Note 25 above.

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and in hand	32,503	73,407	2	326
Short-term bank deposits	13,950	–	–	–
	<u>46,453</u>	<u>73,407</u>	<u>2</u>	<u>326</u>

The effective interest rate on short-term bank deposits was 3.9% where these deposits have an average maturity of 1 day.

Notes to the Accounts

For the year ended 31st December, 2005

28 BANK BORROWINGS

	2005 HK\$'000	2004 HK\$'000
<i>Non-current</i>		
Bank borrowings		
– secured (Note (b))	17,438	23,400
<i>Current</i>		
Bank borrowings (Note (a))		
– secured (Note (b))	24,321	33,526
– unsecured	59,878	47,299
	84,199	80,825
Total borrowings	101,637	104,225

Note:

- (a) Bank borrowings are wholly repayable within one year included secured trust receipts loans of HK\$16,571,000 (2004: HK\$25,726,000) and unsecured trust receipts loans of HK\$59,878,000 (2004: HK\$47,299,000).
- (b) Investment properties of the Group with an aggregate carrying value (comprises of leasehold land and buildings) of HK\$22,300,000 (2004: HK\$18,550,000) have been pledged as security for secured bank borrowings.
- (c) The bank borrowings bear interest rates ranging from 4.1% to 6.0% per annum for US dollar denominated bank borrowings (2004: 3.0% to 4.1% per annum) and 1.7% to 5.8% per annum for Hong Kong dollar denominated bank borrowings (2004: 1.6% to 1.7% per annum).

The carrying amounts of bank borrowings approximate their fair value.

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

	2005 HK\$'000	2004 HK\$'000
Hong Kong dollar	13,340	25,340
US dollar	88,297	78,885
	101,637	104,225

Notes to the Accounts

For the year ended 31st December, 2005

29 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:

	2005 HK\$'000	2004 HK\$'000
Deferred income tax assets	1,862	1,304
Deferred income tax liabilities	(1,681)	(1,339)
	181	(35)

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%). Deferred income tax of overseas subsidiaries are calculated at the rates of taxation prevailing in the countries in which the Group operates.

The movements on the deferred income tax account are as follows:

	2005 HK\$'000	2004 HK\$'000
At 1st January	(35)	402
Exchange differences	(23)	(49)
Deferred taxation credited/(charged) to income statement (Note 8)	239	(388)
At 31st December	181	(35)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$20,102,000 (2004: HK\$79,307,000) to carry forward against future taxable income.

Notes to the Accounts

For the year ended 31st December, 2005

29 DEFERRED INCOME TAX (Continued)

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred income tax assets

	Tax losses 2005 HK\$'000	Tax losses 2004 HK\$'000
At 1st January	1,304	1,372
Credited to income statement	632	66
Exchange differences	(74)	(134)
	<hr/>	<hr/>
At 31st December	1,862	1,304

Deferred income tax liabilities

	Accelerated depreciation 2005 HK\$'000	Accelerated depreciation 2004 HK\$'000
At 1st January	1,339	970
Charged to income statement	393	454
Exchange differences	(51)	(85)
	<hr/>	<hr/>
At 31st December	1,681	1,339

Notes to the Accounts

For the year ended 31st December, 2005

30 TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	100,517	101,514	–	–
Other payables and accruals	46,372	25,331	5,053	460
	<u>146,889</u>	<u>126,845</u>	<u>5,053</u>	<u>460</u>

As at 31st December, 2005 and 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	56,138	83,134
31-60 days	29,979	4,702
61-90 days	5,424	2,146
Over 90 days	8,976	11,532
	<u>100,517</u>	<u>101,514</u>

31 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares HK'000
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	<u>360,034</u>	<u>36,003</u>

The total authorised number of ordinary shares is 2,000,000,000 (2004: 2,000,000,000) with a par value of HK\$0.10 per share (2004: HK\$0.10 per share).

Notes to the Accounts

For the year ended 31st December, 2005

31 SHARE CAPITAL (Continued)

Share options

(a) Share option scheme adopted on 23rd February, 2000 (the "Old Scheme")

The Old Scheme was approved on 23rd February, 2000 under which the directors of the Company are authorised to grant options to directors or full-time employees of the Company or its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Old Scheme. Under the terms of the Old Scheme, the directors of the Company granted options to certain full-time employees (including executive directors) of the Company or its subsidiaries on 31st August, 2001 to subscribe for a total of 36,000,000 shares in the Company at a price of HK\$0.906 per share. On 1st September, 2005, all the outstanding options which were exercisable from 1st September, 2002 to 31st August, 2005 lapsed.

Movements in the number of options outstanding under the Old Scheme, during the year and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price HK\$ per share	Number of options	Average exercise price HK\$ per share	Number of options
At 1st January	0.906	31,616,000	0.906	34,016,000
Lapsed	0.906	(31,616,000)	0.906	(2,400,000)
At 31st December		<u>–</u>		<u>31,616,000</u>

Notes:

- (i) No share options were exercised in 2005 and 2004.
- (ii) In 2005, all options that were not exercised on or before 31st August, 2005 lapsed.

Notes to the Accounts

For the year ended 31st December, 2005

31 SHARE CAPITAL (Continued)

Share options (Continued)

(b) Share option scheme adopted on 8th May, 2002 (the "New Scheme")

At the Annual General Meeting of the Company held on 8th May, 2002, the New Scheme was approved and adopted.

Under the New Scheme, the directors of the Company are authorised to grant options to qualifying participants of the Company or its subsidiaries to subscribe for shares in the Company at prices in accordance with the terms of the New Scheme. The total number of shares available for issue under the New Scheme is 18,840,000 which is 5.23% of the issued share capital of the Company as at 31st December, 2005.

Under the terms of the New Scheme, the directors of the Company granted options to certain full-time employees (including executive directors) of the Company or its subsidiaries on 25th October, 2005 to subscribe for a total of 17,160,000 shares in the Company at a price of HK\$0.536 per share. As at 31st December, 2005, there were 17,160,000 share options outstanding which are exercisable from 1st November, 2005 to 31st October, 2008.

Movements in the number of options outstanding under the New Scheme during the year and their related weighted average exercise prices are as follows:

	Average exercise price HK\$ per share	Number of options
At 1st January, 2005	–	–
Granted	0.536	<u>17,160,000</u>
At 31st December, 2005	0.536	<u><u>17,160,000</u></u>

Notes to the Accounts

For the year ended 31st December, 2005

31 SHARE CAPITAL (Continued)

Share options (Continued)

(b) Share option scheme adopted on 8th May, 2002 (the "New Scheme") (Continued)

Share options outstanding as at 31st December, 2005 under the New Scheme have the following terms:

Expiry date	Exercise price HK\$	Number of options 2005
Directors 31st October, 2008	0.536	9,700,000
Continuous contract employees 31st October, 2008	0.536	<u>7,460,000</u>
		<u><u>17,160,000</u></u>

The fair value of options granted during the year determined using the Binomial valuation model was HK\$2,200,000. The significant inputs into the model were share price of HK\$0.536, at the grant date, exercise price shown above, standard deviation of expected share price returns of 54%, expected life of options of 1.3 years to 2.1 years, expected dividend paid out rate of 9% and annual risk-free interest rate of 4.09%. The volatility measure at standard deviation of expected share price is based on statistical analysis of daily share prices over the last 3 years.

Notes to the Accounts

For the year ended 31st December, 2005

32 OTHER RESERVES

	Group						Total
	Exchange fluctuation reserve	Fixed assets revaluation reserve (Note 33)	Merger reserve (Note (a))	Share premium	Share-based compensation reserve	Available-for-sale investments reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004 as previously reported	(39,458)	55,689	(200)	36,889	-	-	52,920
Effect of adopting HKAS 17	-	(5,909)	-	-	-	-	(5,909)
At 1st January, 2004 as restated	(39,458)	49,780	(200)	36,889	-	-	47,011
Exchange differences arising on the translation of the accounts of overseas subsidiaries	(5,753)	-	-	-	-	-	(5,753)
Deficit on revaluation (Note 33)	-	(5,670)	-	-	-	-	(5,670)
At 31st December, 2004	<u>(45,211)</u>	<u>44,110</u>	<u>(200)</u>	<u>36,889</u>	<u>-</u>	<u>-</u>	<u>35,588</u>
At 1st January, 2005 as per above	(45,211)	44,110	(200)	36,889	-	-	35,588
Exchange differences arising on the translation of the accounts of overseas subsidiaries	(1,761)	-	-	-	-	-	(1,761)
Surplus on revaluation (Note 33)	-	758	-	-	-	-	758
Valuation of employee share options	-	-	-	-	2,200	-	2,200
Deficit on revaluation of available-for-sale investments	-	-	-	-	-	(455)	(455)
At 31st December, 2005	<u>(46,972)</u>	<u>44,868</u>	<u>(200)</u>	<u>36,889</u>	<u>2,200</u>	<u>(455)</u>	<u>36,330</u>

Notes to the Accounts

For the year ended 31st December, 2005

32 OTHER RESERVES (Continued)

	Company			Total HK\$'000
	Contributed surplus (Note (b)) HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	
At 1st January, 2004 and 31st December, 2004	165,739	36,889	–	202,628
At 1st January, 2005	165,739	36,889	–	202,628
Valuation of employee share options	–	–	2,200	2,200
2005 proposed final dividend (Note 11)	(18,002)	–	–	(18,002)
At 31st December, 2005	147,737	36,889	2,200	186,826

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the shares of a subsidiary acquired and the nominal value of the Company's shares issued in exchange thereof.
- (b) The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiary acquired and the nominal value of the Company's shares issued in exchange thereof.

33 FIXED ASSETS REVALUATION RESERVE

	Buildings in Indonesia HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
At 1st January, 2005	30,964	13,146	44,110
Surplus on revaluation	758	–	758
At 31st December, 2005	31,722	13,146	44,868
At 1st January, 2004	36,634	13,146	49,780
Deficit on revaluation	(5,670)	–	(5,670)
At 31st December, 2004	30,964	13,146	44,110

Notes to the Accounts

For the year ended 31st December, 2005

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash inflow from operations

	2005 HK\$'000	2004 HK\$'000 (Restated)
Profit/(loss) before taxation	79,435	(46,633)
Depreciation of properties, plant and equipment	15,609	16,937
Amortisation of leasehold land	544	611
Impairment of goodwill	187	–
Share of result of an associate	(301)	–
Amortisation of goodwill	–	1,286
Gain on deemed disposal of a subsidiary	(969)	–
Fair value gains on investment properties	(4,075)	–
Bad debt written off	–	4,895
Gain on disposal of fixed assets	(14)	(49)
Fixed assets written off	–	6,788
Unrealised gains on other investments	–	(289)
Unrealised gains on financial assets at fair value through profit or loss	(131)	–
Employee share-based expenses	2,200	–
Interest income	(1,632)	(1,785)
Interest expenses	4,692	3,011
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	95,545	(15,228)
Increase in inventories	(24,876)	(11,151)
(Increase)/decrease in trade and other receivables	(31,317)	74,861
Increase in prepaid leasehold land	(1,151)	–
Increase/(decrease) in trade and other payables	26,741	(12,365)
	<hr/>	<hr/>
Net cash inflow from operations	64,942	36,117

Notes to the Accounts

For the year ended 31st December, 2005

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including premium)		Bank borrowings		Minority interests	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (Restated)
At 1st January	72,892	72,892	104,225	109,123	26,122	2,222
Valuation of employee share options	2,200	-	-	-	-	-
Bank borrowings raised	-	-	425,794	346,459	-	-
Bank borrowings repaid	-	-	(428,382)	(351,357)	-	-
Minority interests' in share of profits and reserves	-	-	-	-	5,529	(1,862)
Investment in subsidiaries from minority shareholders	-	-	-	-	-	25,767
Deemed disposal of a subsidiary	-	-	-	-	(23,802)	-
Disposal of subsidiaries	-	-	-	-	(6,141)	-
Exchange differences	-	-	-	-	(4)	(5)
At 31st December	<u>75,092</u>	<u>72,892</u>	<u>101,637</u>	<u>104,225</u>	<u>1,704</u>	<u>26,122</u>

(c) Deemed disposal of a subsidiary and acquisition of an associate

As announced by the Company on 19th May, 2005, a subsidiary of the Group entered into an agreement dated 18th May, 2005 with Shandong Weiqiao Chuangye Group Company Limited ("SDWQ") whereby it was agreed that the registered capital of ShanDong WeiQiao HengFu Textile Limited ("SWHT"), a then 60% owned indirect subsidiary, was increased from US\$8,250,000 (approximately HK\$64,350,000) to US\$12,375,000 (approximately HK\$96,525,000) and that the additional registered capital was solely contributed by SDWQ. Upon the increase in the registered capital of SWHT, the Group's interest in SWHT was diluted from 60% to 40%. Such dilution of interest was treated as a deemed disposal (the "Disposal") by the Group of an interest in SWHT under the Listing Rules. Following the Disposal, SWHT ceased to be a subsidiary of the Group and treated as an associate.

Notes to the Accounts

For the year ended 31st December, 2005

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Deemed disposal of a subsidiary and acquisition of an associate (Continued)

The net assets of the subsidiary at the date of Disposal were as follows:

	HK\$'000
Net assets disposed of:	
Properties, plant and equipment	52,254
Intangible assets	5,905
Inventories	6,941
Trade and other receivables	2,950
Cash and cash equivalents	1,443
Trade and other payables	(9,988)
Minority interest	(23,802)
	<hr/>
	35,703
Gain on Disposal	969
	<hr/>
	36,672
	<hr/> <hr/>
Represented and satisfied by:	
Interest in an associate	36,672
	<hr/> <hr/>

Analysis of the net outflow of cash and cash equivalents in respect of the Disposal:

	HK\$'000
Cash and cash equivalents disposed of	1,443
	<hr/> <hr/>

The subsidiary disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

Notes to the Accounts

For the year ended 31st December, 2005

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries

A subsidiary of the Group entered into an agreement dated 31st October, 2005 with an independent party whereby the independent party agreed to buy the shares of the group of companies held through Giant Sage Investments Limited which was then owned directly by Topwell Group Development Ltd., a wholly owned subsidiary of the Company.

The net assets of the subsidiaries at the date of disposal were as follow:

	HK\$'000
Net assets disposed of:	
Properties, plant and equipment	1,937
Inventories	339
Trade and other receivables	6,895
Cash and cash equivalents	5,381
Trade and other payables	(1,902)
Taxation payable	(118)
Minority interest	(6,141)
	<hr/>
	6,391
Gain on Disposal	<hr/> –
Cash consideration	<hr/> <hr/> <u>6,391</u>
Analysis of the net outflow of cash and cash equivalents in respect of the Disposal:	
	HK\$'000
Cash and cash equivalents disposed of	<hr/> <hr/> <u>5,381</u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

Notes to the Accounts

For the year ended 31st December, 2005

35 CONTINGENT LIABILITIES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Guarantees for bank borrowings and overdrafts of subsidiaries	-	-	101,637	104,225
Bills of exchange discounted with recourse	-	11,981	-	-
	<u>-</u>	<u>11,981</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>11,981</u>	<u>101,637</u>	<u>104,225</u>

Management anticipates that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

36 COMMITMENTS

Commitments under operating leases

The Group had future aggregate minimum lease payments for land and buildings under non-cancellable operating leases as follows:

	2005 HK\$'000	2004 HK\$'000
Not later than one year	5,559	4,324
Later than one year and not later than five years	7,165	9,504
Later than five years	4,623	10,605
	<u>17,347</u>	<u>24,433</u>
	<u>17,347</u>	<u>24,433</u>

Notes to the Accounts

For the year ended 31st December, 2005

37 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st December, 2005:

Company name	Place of incorporation/ Place of operation	Principal activities	Particulars of issued share capital	Percentage of interest held
<i>Shares held directly:</i>				
Topwell Group Development Ltd.	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	100
<i>Shares held indirectly:</i>				
Best Sphere Group Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Carry Wealth Limited	Hong Kong	Garment trading, marketing and provision of management services	4,000,000 ordinary shares of HK\$1 each	100
Carry Wealth (South Africa) Investment Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Charter Row Group Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Charter, S.A. de C.V.	El Salvador	Manufacture of knit tops	200 shares of US\$114.28 each	100
Dragon Vision Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Keen Vision Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	100
Promaster Company Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100
Times King Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100

Notes to the Accounts

For the year ended 31st December, 2005

37 SUBSIDIARIES (Continued)

Company name	Place of incorporation/ Place of operation	Principal activities	Particulars of issued share capital	Percentage of interest held
Topwell Investment (Asia) Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Topwell Investments Ltd.	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
東莞國興製衣有限公司 (Dongguan Guoxing Garment Limited)*	PRC wholly owned foreign enterprise	Manufacture and sale of knit and woven products	HK\$5,000,000	100
PT Aneka Garmentama Indah*	Indonesia	Manufacture of woven bottoms	6,000 ordinary shares of Rp1 million each	95
PT Caterindo Garment Industri*	Indonesia	Manufacture of knit tops	15,000 ordinary shares of Rp1 million each	95
Shinning Century Limited	Hong Kong/ Lesotho	Manufacture of knit tops	1,000,000 ordinary shares of HK\$1 each	70
Sino Precision Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	66.7
Carry Greatwall Apparel Limited	Hong Kong	Provision of management services	10,000 ordinary shares of HK\$1 each	51

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 36% (2004: 42%) of the Group's total assets at 31st December, 2005.

Notes to the Accounts

For the year ended 31st December, 2005

38 RELATED PARTY TRANSACTIONS

- (a) As detailed in Note 34(c), the Group's interest in SWHT was diluted from 60% to 40% during financial year 2005. Following this deemed disposal, SWHT ceased to be a subsidiary of the Group and recognised as an associate. The Group had the following transactions with SWHT which is carried out at prices determined with reference to market prices for similar transactions, being entities controlled by the group of SDWQ, a substantial shareholder of SWHT.

	2005 HK\$'000
Supply of electricity and steam	1,533
Supply of water	40
Provision of waste water treatment service	377
Supply of cotton yarn	26,150
	<u>26,150</u>

- (b) As detailed in Note 34(c), the Disposal of SWHT constituted a connected transaction, the gain arising from the Disposal was HK\$969,000.

- (c) Key management compensation

	2005 HK\$'000	2004 HK\$'000
Salaries and other short-term employee benefits	13,600	9,351
Contributions to the MPF Scheme	307	332
Share-based payments	1,424	–
	<u>15,331</u>	<u>9,683</u>