NOTES TO THE FINANCIAL STATEMENTS

1 General information

Nanyang Holdings Limited ("the Company") is a limited liability company incorporated in Bermuda. The address of its registered office is 1808 St George's Building, 2 Ice House Street, Hong Kong.

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

The Company and its subsidiaries (together "the Group") engage in property investment, investment holding and trading and textile trading.

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 4th April 2006.

2 Summary of principal 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.

(a) Basis of preparation

The consolidated financial statements of Nanyang Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs 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 principal accounting policies *(con't)*

(b) Changes in accounting policies

The adoption of new/revised HKFRSs

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

HKAS 1	Presentation of Financial Statements
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 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of 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
HKAS-Int 12 Amendment	Scope of HKAS-Int 12 Consolidation - Special Purpose Entities
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets

2 Summary of principal accounting policies *(con't)*

(b) **Changes in accounting policies** *(con't)*

The adoption of HKASs 1, 7, 8, 10, 16, 17, 21, 23, 24, 27, 31, 33, 36, HKAS-Int 12 Amendment and 15 did not result in substantial changes to the Group's accounting policies and had no material effect on the financial statements except for certain changes in presentation and disclosures as required by HKASs 1 and 24.

The adoption of HKASs 32, 39 and 40 and HKAS-Int 21 has resulted in significant changes to the Group's accounting policies. The change to the Group's principal accounting policies and the effect of adopting these new policies are set out below.

(i) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

(ii) The adoption of HKAS 40 has resulted in a change in the accounting policy by which the changes in fair values are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

(iii) The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred income tax liabilities arising from the revaluation of investment properties. Such deferred income tax liabilities are measured on the basis of tax consequences that would follow from the recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

2 Summary of principal accounting policies *(con't)*

(b) **Changes in accounting policies** *(con't)*

All changes in these accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require or permit retrospective application other than HKASs 32 and 39 which do not permit retrospective application. The Group has applied the previous Statement of Standard Accounting Practice ("SSAP") No. 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information.

Summary of effects of changes in accounting policies

Consolidated income statements

	Effect of adopting new HKFRSs			
Year ended 31st December 2005	HKAS 1 HK$'000	HKAS 40 HK$'000	HKAS-Int 21 HK$'000	Total HK$'000
Increase/(decrease) in:				
Operating profit	-	367,980	-	367,980
Share of profits of jointly controlled entities	(1,334)	-	-	(1,334)
Profit before income tax	(1,334)	367,980	-	366,646
Income tax expense	(1,334)	-	63,123	61,789
Profit attributable to equity holders of the Company	-	367,980	(63,123)	304,857
Earnings per share (HK$)	-	8.19	(1.40)	6.79
Year ended 31st December 2004				
Increase/(decrease) in:				
Operating profit	-	157,220	-	157,220
Share of profits of jointly controlled entities	(1,097)	-	-	(1,097)
Profit before income tax	(1,097)	157,220	-	156,123
Income tax expense	(1,097)	-	26,950	25,853
Profit attributable to equity holders of the Company	-	157,220	(26,950)	130,270
Earnings per share (HK$)	-	3.46	(0.59)	2.87

2 Summary of principal accounting policies *(con't)*

(b) Changes in accounting policies *(con't)*

Summary of effects of changes in accounting policies *(con't)*

Consolidated balance sheets

As at 31st December 2005	Effect of adopting new HKFRSs HKAS 32 HK$'000	HKAS 40 HK$'000	HKAS-Int 21 HK$'000	Total HK$'000
Increase/(decrease) in:				
ASSETS				
Non-trading investments	(64,006)	-	-	(64,006)
Available-for-sale financial assets	64,006	-	-	64,006
Trading investments	(365,567)	-	-	(365,567)
Financial assets at fair value through profit or loss	365,567	-	-	365,567
Total assets	-	-	-	-
EQUITY				
Retained profits	-	550,930	(97,263)	453,667
Investment properties revaluation reserve	-	(550,930)	-	(550,930)
Total equity	-	-	(97,263)	(97,263)
LIABILITIES				
Deferred income tax liabilities	-	-	97,263	97,263
Total liabilities	-	-	97,263	97,263

As at 31st December 2004	Effect of adopting new HKFRSs HKAS 40 HK$'000	HKAS-Int 21 HK$'000	Total HK$'000
Increase/(decrease) in:			
EQUITY			
Retained profits	182,950	(34,140)	148,810
Investment properties revaluation reserve	(182,950)	-	(182,950)
Total equity	-	(34,140)	(34,140)
LIABILITIES			
Deferred income tax liabilities	-	34,140	34,140
Total liabilities	-	34,140	34,140

2 Summary of principal accounting policies *(con't)*

(c) Standards, interpretations and amendments to standards that are not yet effective

The HKICPA has issued certain new standards, amendments and interpretations which are not yet effective as at 31st December 2005. Those which are relevant to the Group's operations are as follows:

		Effective for accounting periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures	1st January 2006
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement - The Fair Value Option	1st January 2006
HKFRS - Int 4	Determining whether an Arrangement contains a Lease	1st January 2006
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures	1st January 2007
HKFRS 7	Financial Instruments: Disclosures	1st January 2007

The Group has not early adopted the above standards, interpretations and amendments in the financial statements for the year ended 31st December 2005. The Group has already commenced an assessment of the related impact but is not yet in a position to analyse and quantify the effect of these on the Group's financial statements.

2 Summary of principal accounting policies *(con't)*

(d) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

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

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

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 consolidated income statement.

2 Summary of principal accounting policies *(con't)*

(d) **Group accounting** *(con't)*

(i) **Consolidation** *(con't)*

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

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

(ii) **Jointly controlled entities**

A jointly controlled entity is an entity which through contractual arrangements is subject to joint control by the Group and other parties, and none of the participating parties has unilateral control over the entity.

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

(e) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of property, plant and equipment, investment properties, available-for-sale financial assets, financial assets at fair value through profit or loss, receivables and operating

2 Summary of principal accounting policies *(con't)*

(e) **Segment reporting** *(con't)*

cash and exclude items such as deferred income tax assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and deferred income tax liabilities. Capital expenditure represents additions to fixed assets.

In respect of geographical segment reporting, results from textile and property are presented based on the country of operations and the country in which these properties are located respectively. Results from investments are presented based on the country in which these investments are listed or funded. Total assets and capital expenditure are presented based on where the assets are located.

(f) **Foreign currency translation**

(i) **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.

(ii) **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.

2 Summary of principal accounting policies *(con't)*

(f) Foreign currency translation *(con't)*

(ii) Transactions and balances *(con't)*

Changes in the fair value of monetary securities denominated in foreign currency 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 are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the investments revaluation reserve in equity.

(iii) Group companies

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

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

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

2 Summary of principal accounting policies *(con't)*

(f) **Foreign currency translation** *(con't)*

(iii) **Group companies** *(con't)*

- 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity 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.

(g) **Property, plant and equipment**

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

Subsequent costs are included in the asset's carrying amount or 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 costs are expensed in the income statement during the financial period in which they are incurred.

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

Buildings	25 years
Others	5 years

2 Summary of principal accounting policies *(con't)*

(g) **Property, plant and equipment** *(con't)*

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in the income statement.

(h) **Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by 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 is 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.

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. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed at least annually by external valuers.

2 Summary of principal accounting policies *(con't)*

(h) **Investment properties** *(con't)*

The fair value of investment property reflects, among other things, 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 outflow 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; 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 period in which they are incurred.

Changes in fair values are recognised in the income statement.

(i) **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or 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 suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of principal accounting policies *(con't)*

(j) **Financial assets**

Prior to 1st January 2005, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as non-trading investments and trading investments as follows:

(i) **Non-trading investments**

Non-trading investments are stated at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value. Changes in the fair value of individual investments are credited or debited to the investments revaluation reserve until the investment is sold, or is determined to be impaired.

Upon the disposal of an investment, the cumulative gain or loss, representing the difference between the net sales proceeds and the carrying amount of the relevant investment, together with any surplus/deficit transferred from the investments revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, any related debit amount recorded in the revaluation reserve is taken to the profit and loss account.

(ii) **Trading investments**

Trading investments are carried at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value.

2 Summary of principal accounting policies *(con't)*

(j) **Financial assets** *(con't)*

(ii) **Trading investments** *(con't)*

At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st January 2005 onwards, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) **Financial assets at fair value through profit or loss**

This category has two sub-categories: 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 sale in the short term or if so designated by management. 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.

(ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2(k)).

2 Summary of principal accounting policies *(con't)*

(j) **Financial assets** *(con't)*

(iii) **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 of financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. All other financial assets are initially recognised at fair value plus transaction costs. 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. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement as 'gains and losses on financial assets through profit or loss' in the period in which they arise.

Changes in the fair value of monetary securities denominated in foreign currency 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. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

2 Summary of principal accounting policies *(con't)*

(j) **Financial assets** *(con't)*

(iii) **Available-for-sale financial assets** *(con't)*

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 as 'gains and losses from available-for-sale financial assets '.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - 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. Impairment testing of trade receivables is described in Note 2(k).

2 Summary of principal accounting policies *(con't)*

(k) 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'other operating expenses'.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Deferred income tax

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

2 Summary of principal accounting policies *(con't)*

(m) **Deferred income tax** *(con't)*

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 jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) **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 leave are not recognised until the time of leave.

(o) **Revenue recognition**

(i) Realised and unrealised gains and losses on investments

Realised gains and losses on investments are recognised on conclusion of sales contracts. Unrealised gains and losses on investments are recognised on the basis set out in Note 2(j).

(ii) Rental and management fee income

Rental and management fee income on operating leases are recognised on a straight line basis over the lease periods.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 Summary of principal accounting policies *(con't)*

(o) **Revenue recognition** *(con't)*

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

(v) Commission income

Commission income is recognised when services are rendered.

(p) **Operating leases**

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

3 Financial risk management

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The types of financial risk to which the Group is exposed are market risk (including price risk and currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects it may have on the Group's financial performance.

(a) **Market risk**

(i) Price risk

The Group's equity securities are exposed to price risk as they are classified either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

3 Financial risk management *(con't)*

(a) **Market risk** *(con't)*

(ii) Foreign currency risk

As the Group invests in trading securities worldwide, it is exposed to foreign exchange risk arising from various currency exposures. The Group monitors the proportion of its financial investments denominated in non-US dollars.

(b) **Credit risk**

The Group has no significant credit risk. Generally, the Group's cash is held with highly-rated financial institutions.

(c) **Liquidity risk**

The Group has no bank borrowings as at 31st December, 2005. In order to maintain flexibility, the Group has credit facilities available from a major bank.

4 Critical accounting estimates and judgments

Estimate of fair value for investment properties

The Group's investment properties, which are leased to third parties, were revalued at 31st December, 2005 by an independent professional property valuer, Prudential Surveyors International Limited, on an open market value basis with reference to recent transaction prices of units in the same building and/or similar properties.

5 Turnover and segment information

Turnover recognised during the year comprises the following:

	2005 HK$'000	2004 HK$'000
Gross rental income from investment properties	32,773	31,515
Net realised and unrealised gains on financial assets at fair value through profit or loss/ trading investments	21,368	17,400
Dividend income from listed investments	2,094	2,070
Dividend income from unlisted investments	1,862	1,547
Interest income	4,105	2,454
Management fee income from investment properties	8,153	8,301
Commission income (Note 31(a))	7,766	8,458
	78,121	71,745

(a) **Primary reporting format - business segments**

The Group is organised on a worldwide basis into three main business segments:

Textile - manufacture and distribution of textile products
Property - investment in and leasing of industrial/office premises
Investment - holding and trading of investment securities

There are no sales or other transactions between the business segments.

5 Turnover and segment information *(con't)*

(a) **Primary reporting format - business segments** *(con't)*

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

	Textile	Property	Investment	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	7,766	40,926	29,429	78,121
Segment results	3,048	373,261	24,113	400,422
Finance costs				(46)
Share of profits of jointly controlled entities	8,940	-	-	8,940
Profit before income tax				409,316
Income tax expense				(64,771)
Profit attributable to equity holders of the Company				344,545
Impairment loss on available-for-sale financial assets	-	-	54	54
Capital expenditure	-	210	-	210
Depreciation	328	109	1	438

The segment results for the year ended 31st December 2004 are as follows:

	Textile	Property	Investment	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	8,458	39,816	23,471	71,745
Segment results	3,263	163,555	20,196	187,014
Finance costs				(89)
Share of profits of jointly controlled entities	8,815	-	-	8,815
Profit before income tax				195,740
Income tax expense				(28,350)
Profit attributable to equity holders of the Company				167,390
Capital expenditure	51	46	-	97
Depreciation	320	104	23	447

5 Turnover and segment information *(con't)*

(a) Primary reporting format - business segments *(con't)*

The segment assets and liabilities at 31st December 2005 are as follows:

	Textile HK$'000	Property HK$'000	Investment HK$'000	Unallocated HK$'000	Group HK$'000
Assets	4,266	880,212	482,119	142	1,366,739
Jointly controlled entities	102,151	-	-	-	102,151
Total assets	106,417	880,212	482,119	142	1,468,890
Total liabilities	4,393	34,186	1,847	106,781	147,207

The segment assets and liabilities at 31st December 2004 are as follows:

	Textile HK$'000	Property HK$'000	Investment HK$'000	Unallocated HK$'000	Group HK$'000
Assets	5,352	475,499	497,470	317	978,638
Jointly controlled entities	98,643	-	-	-	98,643
Total assets	103,995	475,499	497,470	317	1,077,281
Total liabilities	6,021	43,339	1,725	43,075	94,160

(b) Secondary reporting format - geographical segments

The Group's three main business segments operate in the following main geographical areas:

People's Republic of China (including Hong Kong) - textile, property and investment

United States of America, Europe and Southeast Asia - investment

5 Turnover and segment information *(con't)*

(b) **Secondary reporting format - geographical segments** *(con't)*

There are no sales or other transactions between the geographical segments.

	Turnover		Operating results		Capital expenditure	
	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
People's Republic of China (including Hong Kong)	50,806	47,665	375,197	164,004	210	97
United States of America	18,054	13,261	16,993	12,736	-	-
Europe	3,572	6,725	3,261	6,237	-	-
Southeast Asia	1,502	(495)	1,159	(285)	-	-
Other countries	4,187	4,589	3,812	4,322	-	-
	78,121	71,745	400,422	187,014	210	97

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

	2005	2004
	HK$'000	HK$'000
People's Republic of China (including Hong Kong)	917,729	491,524
United States of America	253,967	337,205
Europe	63,297	54,556
Southeast Asia	45,897	32,231
Other countries	85,707	62,805
	1,366,597	978,321
Jointly controlled entities	102,151	98,643
Unallocated assets	142	317
	1,468,890	1,077,281

6 Operating profit

	2005 HK$'000	2004 HK$'000
Operating profit is stated after crediting and charging the following		
Crediting:		
Net exchange gain	-	26
Charging:		
Auditors' remuneration	820	820
Depreciation	438	447
Direct operating expenses arising from investment properties that		
- generated rental income	1,353	1,800
- did not generate rental income	86	75
Management fee expense in respect of investment properties	8,316	8,316
Operating leases - land and buildings	1,193	1,321
Employee benefit expense (including directors' emoluments)	26,166	24,133
Impairment loss on available-for-sale financial assets	54	-
Net exchange loss	166	-

7 Employee benefit expense

	2005 HK$'000	2004 HK$'000
Wages and salaries	25,181	23,162
Pension costs - defined contribution plans (Note a)	985	971
	26,166	24,133

7 Employee benefit expense *(con't)*

(a) **Pensions - defined contribution plans**

The Group contributes to a defined contribution retirement scheme which is available to certain Hong Kong senior employees ("Senior Staff Scheme"). With effect from 1st December 2000, a mandatory provident fund scheme has been set up for the other eligible employees of the Group in Hong Kong. Contributions to the schemes by the Group are made at a certain percentage of basic monthly salary. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to the Senior Staff Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There was no contribution forfeited during the year (2004: Nil). Contributions totalling HK$4,000 (2004: HK$5,000) were payable to the schemes at the year end, which are included in trade and other payables.

(b) **Directors' and senior management's emoluments**

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

Name of Director	Fees	Salaries	Discretionary bonuses	Other benefits #	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Yun Cheng Wang	24	4,042	819	270	12	5,167
Mr. Hung Ching Yung	24	4,042	819	336	12	5,233
Mr. Lincoln C.K. Yung	24	4,042	819	231	559	5,675
Mr. Rudolf Bischof	216	-	-	-	-	216
Mr. Robert Tsai To Sze	180	-	-	-	-	180
Mr. James Julius Bertram	180	-	-	-	-	180
Ms. Jennie Chen	24	1,428	270	-	197	1,919
Total	672	13,554	2,727	837	780	18,570

7 Employee benefit expense *(con't)*

(b) **Directors' and senior management's emoluments** *(con't)*

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

Name of Director	Fees	Salaries	Discretionary bonuses	Other benefits #	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Yun Cheng Wang	24	3,978	796	168	12	4,978
Mr. Hung Ching Yung	24	3,978	796	141	12	4,951
Mr. Lincoln C.K. Yung	24	3,978	796	-	551	5,349
Mr. Rudolf Bischof	216	-	-	-	-	216
Mr. Robert Tsai To Sze	180	-	-	-	-	180
Mr. James Julius Bertram	170	-	-	-	-	170
Ms. Jennie Chen	24	1,391	257	-	192	1,864
Total	662	13,325	2,645	309	767	17,708

Other benefits include accommodation and motor vehicle expenses.

(c) **Five highest paid individuals**

The five highest paid individuals in the Group include 4 (2004: 4) Directors whose emoluments are reflected in the analysis presented in Note 7(b) above. The emoluments payable to the remaining individual during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries, housing and other allowances, benefits in kind	1,415	1,352
Contributions to retirement scheme	12	12
	1,427	1,364

8 Finance costs

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	46	89

9 Income tax expense

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 to the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Current income tax		
Hong Kong profits tax	566	482
Deferred income tax (Note 26)	64,205	27,868
	64,771	28,350

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories where the Group operates, and the difference is set out below:

	2005 HK$'000	2004 HK$'000
Profit before income tax	409,316	195,740
Less: Share of profits of jointly controlled entities	(8,940)	(8,815)
	400,376	186,925
Theoretical tax at weighted average rate of 17.5% (2004: 17.5%)	70,066	32,712
Income not subject to taxation	(6,366)	(5,465)
Expenses not deductible for taxation purposes	1,086	1,198
Under/(over) provision for current income tax in prior years	17	(44)
Effect of unrecognised temporary differences	(32)	(51)
Taxation charge	64,771	28,350

10 Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$12,697,000 (2004: HK$14,310,000).

11 Earnings per share

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

	2005	2004
Profit attributable to equity holders of the Company (HK$'000)	344,545	167,390
Weighted average number of ordinary shares in issue (thousands)	44,934	45,381
Basic earnings per share (HK$)	7.67	3.69

The Company has no dilutive potential ordinary shares.

12 Dividends

	2005 HK$'000	2004 HK$'000
2004 final dividend paid of HK$0.30 (2004: 2003 final dividend paid of HK$0.35) per share	13,507	15,894

At a meeting held on 4th April 2006 the Directors proposed a final dividend of HK$0.35 per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st December 2006.

13 Property, plant and equipment

Group	Other properties HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004			
Cost	12,189	3,775	15,964
Accumulated depreciation and impairment losses	(8,096)	(3,664)	(11,760)
Net book amount	4,093	111	4,204
Year ended 31st December 2004			
Opening net book amount	4,093	111	4,204
Additions	-	97	97
Disposals	-	(2)	(2)
Depreciation	(371)	(76)	(447)
Closing net book amount	3,722	130	3,852
At 31st December 2004			
Cost	12,189	3,866	16,055
Accumulated depreciation and impairment losses	(8,467)	(3,736)	(12,203)
Net book amount	3,722	130	3,852
Year ended 31st December 2005			
Opening net book amount	3,722	130	3,852
Additions	-	210	210
Depreciation	(371)	(67)	(438)
Closing net book amount	3,351	273	3,624
At 31st December 2005			
Cost	12,189	4,004	16,193
Accumulated depreciation and impairment losses	(8,838)	(3,731)	(12,569)
Net book amount	3,351	273	3,624

13 Property, plant and equipment *(con't)*

The Group's other properties at their net book value are analysed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
Leases of between 10 and 50 years	1,435	1,649
Outside Hong Kong, held on:		
Leases of over 50 years	450	472
Leases of between 10 and 50 years	1,466	1,601
	3,351	3,722

As the aggregate net book value of the leasehold land is not material, it has not been separately accounted for and disclosed in accordance with HKAS 17.

14 Investment properties

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	444,220	287,000
Fair value gains	367,980	157,220
At 31st December	812,200	444,220

The investment properties as at 31st December 2005 and 2004 were revalued on an open market basis by Prudential Surveyors International Limited, an independent professionally qualified property valuer.

The Group's investment properties with an aggregate carrying value of HK$791,700,000 (2004: HK$431,000,000) have been mortgaged to a bank to secure general banking facilities of which none (2004: an amount of HK$11,000,000) was utilised as at 31st December 2005.

The Group's investment properties are held on leases of between 10 and 50 years in Hong Kong.

15 Subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	378,782	378,782

Particulars of the subsidiaries are included in Note 32.

16 Jointly controlled entities

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	102,151	98,643

The following is a list of the jointly controlled entities as at 31st December 2005 and 2004:

Name	Place of establishment and operation	Principal activities
Shanghai Sung Nan Textile Co Ltd (Note a)	People's Republic of China	Textile manufacturing
Southern Textile Company Limited (Note b)	People's Republic of China	Investment in textile business

(a) The Group has a 64.68% interest in ownership and profit sharing and 57% voting power in Shanghai Sung Nan Textile Co Ltd.

(b) The Group has a 45% interest in ownership and profit sharing and 43% voting power in Southern Textile Company Limited.

16 Jointly controlled entities *(con't)*

The following amounts represent the Group's aggregate share of the assets and liabilities, and results of the jointly controlled entities:

	2005	2004
	HK$'000	HK$'000
Assets		
Non-current assets	48,204	47,132
Current assets	63,671	64,611
	111,875	111,743
Liabilities		
Current liabilities	(9,724)	(13,100)
Net assets	102,151	98,643
Income	110,564	121,343
Expenses	(101,624)	(112,528)
Profit after income tax	8,940	8,815

17 Available-for-sale financial assets

	Group
	2005
	HK$'000
At 1st January 2005	52,639
Exchange differences	(61)
Revaluation surplus recognised in equity (Note 23)	11,882
Impairment loss	(54)
Distribution of capital from venture capital funds	(400)
At 31st December 2005	64,006

17 Available-for-sale financial assets *(con't)*

Available-for-sale financial assets include the following:

	Group 2005 HK$'000
Listed securities, at fair value:	
- Equity securities - Hong Kong	4,697
Unlisted securities, at fair value:	
- Equity securities	56,634
- Venture capital funds	2,675
	59,309
	64,006

The available-for-sale financial assets are denominated in the following currencies:

	Group 2005 HK$'000
New Taiwan dollars	56,633
Others	7,373
	64,006

18 Non-trading investments

	Group 2004 HK$'000
Equity securities, at fair value	
Listed in Hong Kong	4,858
Unlisted	44,054
	48,912
Unlisted investment in venture capital funds, at fair value	3,727
	52,639

Non-trading investments as at 1st January 2005 have been accounted for as available-for-sale financial assets in accordance with HKASs 32 and 39 (refer to Note 2 (j)).

19 Trade and other receivables

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	254	524	-	-
Prepayments and deposits	5,735	5,792	190	189
Other receivables	680	493	-	-
Amount due from				
- a subsidiary (Note a)	-	-	20,505	25,017
- a jointly controlled entity (Note a)	13	13	-	-
	6,682	6,822	20,695	25,206

Note:

(a) The amounts due from a subsidiary/jointly controlled entity are unsecured, interest free and have no fixed terms of repayment.

(b) The carrying amounts of trade and other receivables approximate their fair values.

(c) The Group does not grant any credit to customers. At 31st December 2005, the aging analysis of the trade receivables is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	254	475
31 - 60 days	-	40
61 - 90 days	-	9
	254	524

There is no concentration of credit risk with respect to trade receivables.

20 Financial assets at fair value through profit or loss

	Group 2005 HK$'000
Listed equity securities:	
- Hong Kong	17,741
- outside Hong Kong	271,627
	289,368
Listed debt securities outside Hong Kong	64,167
Market value of listed securities	353,535

The above financial assets at fair value through profit or loss are held for trading purposes. They are presented within the section on operating activities as part of changes in working capital in the consolidated cash flow statement (Note 27(a)).

Changes in fair values of financial assets at fair value through profit or loss are recorded in turnover in the consolidated income statement (Note 5).

The financial assets at fair value through profit or loss are denominated in the following currencies:

	Group 2005 HK$'000
Euro	31,693
Japanese yen	18,521
Hong Kong dollars	17,741
Singapore dollars	14,542
United States dollars	254,342
Others	16,696
	353,535

21 Trading investments

	Group 2004 HK$'000
Equity securities, at fair value	
Listed in Hong Kong	7,846
Listed outside Hong Kong	282,645
	290,491
Debt securities, at fair value	
Listed outside Hong Kong	86,500
Market value of listed securities	376,991

Trading investments as at 1st January 2005 have been accounted for as financial assets at fair value through profit or loss in accordance with HKASs 32 and 39 (refer to Note 2(j)).

22 Share capital

	Number of shares	Amount HK$'000
Authorised:		
Shares of HK$0.10 each		
At 1st January 2005 and 31st December 2005	60,000,000	6,000
Issued and fully paid:		
Shares of HK$0.10 each		
At 1st January 2004	45,650,799	4,565
Repurchase of own shares	(555,500)	(56)
At 31st December 2004	45,095,299	4,509
Repurchase of own shares	(400,000)	(40)
At 31st December 2005	44,695,299	4,469

During the year, the Company repurchased a total of 400,000 (2004: 555,500) of its own shares through purchases on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The aggregate price of HK$3,720,000 (2004: HK$4,228,000) paid was charged against retained profits and the nominal value of the shares repurchased of HK$40,000 (2004: HK$56,000) was transferred to the capital redemption reserve.

23 Reserves

Group

	Contributed surplus HK$'000	Investments revaluation reserve HK$'000	Investment properties revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	General reserve HK$'000	Statutory reserves HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2005, as previously reported	20,000	26,632	182,950	1,000	76,000	10,538	7,068	491	688,073	1,012,752
Adjustment for the adoption of HKAS 40	-	-	(182,950)	-	-	-	-	-	182,950	-
Adjustment for the adoption of HKAS-Int 21	-	-	-	-	-	-	-	-	(34,140)	(34,140)
At 1st January 2005, as restated	20,000	26,632	-	1,000	76,000	10,538	7,068	491	836,883	978,612
Revaluation surplus	-	11,882	-	-	-	-	-	-	-	11,882
Currency translation differences	-	-	-	-	-	-	(638)	-	-	(638)
Profit for the year	-	-	-	-	-	-	-	-	344,545	344,545
Shares repurchased and cancelled	-	-	-	-	-	-	-	40	(3,720)	(3,680)
2004 final dividend	-	-	-	-	-	-	-	-	(13,507)	(13,507)
Transfer to statutory reserves of jointly controlled entities	-	-	-	-	-	887	-	-	(887)	-
At 31st December 2005	20,000	38,514	-	1,000	76,000	11,425	6,430	531	1,163,314	1,317,214
Representing:										
Reserves at 31st December 2005										1,301,746
2005 final dividend proposed										15,468
At 31st December 2005										1,317,214
At 1st January 2004, as previously reported	20,000	14,380	25,730	1,000	76,000	9,488	6,641	435	672,125	825,799
Adjustment for the adoption of HKAS 40	-	-	(25,730)	-	-	-	-	-	25,730	-
Adjustment for the adoption of HKAS-Int 21	-	-	-	-	-	-	-	-	(7,190)	(7,190)
At 1st January 2004, as restated	20,000	14,380	-	1,000	76,000	9,488	6,641	435	690,665	818,609
Revaluation surplus	-	12,252	-	-	-	-	-	-	-	12,252
Currency translation differences	-	-	-	-	-	-	427	-	-	427
Shares repurchased and cancelled	-	-	-	-	-	-	-	56	(4,228)	(4,172)
2003 final dividend	-	-	-	-	-	-	-	-	(15,894)	(15,894)
Profit for the year	-	-	-	-	-	-	-	-	167,390	167,390
Transfer to statutory reserves of jointly controlled entities	-	-	-	-	-	1,050	-	-	(1,050)	-
At 31st December 2004	20,000	26,632	-	1,000	76,000	10,538	7,068	491	836,883	978,612
Representing:										
Reserves at 31st December 2004										965,083
2004 final dividend proposed										13,529
At 31st December 2004										978,612

23 Reserves *(con't)*

Company

	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2005	373,782	491	25,295	399,568
Profit for the year	-	-	12,697	12,697
Shares repurchased and cancelled (Note 22)	-	40	(3,720)	(3,680)
2004 final dividend (Note 12)	-	-	(13,507)	(13,507)
At 31st December 2005	373,782	531	20,765	395,078
Representing:				
Reserves at 31st December 2005				379,610
2005 final dividend proposed				15,468
At 31st December 2005				395,078
At 1st January 2004	373,782	435	31,107	405,324
Profit for the year	-	-	14,310	14,310
Shares repurchased and cancelled (Note 22)	-	56	(4,228)	(4,172)
2003 final dividend (Note 12)	-	-	(15,894)	(15,894)
At 31st December 2004	373,782	491	25,295	399,568
Representing:				
Reserves at 31st December 2004				386,039
2004 final dividend proposed				13,529
At 31st December 2004				399,568

23 Reserves *(con't)*

Pursuant to a group reorganisation in 1989, the Company acquired all the issued shares of Nanyang Cotton Mill Limited ("NCML") in exchange for the Company's new shares issued. The Group's contributed surplus represents the difference between the nominal value of NCML's shares and the nominal value of the Company's shares issued pursuant to the group reorganisation. The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued and the consolidated net assets of NCML acquired under the group reorganisation as at the date of acquisition.

Statutory reserves are created in accordance with the terms of the joint venture agreements of the jointly controlled entities established in the People's Republic of China and are required to be retained in the financial statements of the entities for specific purposes. The statutory reserves at 31st December 2005 comprise statutory surplus reserve of HK$5,712,500 (2004: HK$5,269,000) and enterprise development reserve of HK$5,712,500 (2004: HK$5,269,000) which are appropriated from the profits of the jointly controlled entities.

General reserve arose from transfers from retained profits and has no specific purposes.

24 Trade and other payables

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables (Note a)	1,722	1,623	-	-
Rental and management fee deposits	9,400	8,881	-	-
Other payables and accruals	25,650	24,311	853	822
Amount due to a jointly controlled entity (Note b)	3,654	5,270	-	-
	40,426	40,085	853	822

24 Trade and other payables *(con't)*

(a) At 31st December 2005, the aging analysis of the trade payables is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	1,382	1,283
31 - 60 days	340	340
	1,722	1,623

(b) The amount due to a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

(c) The carrying amounts of trade and other payables approximate their fair values.

25 Borrowings

	Group	
	2005	2004
	HK$'000	HK$'000
Short-term bank borrowings	-	11,000

The short-term bank borrowings as at 31st December 2004 were secured by the Group's investment properties (Note 14). The carrying amounts of these short-term borrowings which were denominated in Hong Kong dollars have an effective interest rate of 1.5% at 31st December 2004. The carrying amounts approximated their fair values.

26 Deferred income tax

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%).

	Group 2005 HK$'000	Group 2004 HK$'000
Deferred income tax assets	142	317
Deferred income tax liabilities	(106,581)	(42,551)
	(106,439)	(42,234)

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

	Group 2005 HK$'000	Group 2004 HK$'000
At 1st January, as previously reported	(8,094)	(7,176)
Effect of adoption of HKAS - Int 21	(34,140)	(7,190)
At 1st January, as restated	(42,234)	(14,366)
Recognised in the consolidated income statement (Note 9)	(64,205)	(27,868)
At 31st December	(106,439)	(42,234)

26 Deferred income tax *(con't)*

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

Deferred income tax liabilities:	Group		
	Accelerated tax depreciation HK$'000	Fair value gains HK$'000	Total HK$'000
At 1st January 2004, as previously reported	(8,175)	-	(8,175)
Effect of adoption of HKAS - Int 21	-	(7,190)	(7,190)
At 1st January 2004, as restated	(8,175)	(7,190)	(15,365)
Recognised in the consolidated income statement	(1,032)	(26,950)	(27,982)
At 31st December 2004	(9,207)	(34,140)	(43,347)
Recognised in the consolidated income statement	(990)	(63,122)	(64,112)
At 31st December 2005	(10,197)	(97,262)	(107,459)

Deferred income tax assets:	Group		
	Accelerated accounting depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1st January 2004	123	876	999
Recognised in the consolidated income statement	(2)	116	114
At 31st December 2004	121	992	1,113
Recognised in the consolidated income statement	(2)	(91)	(93)
At 31st December 2005	119	901	1,020

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$2,066,000 (2004: HK$1,998,000) in respect of losses amounting to HK$11,804,000 (2004: HK$11,417,000) that can be carried forward against future taxable income. These tax losses have no expiry date.

27 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash generated from operations:

	2005 HK$'000	2004 HK$'000
Operating profit	400,422	187,014
Dividend income from available-for-sale financial assets/non-trading investments	(1,862)	(1,667)
Depreciation	438	447
(Gain)/loss on disposal of fixed assets	(1)	2
Impairment loss on available-for-sale financial assets	54	-
Changes in fair value of investment properties	(367,980)	(157,220)
Operating profit before working capital changes	31,071	28,576
Decrease in trade and other receivables	140	2,027
Decrease in financial assets at fair value through profit or loss/trading investments	23,456	45,369
Increase/(decrease) in trade and other payables	341	(1,617)
Exchange translation differences	(575)	383
Net cash generated from operations	54,433	74,738

(b) Analysis of changes in financing:

	Bank loans 2005 HK$'000	Bank loans 2004 HK$'000
At 1st January	11,000	-
Drawdown of bank loans	-	11,000
Repayment of bank loans	(11,000)	-
At 31st December	-	11,000

28 Capital commitments

At 31st December 2005, the Group had no material capital commitment (2004: HK$Nil).

	Group	
	2005	2004
	HK$'000	HK$'000
The Group's share of capital commitments of a jointly controlled entity is as follows:		
Contracted but not provided for	4,640	-
Authorised but not contracted for	42,656	53,661
	47,296	53,661

The Company did not have any material capital commitment as at 31st December 2005 (2004: HK$Nil).

29 Commitments under operating leases

At 31st December, the Group had future aggregate minimum lease payments under a non-cancellable operating lease for office premises as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Not later than one year	863	863
Later than one year and not later than five years	107	970
	970	1,833

30 Future rental receivables

At 31st December, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases on its investment properties as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Not later than one year	22,757	24,993
Later than one year and not later than five years	12,348	14,973
	35,105	39,966

31 Related-party Transactions

(a) Sales of services

During the year, agency commission income of HK$7,766,000 (2004: HK$8,458,000) was received by a subsidiary from a jointly controlled entity for handling sales of textile products for the jointly controlled entity. These transactions were entered into in the normal course of business of the Group and the commission income has been calculated at a certain fixed percentage of the value of sales handled by the subsidiary.

(b) Key management compensation

	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	19,205	18,293
Post-employment benefits	792	779
	19,997	19,072

32 Subsidiaries

Details of the subsidiaries as at 31st December 2005 are as follows:

	Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2005	Group equity interest 2004
#	Astral Investments Co	Liberia	Hong Kong	Investment trading	1 share without par value issued at US$10,000	-	100%
	Bright Honest Investments Ltd	British Virgin Islands	Hong Kong	Investment holding	1 share without par value issued at US$1,000	100%	100%
	Bravery Co Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at US$1,000	100%	100%
	Cottage Investments Co SA	Panama	Hong Kong	Investment holding	100 common shares without par value issued at US$10 each and 100 common shares of US$10 each	100%	100%
+	Culvert Investments Ltd	British Virgin Islands	Hong Kong	Investment holding	100 shares of US$1 each	100%	100%
	East Coast Investments Ltd	Hong Kong	Hong Kong	Investment trading	2 ordinary shares of US$1 each	100%	100%
	Highriver Estates Ltd	Hong Kong	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%	100%
	Homestead Investments Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at US$10,000	100%	100%
	Mepal International Ltd.	Hong Kong	Hong Kong	Property investment	3 ordinary shares of HK$1 each	100%	100%
	Merry Co Inc	Liberia	The People's Republic of China	Property and investment holding	1 share without par value issued at US$1,000	100%	100%

32 Subsidiaries *(con't)*

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2005	Group equity interest 2004
Nanyang Cotton Mill Ltd	Hong Kong	Hong Kong	Investment holding and property investment	25,000,000 ordinary shares of HK$1 each	100%	100%
Nanyangetextile.com Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	100%	100%
Peninsular Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at HK$10,000	100%	100%
Peninsular Yarn & Fabric Merchandising Ltd	Hong Kong	Hong Kong	Textile sales agency	1,000 ordinary shares of HK$1 each	100%	100%
Velden Ltd	British Virgin Islands	Hong Kong	Investment holding and trading	10,000 ordinary shares of US$1 each	100%	100%

+ Subsidiary held directly by the Company.

This subsidiary was liquidated on 2nd August 2005.