Notes to the Consolidated Financial Statements

1. GROUP STRUCTURE, REORGANISATION AND PRINCIPAL ACTIVITIES

China Ting Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

Pursuant to a group reorganisation, which was completed on 18 November 2005 (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") on 15 December 2005.

The Reorganisation has been reflected in the financial statements by regarding the Group now comprising the Company and its subsidiaries as a continuing entity. Accordingly, the financial statements for the year ended 31 December 2005 have been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group as if the current structure had been in existence throughout the period presented.

As the Company was only incorporated on 31 May 2005, there were no comparative figures in the Company's balance sheet as at 31 December 2004.

These consolidated financial statements are presented in units of Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 11 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of China Ting Group Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

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

The HKICPA has issued a number of new/revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2006. The Group has started considering the potential impact of these HKFRSs. Based on the preliminary assessment, the Group believes that the adoption of these HKFRSs, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted the following new/revised HKFRSs, if applicable, in the financial statements for the year ended 31 December 2005:

HKAS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards — Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-int 3	Emission Rights[2]
HKFRS-int 4	Determining whether an Arrangement Contains a Lease[2]
HKFRS-int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3]

1: Effective for accounting periods commencing on or after 1 January 2007.

2: Effective for accounting periods commencing on or after 1 January 2006.

3: Effective for accounting periods commencing on or after 1 December 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

(i) *Subsidiaries*

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

Except for the Reorganisation which has been accounted for on a merger basis, the acquisitions set out in Note 35 have been accounted for using the purchase method of accounting. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are de-combined from the date that control ceases.

Under the purchase method of accounting, 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.

Minority interests represent the interests in net profit and assets of the subsidiaries comprising the Group which are attributable to shareholders outside the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (Continued)

(i) *Subsidiaries (Continued)*

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

(ii) *Transactions and minority interests*

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

(iii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Segment reporting

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

(d) 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 ("HK$"), which is the Company's presentation currency.

The balance sheets of subsidiaries and associates expressed in currencies other than HK$ at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Whilst the income statements are translated at average rates. Exchange differences are dealt with as a movement in reserves.

(ii) *Transactions and balances*

Foreign currency transactions are translated into 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translation (Continued)

(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:

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

(2) 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

(3) 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, are taken to shareholders' equity. When a foreign operation is sold, 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.

(e) Property, plant and equipment

Property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20–40 years
Leasehold improvements	5 years
Plant and machinery	5–10 years
Vehicles	3–10 years
Furniture, fittings and equipment	5–10 years

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

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

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

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the year of construction or installation and testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties (Continued)

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

Investment property is measured initially at its cost, including related transaction costs. 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, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the "First Edition of The HKIS Valuation Standards on Properties" issued by The Hong Kong Institute of Surveyors.

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 outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial year in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties (Continued)

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

(g) Leasehold land and land use rights

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

(h) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition, other than acquisition under the Reorganisation, over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill arising on the acquisition of subsidiaries in Note 35 below is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (Continued)

(ii) *Trademarks*

Trademarks are shown at historical cost. Trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful life of 10 years. In determining the estimated useful life of the trademark, the Directors have considered the fair value of the trademark and the estimated royalty expenses based on the future revenue stream.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are tested at least 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 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).

(j) 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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and bills receivables in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement within "administrative expenses".

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Cash and cash equivalents

Cash and cash equivalents includes 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.

(n) Share capital

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(p) Borrowing costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(q) 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 accounts. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

(i) *Pension obligations*

The Group participates in a number of defined contribution plans in Hong Kong and the People's Republic of China ("PRC"), the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies. The Group pays contributions to the pension plans on a mandatory, contractual or voluntary basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) *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 and maternity leave are not recognised until the time of leave.

(iii) *Profit sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (Continued)

(iv) *Share-based compensation*

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

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

(s) Contingent liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and reliable estimate of that amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are not recognised for future operating losses.

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

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

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services net of rebates, discounts, returns, value-added tax and after eliminated sales within the Group. Revenue is recognised as follows:

(i) *Sales of goods — original equipment manufacturing ("OEM")*

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue recognition (Continued)

(ii) *Sales of goods — retail*

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The recorded revenue includes credit card fees payable for the transaction. Such credit card fees are included in selling, marketing and distribution costs. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(iii) *Interest income*

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

(iv) *Dividend income*

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

(v) *Rental income*

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease term.

(v) Government grants

Government grants are subsidies on export of textile and clothing and assistance on certain projects approved by local government. Government grants are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group comply with all attached conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Government grants (Continued)

Government grants relating to costs are deferred and recognised in the consolidated income statement over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(w) 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 lessor) are charged to the consolidated income statement on the straight-line basis over the period of the lease.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders. Dividend proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), business risk, credit risk and liquidity risk.

(i) *Foreign exchange risk*

The Group mainly operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in the PRC while purchases are mainly from suppliers in Hong Kong and the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures such as United States Dollars ("USD"), Renminbi ("RMB") and EURO, primarily with respect to HK$ which is the Group's presentation currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

In addition, RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The conversion rates of HK$ against USD and RMB, however, have been comparatively stable during the year.

(ii) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2005, over 79.8% (2004: 78.9%) of the Group's borrowings were at fixed rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 21.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iii) *Credit risk*

The carrying amounts of cash and cash equivalents, time deposits, accounts and bills receivable, and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Although OEM garment sales to large or long-established customers with good repayment history comprise a significant proportion of the total Group's OEM garment sales, the Group has policies on granting different settlement methods to different customers to monitor the credit exposure. Letters of credit are normally required from new customers and existing customers with short trading history for settlement purposes. Sales to retail customers are made in cash or via credit cards or collected by department stores on behalf of the Group. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

(iv) *Concentration risk*

During the year ended 31 December 2005, the Group's sales to top 5 customers accounted for approximately 59.8% (2004: 49.1%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(v) *Liquidity risk*

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(v) *Liquidity risk (Continued)*

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payments of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and bank loans. The Group generally operates with a working capital surplus.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 21.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(i) Sales of goods — original equipment manufacturing ("OEM")

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Sales of goods — retail

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such credit card fees are included in selling, marketing and distribution costs. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(iii) Useful lives of machinery and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its machinery and equipment. This estimate is based on the historical experience of the actual useful lives of machinery and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Net realisable value of inventories

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(v) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(vi) Income taxes

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

(vii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(h)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(a) Turnover and other income

i) *Turnover*

The Group is principally engaged in the manufacture and sale of garments on an OEM basis and retailing of branded fashion apparel. Revenues recognised are approximately HK$1,894,835,000 for the year ended 31 December 2005 (2004: HK$1,401,465,000).

ii) *Other income*

The Group's other income are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Interest income	**10,249**	5,842
Rental income	**664**	663
	10,913	6,505

(b) Primary reporting segment — business segments

The business segment reporting includes the following segments: (1) manufacture and sale of garments on an OEM basis; and (2) retailing of branded fashion apparel.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed amongst those business segments.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation.

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

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

Capital expenditure comprises mainly additions to property, plant and equipment (Note 6), leasehold land and land use rights (Note 8) and intangible assets (Note 11), including additions resulting from acquisitions through business combinations.

As at and for the year ended 31 December 2005

The segment results for the year ended 31 December 2005 and other segment items included in the consolidated income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Gross segment sales	1,730,322	172,783	1,903,105
Elimination of inter-segment sales	(8,270)	—	(8,270)
Turnover	1,722,052	172,783	1,894,835
Other income	10,762	151	10,913
	1,732,814	172,934	1,905,748
Segment results	432,577	14,265	446,842
Unallocated gains			15,906
Operating profit			462,748
Finance costs	(8,951)	—	(8,951)
Share of profit of associates	9,023	—	9,023
Profit before income tax			462,820
Income tax expense			(72,715)
Profit for the year			390,105
Other segment items included in the consolidated income statement are as follows:			
Depreciation charge (Note 6)	23,531	3,075	26,606
Amortisation of leasehold land and land use rights (Note 8)	1,061	—	1,061
Provision for impairment of receivables (Note 28)	3,069	—	3,069
Bad debts written off (Note 28)	78	—	78
Inventory write-down (Note 28)	55	17,047	17,102

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

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

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Corporate and others HK$'000	Total HK$'000
Assets	820,910	170,275	805,253	1,796,438
Associates	59,540	—	—	59,540
Total assets	880,450	170,275	805,253	1,855,978
Liabilities	320,031	61,674	19,933	401,638
Capital expenditure	118,112	4,455	—	122,567

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

As at and for the year ended 31 December 2004

The segment results for the year ended 31 December 2004 and other segment items included in the consolidated income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Gross segment sales	1,253,113	156,953	1,410,066
Elimination of inter-segment sales	(8,601)	—	(8,601)
Turnover	1,244,512	156,953	1,401,465
Other income	4,787	1,718	6,505
	1,249,299	158,671	1,407,970
Segment results	175,065	41,452	216,517
Unallocated gains			26,637
Operating profit			243,154
Finance costs	(5,615)	(4,576)	(10,191)
Share of profit of associates	10,391	—	10,391
Profit before income tax			243,354
Income tax expense			(30,186)
Profit for the year			213,168
Other segment items included in the consolidated income statement are as follows:			
Depreciation charge (Note 6)	22,996	1,885	24,881
Amortisation of leasehold land and land use rights (Note 8)	846	6	852
Provision for impairment of receivables (Note 28)	—	633	633
Bad debts written off (Note 28)	8,320	—	8,320
Inventory write-down (Note 28)	—	1,361	1,361

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Assets	904,925	228,807	1,133,732
Associates	45,117	—	45,117
Total assets	950,042	228,807	1,178,849
Liabilities	549,241	93,445	642,686
Capital expenditure	43,023	34,480	77,503

(c) Secondary reporting segment — geographical segments

The Group primarily operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in the PRC.

The Group's sales are mainly made to the customers located in the following geographical areas:

	2005 HK$'000	2004 HK$'000
North America	**1,547,703**	1,136,335
European Union	**84,427**	41,726
The PRC (including Hong Kong)	**214,419**	190,682
Other countries	**48,286**	32,722
	1,894,835	1,401,465

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting segment — geographical segments (Continued)

The Group's total assets are located in the following geographical areas:

	2005	2004
	HK$'000	HK$'000
The PRC		
— Mainland China	**721,143**	738,331
— Hong Kong	**1,134,293**	439,976
North America	**542**	542
	1,855,978	1,178,849

The Group's capital expenditure, based on where the assets are located, are located in the following geographical areas:

	2005	2004
	HK$'000	HK$'000
The PRC		
— Mainland China	**121,177**	76,234
— Hong Kong	**1,390**	1,073
North America	**—**	196
	122,567	77,503

6. PROPERTY, PLANT AND EQUIPMENT

	Properties	Leasehold improvements	Plant and machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004							
Cost	210,436	5,568	71,419	16,116	17,520	11,797	332,856
Accumulated depreciation	(8,512)	(4,023)	(5,626)	(6,430)	(4,021)	—	(28,612)
Net book amount	201,924	1,545	65,793	9,686	13,499	11,797	304,244
Year ended 31 December 2004							
Net book amount at 1 January 2004	201,924	1,545	65,793	9,686	13,499	11,797	304,244
Additions	257	805	9,119	3,229	5,000	1,902	20,312
Transfers	128	—	3,928	—	5,238	(9,294)	—
Disposals	(23,892)	(33)	(331)	(453)	(746)	—	(25,455)
Depreciation charge	(10,234)	(758)	(7,031)	(2,818)	(4,040)	—	(24,881)
Exchange differences	321	1	115	16	23	18	494
Net book amount at 31 December 2004	168,504	1,560	71,593	9,660	18,974	4,423	274,714
At 31 December 2004							
Cost	182,777	6,292	83,545	18,325	25,575	4,423	320,937
Accumulated depreciation	(14,273)	(4,732)	(11,952)	(8,665)	(6,601)	—	(46,223)
Net book amount	168,504	1,560	71,593	9,660	18,974	4,423	274,714

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Properties	Leasehold improvements	Plant and machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005							
Net book amount at 1 January 2005	168,504	1,560	71,593	9,660	18,974	4,423	274,714
Additions	9,203	1,295	22,963	5,175	4,807	61,099	104,542
Acquisition of subsidiaries	—	—	1,939	—	48	4,008	5,995
Transfers	22,026	—	11,831	342	305	(34,504)	—
Disposals	(10,929)	(238)	(6,446)	(125)	(168)	—	(17,906)
Deemed distribution (Note 20)	(84,625)	—	(4,815)	(1,971)	(5,222)	(12,561)	(109,194)
Depreciation charge	(8,884)	(601)	(9,934)	(2,987)	(4,200)	—	(26,606)
Exchange differences	3,588	(44)	1,777	163	329	425	6,238
Net book amount at 31 December 2005	98,883	1,972	88,908	10,257	14,873	22,890	237,783
At 31 December 2005							
Cost	108,939	6,118	108,763	20,479	24,341	22,890	291,530
Accumulated depreciation	(10,056)	(4,146)	(19,855)	(10,222)	(9,468)	—	(53,747)
Net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain property, plant and equipment of the Group have been pledged for bank borrowings as follows:

	2005	2004
	HK$'000	HK$'000
Net book value of pledged property, plant and equipment	**4,813**	13,268

Depreciation is charged to the following expenses:

	2005	2004
	HK$'000	HK$'000
Cost of sales	**14,909**	16,311
Administrative expenses	**11,697**	8,570
	26,606	24,881

7. INVESTMENT PROPERTIES

	2005	2004
	HK$'000	HK$'000
At 1 January	**4,310**	3,040
Fair value gain (Note 25)	**630**	1,270
At 31 December	**4,940**	4,310

The investment properties were revalued at 30 September 2005 by independent professionally qualified valuer, CB Richard Ellis Limited. Valuations were based on current prices in an active market for these properties. Directors considered that the valuation is approximately the same as the fair value of the investment properties as at 31 December 2005.

The Group's interest in investment properties are held in Hong Kong with lease period between 10 to 50 years and are pledged for bank borrowings.

8. LEASEHOLD LAND AND LAND USE RIGHTS

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

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
— Leases of over 50 years	—	9,101
— Leases of between 10 to 50 years	9,587	9,853
Outside Hong Kong, held on:		
— Leases of between 10 to 50 years	26,541	24,668
	36,128	43,622

The movements of net book value of leasehold land and land use rights are analysed as follows:

	2005 HK$'000	2004 HK$'000
At beginning of year	43,622	23,487
Additions	16,611	25,975
Acquisition of subsidiaries	293	—
Disposals	(8,903)	(4,996)
Deemed distribution (Note 20)	(15,147)	—
Amortisation	(1,061)	(852)
Exchange differences	713	8
At end of year	36,128	43,622

Certain leasehold land and land use rights of the Group have been pledged for bank borrowings. The carrying amount of these leasehold land and land use rights as at 31 December 2005 was approximately HK$9,587,000 (2004: HK$18,955,000).

Amortisation is charged to administrative expenses during the year.

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES

	Company 2005 HK$'000
Investments in subsidiaries	
Unlisted shares, at cost	**478,054**
Due from subsidiaries	**429,274**

The balances are unsecured, interest-free and repayable on demand.

The particulars of the Group's principal subsidiaries as at 31 December 2005 are set out as follows:

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
China Ting Garment Mfg (Group) Limited	Hong Kong	Garment trading in Hong Kong	5,000,000 shares of HK$1 each	100%
China Ting Textile & Knitwear (H.K.) Limited	Hong Kong	Knitwear trading in Hong Kong	10,000 shares of HK$1 each	100%
Concept Creator Fashion Limited	Hong Kong	Garment trading in Hong Kong	200,000 shares of HK$1 each	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Diny (Hangzhou) Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$630,000	100%
Finity Fashion (Shenzhen) Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	HK$10,000,000	100%
Finity International Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$6,800,000	100%
Hangzhou China Ting Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$3,500,000	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Hangzhou Fuding Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$1,000,000	100%
Hangzhou Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	RMB5,000,000	100%
Jiangsu Fuze Textile Company Limited	The PRC	Jacquard and velvet fabric weaving in the PRC	US$1,375,000	52%
Shenzhen Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$560,000	100%
Skylite Fashion (Hong Kong) Limited	Hong Kong	Garment trading in Hong Kong	10,000 shares of HK$1 each	100%
Zhejiang China Ting Brand Management Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$1,200,000	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Zhejiang China Ting Jincheng Silk Company Limited	The PRC	Silk fabric weaving in the PRC	US$1,950,000	100%
Zhejiang China Ting Knitwear Company Limited	The PRC	Knitwear manufacturing in the PRC	US$3,500,000	100%
Zhejiang China Ting Textile Technology Company Limited	The PRC	Home textile weaving in the PRC	US$10,000,000	100%
Zhejiang Concept Creator Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%
Zhejiang Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$1,000,000	100%
Zhejiang Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,500,000	100%
Zhejiang Huayue Silk Products Company Limited	The PRC	Spun silk fabric weaving in the PRC	US$2,500,000	55%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Zhejiang Huali Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$936,300	100%
Zhejiang Xinan Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%

The English names of certain subsidiaries referred herein represent management's best effort in translating the Chinese names of these companies as no English names have been registered.

10. INTEREST IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Share of net assets	**41,861**	27,438
Goodwill	**17,679**	17,679
	59,540	45,117
Due from associates	**1,104**	4,238
Due to associates	**7,541**	—

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

10. INTEREST IN ASSOCIATES (CONTINUED)

Movements of share of net assets and goodwill of associates are as follows:

	2005 HK$'000	2004 HK$'000
At beginning of year	**45,117**	30,533
Acquisitions	**9,360**	4,193
Share of results before income tax	**11,234**	10,758
Share of income tax	**(2,211)**	(367)
Share of profits of associates	**9,023**	10,391
Change of status from associates to subsidiaries upon acquisitions of additional interests (Note 35)	**(3,956)**	—
Exchange differences	**(4)**	—
At end of year	**59,540**	45,117

The summarisation of the financial information of the Group's associates in aggregate is as follows:

	2005 HK$'000	2004 HK$'000
Total assets	**146,109**	229,610
Total liabilities	**(37,769)**	(53,821)
Revenues	**122,226**	126,780
Operating profit	**22,356**	30,141

10. INTEREST IN ASSOCIATES (CONTINUED)

The particulars of the Group's associates are set out as follows:

Name of companies	Place of incorporation/ establishment and operations	Particular of issued/paid-in capital	Equity interest attributable to the Group	Principal activities
Hangzhou Huaxing Silk Printing Company Limited	The PRC	US$3,000,000	40%	Fabric printing and dyeing
Heshan Tri-Star Silk Dyeing and Printing Works Limited	The PRC	US$3,000,000	40%	Fabric printing and dyeing
Interfield Industrial Limited	Hong Kong	23,400,000 shares of HK$1 each	40%	Investment holding
Jiaxing Feiyue Knitwear Garment Limited	The PRC	US$660,000	45.5%	Garment manufacturing
Hangzhou Huasheng Accessories Company Limited	The PRC	US$250,000	25%	Accessories and plastic bags manufacturing

Notes to the Consolidated Financial Statements

11. INTANGIBLE ASSETS

	Goodwill	Trademark	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2004	—	—	—
Additions	—	31,216	31,216
Amortisation	—	(1,561)	(1,561)
At 31 December 2004	—	29,655	29,655
At 31 December 2004			
Cost	—	31,216	31,216
Accumulated amortisation	—	(1,561)	(1,561)
Net book amount	—	29,655	29,655
At 1 January 2005	—	29,655	29,655
Acquisition of subsidiaries	1,414	—	1,414
Amortisation	—	(3,381)	(3,381)
At 31 December 2005	1,414	26,274	27,688
At 31 December 2005			
Cost	1,414	31,216	32,630
Accumulated amortisation	—	(4,942)	(4,942)
Net book amount	1,414	26,274	27,688

Pursuant to an agreement dated 7 June 2004, the Group acquired the right to use the brand FINITY in the PRC and Hong Kong from Finity Acquisition Corp. ("FAC"), an independent third party, for an aggregate consideration of US$4 million based on mutually agreed price. Amortisation is charged to selling, marketing and distribution costs during the year.

12. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**83,290**	45,991
Work-in-progress	**94,545**	75,370
Finished goods	**63,939**	72,836
	241,774	194,197
Less: inventory write-down	**(23,634)**	(6,532)
	218,140	187,665

The cost of inventories recognised as expense and included in cost of goods sold amounted to approximately HK$816,261,000 (2004: HK$571,593,000) for the year ended 31 December 2005.

The Group has made an inventory write-down of HK$17,102,000 in 2005 (2004: HK$1,361,000).

13. DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, interest-free and repayable on demand. The carrying amounts due from related companies approximate their fair values. Please refer to Note 36 for further details of these balances.

14. DUE FROM/(TO) DIRECTORS

The amounts due from/(to) directors were unsecured, interest-free and had been fully settled during the year. Please refer to Note 36 for further details of these balances.

Notes to the Consolidated Financial Statements

15. TRADE AND BILLS RECEIVABLE

	2005 HK$'000	2004 HK$'000
Trade receivables	**213,811**	162,379
Bills receivable	**21,668**	27,690
	235,479	190,069
Less: Provision for impairment	**(4,555)**	(1,486)
	230,924	188,583

Aging analysis of trade and bills receivables is as follows:

	2005 HK$'000	2004 HK$'000
0 to 30 days	**167,341**	134,328
31 to 60 days	**49,356**	41,945
61 to 90 days	**11,750**	3,490
Over 90 days	**7,032**	10,306
	235,479	190,069

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of less than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

15. TRADE AND BILLS RECEIVABLE (CONTINUED)

Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The department stores are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bills receivable are with average maturity dates of within 2 months.

The carrying amounts of trade and bills receivable approximate their fair values.

The Group has recognised losses of approximately HK$3,147,000 (2004: HK$8,953,000) for the year ended 31 December 2005 for the impairment and write-off of its trade receivables. The losses have been included in administrative expenses in the consolidated income statement.

16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		**Company**
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
VAT recoverable	**27,063**	27,457	**—**
Prepayments and deposits	**30,991**	18,319	**14,603**
Other receivables	**4,589**	6,844	**1,156**
	62,643	52,620	**15,759**

Other receivables, deposits and prepayments are non-interest bearing. The carrying amounts of other receivables, deposits and prepayments approximate their fair values.

17. PLEDGED BANK DEPOSITS

As at 31 December 2005, bank deposits of HK$1,128,000 (2004: HK$17,850,000) had been pledged with financial institutions for the grants of certain trade finance facilities to the Group.

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Pledged bank deposits are denominated in:			
Euro	**—**	6,691	**—**
USD	**—**	11,159	**—**
RMB	**1,128**	—	**—**
	1,128	17,850	**—**

The weighted average effective interest rate on pledged bank deposits were 1.71% (2004: 1.61%) per annum for the year ended 31 December 2005.

18. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/BANK BALANCES AND CASH

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Cash at bank and in hand	**408,396**	138,048	**83,458**
Short-term bank deposits	**261,146**	197	**250,000**
Bank overdrafts	**—**	(309)	**—**
Bank balances and cash	**669,542**	137,936	**333,458**
Term deposits with initial term of over three months	**300,000**	1,692	**300,000**
Pledged bank deposits (Note 17)	**1,128**	17,850	**—**
	970,670	157,478	**633,458**

18. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/BANK BALANCES AND CASH (CONTINUED)

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Denominated in:			
HK$	**635,565**	16,290	**633,458**
RMB	**73,296**	54,063	**—**
USD	**261,460**	77,186	**—**
Euro	**349**	9,939	**—**
	970,670	157,478	**633,458**

(i) The weighted average effective interest rate on short-term bank deposits, with maturity ranging from 7 to 180 days, was 4.27% (2004: 1.98%) per annum during the year ended 31 December 2005.

(ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

19. SHARE CAPITAL

Details of share capital of the Company as at 31 December 2005 are as follows:

	Authorised ordinary shares		
	Par value	Number of shares	Total
	HK$	’000	HK$’000
At date of incorporation	0.1	10,000	1,000
Increase in authorised share capital	0.1	9,990,000	999,000
At 31 December 2005	0.1	10,000,000	1,000,000

		Issued and fully paid ordinary shares		
		Par value	Number of shares	Total
	Notes	HK$	’000	HK$’000
At date of incorporation	(i)	—	—	—
Ordinary shares allotted and issued nil paid	(ii)	0.1	—	—
Issue of ordinary shares in respect of the Reorganisation	(iii)	0.1	100,000	10,000
Capitalisation of share premium account	(iv)	0.1	1,390,000	139,000
New issue of shares	(v)	0.1	500,000	50,000
At 31 December 2005		0.1	1,990,000	199,000

19. SHARE CAPITAL (CONTINUED)

Notes:

(i) The Company was incorporated on 31 May 2005 with an authorised share capital of HK$1,000,000 divided into 10,000,000 shares of HK$0.10 each ("Share"). On 17 June 2005, one Share was allotted and issued nil paid to the initial subscriber of the Company which was subsequently transferred to Gainchoice Investment Limited ("Gainchoice") which is wholly owned by the controlling shareholders of the Company, namely Mr. TING Man Yi, Firmsuccess Limited, Mr. TING Hung Yi, In Holdings Limited, Mr. DING Jianer, Willport Investments Limited and Longerview Investments Limited ("Controlling Shareholders") on the same date.

(ii) On 17 June 2005, 99 Shares were allotted and issued nil paid to Gainchoice. On 27 July 2005, 100 Shares were transferred from Gainchoice to Longerview Investments Limited ("Longerview"), wholly owned by the Controlling Shareholders of the Company.

(iii) Pursuant to a written resolution of the sole shareholder of the Company passed on 1 November 2005, the authorised share capital of the Company was increased from HK$1,000,000 to HK$1,000,000,000 by the creation of additional 9,990,000,000 Shares. Pursuant to a share exchange deed on 18 November 2005, a total of 99,999,900 shares, credited as fully paid, were allotted and issued to Longerview and the 100 nil paid Shares held by Longerview were credited as fully paid, in consideration for the acquisition of the entire issued share capital of Witpower Investments Limited, Skyyear Holdings Limited, Joyocean Investments Limited, Manfame Investments Limited and Oceanroc Investments Limited pursuant to the Reorganisation.

(iv) On 18 November 2005, 1,390,000,000 Shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK$139,000,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the HKSE (the "Listing") as described below.

(v) On 14 December 2005, the Company issued 500,000,000 ordinary shares of HK$2.025 per share in connection with the Listing, and raised gross proceeds of approximately HK$1,012,500,000. Subsequent to the issuance of 500,000,000 ordinary shares, the share of the Company were listed on the Main Board of the HKSE on 15 December 2005.

(vi) Subsequent to 31 December 2005, on 4 January 2006, the Company issued 75,000,000 ordinary shares of HK$0.10 each at HK$2.025 per share under an over-allotment arrangement in connection with the Listing and raised gross proceeds of approximately HK$151,875,000.

19. SHARE CAPITAL (CONTINUED)

Share options

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered by the Company with an employee on 18 November 2005, the employee has been conditionally granted the option prior to 15 December 2005 to subscribe for up to 10,000,000 shares. The option granted under the Pre-IPO Share Option Scheme may be exercised by the employee in part, during a period of eight years from 15 December 2005, representing no more than one-eighth of the total number of the option shares in each calendar year, provided that the employee cannot exercise any option granted under the Pre-IPO Share Option Scheme within a period of six months immediately after 15 December 2005. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005	
	Average exercise price in HK$ per share	**Options (thousands)**
At date of incorporation	—	—
Granted	**0.10**	**10,000**
At 31 December	**0.10**	**10,000**

At 31 December 2005, all the options were not exercisable.

10,000,000 outstanding options at the end of the year will be expired on 15 December 2013 at an exercise price of HK$0.10 per share.

The fair value of options granted during the year determined using the Black-Scholes valuation model was HK$15,215,000. The significant inputs into the model were share price of HK$2.025, at the grant date, exercise price shown above, standard deviation of expected share price returns of 100%, expected life of options of 8 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 4% per annum. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last year.

20. RESERVES

(a) Group

	Share premium HK$'000	Capital reserve HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iii))	Statutory reserves HK$'000 (Note (i))	Share based compensation reserve HK$'000 (Note (iv))	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004	—	32,654	(6,972)	9,437	—	(904)	203,672	237,887
Capital contribution to a new subsidiary	—	—	10	—	—	—	—	10
Currency translation differences	—	—	—	—	—	(52)	—	(52)
Profit for the year	—	—	—	—	—	—	192,803	192,803
Profit appropriation	—	—	—	7,096	—	—	(7,096)	—
At 31 December 2004	—	32,654	(6,962)	16,533	—	(956)	389,379	430,648
Representing:								
2004 Final dividend proposed							—	
Others							389,379	
							389,379	

20. RESERVES (CONTINUED)

(a) Group (Continued)

	Share premium HK$'000	Capital reserve HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iii))	Statutory reserves HK$'000 (Note (i))	Share based compensation reserve HK$'000 (Note (iv))	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2005	—	32,654	(6,962)	16,533	—	(956)	389,379	430,648
Currency translation differences	—	(30)	—	—	—	11,997	—	11,967
Capital contribution to subsidiaries by Controlling Shareholders	—	—	2,338	—	—	—	—	2,338
Profit for the year	—	—	—	—	—	—	380,997	380,997
Issue of shares in connection with the Listing (Note 19(v))	962,500	—	—	—	—	—	—	962,500
Capitalisation of share premium account (Note 19(iv))	(139,000)	—	—	—	—	—	—	(139,000)
Share issuance costs	(59,727)	—	—	—	—	—	—	(59,727)
Employee share option scheme: — value of employee services	—	—	—	—	1,902	—	—	1,902
Dividend declared and paid	—	—	—	—	—	—	(256,270)	(256,270)
Profit appropriation	—	—	—	12,134	—	—	(12,134)	—
Deemed distribution (Note (v))	—	(24,878)	—	(3,696)	—	2,747	(68,167)	(93,994)
At 31 December 2005	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Representing:								
2005 Final dividend proposed							94,990	
Others							338,815	
							433,805	

20. RESERVES (CONTINUED)

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note (iii))	Share based compensation reserve HK$'000 (Note (iv))	Retained earning HK$'000	Total HK$'000
At date of incorporation	—	—	—	—	—
Profit for the year	—	—	—	95,038	95,038
Effect of the Reorganisation	—	468,054	—	—	468,054
Employee share option scheme:					
— value of employee services	—	—	1,902	—	1,902
Issue of shares in connection with the listing (Note 19(v))	962,500	—	—	—	962,500
Capitalisation of share premium account (Note 19 (iv))	(139,000)	—	—	—	(139,000)
Share issuance costs	(59,727)	—	—	—	(59,727)
At 31 December 2005	763,773	468,054	1,902	95,038	1,328,767
Representing:					
2005 Final dividend proposed				94,990	
Others				48	
				95,038	

20. RESERVES (CONTINUED)

(b) Company (Continued)

Notes:

(i) Statutory reserves

Statutory reserves include statutory reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations on foreign investment enterprises established in the PRC, the Company's PRC subsidiaries are required to transfer an amount of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to make good of previous years' losses or to increase the capital of these subsidiaries.

The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. The enterprise expansion fund can only be used to increase capital of group companies or to expand their production operations upon approval by the relevant authority.

(ii) Capital reserve

Capital reserve represents capital contributions from the Controlling Shareholders other than the paid up share capital of the Companies now comprising the Group.

(iii) Contributed surplus

Contributed reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired pursuant to the Reorganisation effected on 18 November 2005 over the nominal value of the share capital of the Company issued in exchange.

Contribution surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation over the fair value of the subsidiaries in exchange.

(iv) Share based compensation reserve

Share based compensation reserve represents value of employee services under the Group's employee share option schemes of approximately HK$1.9 million relate to the Pre-IPO Share Option Scheme.

20. RESERVES (CONTINUED)

(b) Company (Continued)

Notes: (Continued)

(v) Deemed distribution

Although the equity interests in Zhejiang Huading Group Company Limited, Hangzhou Chuangxin Silk Company Limited and Skylite Apparels Company were not acquired by the Group pursuant to the Reorganisation, their operating results for the year ended 31 December 2004 and their financial positions as at 31 December 2004 have been included in the consolidated financial statements. This is because these companies and the Group are under common control and management by the Controlling Shareholders and all their businesses together with assets and liabilities are closely related to those of the Group and have been taken up by the Group pursuant to the Reorganisation.

During the year ended 31 December 2004, Zhejiang Huading Group Company Limited was engaged in sales of garments and investment holdings. The principal assets of Zhejiang Huading Group Company Limited are the premises currently occupied by members of the Group. Subsequent to 31 May 2005, all of Zhejiang Huading Group Company Limited's remaining assets and liabilities were assumed by the Group except that Zhejiang Huading Group Company Limited retains (i) the land use rights and certain buildings which are let to the Group at an annual rental of RMB13,942,050 for the period from 1 October 2005 to 31 December 2007, renewable at the Group's option; (ii) and certain receivables and payables which cannot be assumed because of their legal titles. The retention of these assets and liabilities by Zhejiang Huading Group Company Limited was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

Huangzhou Chuangxin Silk Company Limited was principally engaged in silk weaving. Part of the land on which the factory buildings of Hangzhou Chuangxin is situated will be resumed by the PRC government. Pursuant to an agreement entered in November 2005, the assets and liabilities of Hangzhou Chuangxin Silk Company Limited were assumed by Huangzhou Fucheng Fashion Company Limited except for certain assets and liabilities including the land and buildings to be resumed by the PRC government. The retention of these assets and liabilities by Hangzhou Chuangxin was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

Huangzhou Furun Fashion Company Limited is an investment holding company. Subsequent to the transfer of 45% equity interest in Hangzhou Fucheng Fashion Company Limited by Hangzhou Furun Fashion Company Limited to China Ting Garment Manufacturing (Group) Limited in December 2003, Hangzhou Furun became inactive since then. The principal activity of Skylite Apparels Company is the trading of garment. Subsequent to the transfer of all of its business and operations to the Group in October 2005, it became inactive since then. The retention of any assets and liabilities (including cash balance, trade receivable and payable previously incurred) by Hangzhou Furun Fashion Company Limited and Skylite Apparel Company was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

20. RESERVES (CONTINUED)

Set out below are the details of the deemed distribution made by the Group for the year ended 31 December 2005:

	2005 HK$'000
Property, plant and equipment	109,194
Leasehold land and land use rights	15,147
Inventories	3,465
Due from related companies	3,347
Due from directors	3,141
Trade and bills receivables	355
Other receivables, deposits and prepayments	1,296
Cash and bank balances	64,206
Trade and bills payables	(96)
Other payables and accruals	(9,342)
Tax payable	(6,655)
Net assets distributed	184,058
Minority interests	(90,064)
Net assets distributed to Controlling Shareholders	93,994

21. BORROWINGS

	2005 HK$'000	2004 HK$'000
Non-current		
Bank borrowings	**4,368**	13,231
Current		
Bank borrowings	**59,420**	200,660
Total borrowings	**63,788**	213,891
Representing:		
— secured	**38,806**	34,003
— guaranteed	**21,138**	70,822
— unsecured	**3,844**	109,066
Total borrowings	**63,788**	213,891
Analysed as follows:		
— wholly repayable within five years	**63,788**	207,347
— not wholly repayable within five years	**—**	6,544
Total borrowings	**63,788**	213,891

As at 31 December 2005, secured bank borrowings are secured by investment properties, other buildings, leasehold land and land use rights and certain bank deposits of the Group (Notes 6, 7, 8 and 17).

As at 31 December 2004, bank borrowings amounting to HK$45,193,000 were secured by a property owned by Mr. Ting Man Yi and personal guarantees of the Controlling Shareholders. These securities have been released prior to the listing of the Company's shares on the Main Board of HKSE.

21. BORROWINGS (CONTINUED)

In addition, bank borrowings amounting to HK$54,932,000 as at 31 December 2004 were guaranteed by Zhejiang Huading Group and Hangzhou Yuhang Huaming Garment Manufacturing Company Limited ("Yuhang Huaming"), an equity holder of Zhejiang Huading Group. These securities have been released prior to the listing of the Company's shares on the Main Board of the HKSE on 15 December 2005.

An analysis of the carrying amounts of the Group's borrowings by type and currency is as follows:

	2005 **HK$'000**	2004 HK$'000
HK$ at floating rates	**12,865**	24,538
RMB at fixed rates	**50,923**	152,754
Euro at floating rates	**—**	6,797
USD at fixed rates	**—**	9,147
USD at floating rates	**—**	20,655
Total borrowings	**63,788**	213,891

The weighted average effective interest rates per annum of bank borrowings at 31 December 2005 were as follows:

	2005 **HK$'000**	2004 HK$'000
HK$	**5.49%**	2.09%
RMB	**5.34%**	5.15%
Euro	**—**	4.47%
USD	**—**	3.82%

21. BORROWINGS (CONTINUED)

The maturities of the Group's bank borrowings at 31 December 2005 were as follows:

	2005 HK$'000	2004 HK$'000
Repayable:		
— within one year	**59,420**	200,660
— in the second year	**1,143**	8,891
— in the third to fifth year	**3,225**	3,306
— after the fifth year	**—**	1,034
	63,788	213,891

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at 31 December 2005.

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	2005 HK$'000	2004 HK$'000
Carrying amounts	**4,368**	13,231
Fair value	**3,861**	12,584

The fair values are based on cash flow discounted using a rate based on the borrowing rates of 3.10% (2004: 2.70%) for the year ended 31 December 2005.

21. BORROWINGS (CONTINUED)

At each balance sheet date, the Group had the following non-drawn borrowing facilities:

	2005 HK$'000	2004 HK$'000
Floating rate		
— expiring within one year	31,938	98,033

22. 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	(4,321)	(1,173)
Deferred income tax liabilities	779	108
	(3,542)	(1,065)

Deferred income tax assets and deferred income tax liabilities are expected to be settled after more than 12 months.

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

	2005 HK$'000	2004 HK$'000
At beginning of year	(1,065)	(1,035)
Exchange differences	(38)	(1)
Recognised in income statement (Note 27)	(2,439)	(29)
At end of year	(3,542)	(1,065)

22. DEFERRED INCOME TAX (CONTINUED)

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

	Accelerated tax depreciation HK$'000
Deferred income tax liabilities	
At 31 December 2003	160
Recognised in income statement	(52)
At 31 December 2004	108
Recognised in income statement	671
At 31 December 2005	779

	Accelerated tax deprecation HK$'000	Provisions HK$'000	Pre-operating expenses HK$'000	Total HK$'000
Deferred income tax assets				
At 31 December 2003	—	(840)	(355)	(1,195)
Recognised in income statement	(35)	49	9	23
Exchange differences	—	—	(1)	(1)
At 31 December 2004	(35)	(791)	(347)	(1,173)
Recognised in income statement	(59)	(3,060)	9	(3,110)
Exchange differences	—	(37)	(1)	(38)
At 31 December 2005	(94)	(3,888)	(339)	(4,321)

22. DEFERRED INCOME TAX (CONTINUED)

In accordance with PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. 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$2,308,000 (2004: HK$823,000) as at 31 December 2005, in respect of losses amounting to HK$20,793,000 (2004: HK$4,414,000), that can be carried forward against future taxable income and will be expired between 2007 and 2009.

23. TRADE AND BILLS PAYABLES

	2005	2004
	HK$'000	HK$'000
Trade payables	**159,541**	162,738
Bills payable	**23,178**	13,426
	182,719	176,164

The aging analysis of third party trade and bills payables is as follows:

	2005	2004
	HK$'000	HK$'000
0 to 30 days	**108,996**	94,391
31 to 60 days	**49,702**	40,690
61 to 90 days	**8,359**	18,291
Over 90 days	**15,662**	22,792
	182,719	176,164

Bills payable are with average maturity dates of within 2 months.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Payable for purchases of property, plant and equipment and construction in progress	**10,002**	3,477	**—**
Salary and welfare payables	**33,000**	21,191	**7,590**
Customer deposits	**16,510**	9,576	**—**
Accrued expenses	**9,648**	17,431	**1,948**
Dividend payable to minority interests (Note (a))	**—**	5,230	**—**
Other payables	**34,326**	35,272	**19,240**
Amount due to the ex-shareholders of certain subsidiaries	**—**	967	**—**
	103,486	93,144	**28,778**

(a) Dividend payable to minority interests have been settled prior to the listing of the Company's shares on the Main Board of the HKSE.

25. OTHER GAINS, NET

	2005	2004
	HK$'000	HK$'000
Gain on disposal of property, plant and equipment and leasehold land and land use rights	**6,489**	489
Fair value gain on investment properties	**630**	1,270
Government grants	**11,771**	6,249
Exchange gain	**272**	4,442
Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**	8,129
Others	**2,720**	6,058
	21,882	26,637

Notes to the Consolidated Financial Statements

26. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**8,951**	10,191

27. INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated income statement represents:

	2005	2004
	HK$'000	HK$'000
Hong Kong profits tax (Note (a))	**50,623**	15,741
PRC enterprise income tax (Note (b))	**24,531**	14,328
Overseas taxation (Note (c))	**—**	146
Deferred income tax (Note 22)	**(2,439)**	(29)
	72,715	30,186

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31 December 2005 (2004: 17.5%).

(b) PRC enterprise income tax

PRC enterprise income tax is provided on the basis of the profits of the PRC established and operating subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group is 26.4%, which comprises 24% attributable to national enterprise income tax and 2.4% attributable to local municipal income tax, except that the applicable enterprise income tax rate for Jiangsu Fuze Textile Company Limited is 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax, and that for Shenzhen Fuhowe Fashion Company Limited and Finity Fashion (Shenzhen) Company Limited is 15%.

27. INCOME TAX EXPENSE (CONTINUED)

(b) PRC enterprise income tax (Continued)

In accordance with the relevant applicable tax regulations, for those subsidiaries established in the PRC as wholly owned foreign enterprises or sino-foreign joint ventures, they are entitled to full exemption from enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year, after offsetting all unexpired tax losses carried forward from previous years.

(c) Overseas taxation

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 Group's effective tax rate differs from the statutory rate principally due to the followings:

	2005 **HK$'000**	2004 HK$'000
Profit before share of profit of associates and income tax	**453,797**	232,963
Calculated at a taxation rate 17.5% (2004: 17.5%)	**79,414**	40,768
Effect from different income tax rate	**43,652**	9,862
Effects of tax exemption	**(27,353)**	(28,033)
Income not subject to tax	**(28,312)**	(1,214)
Expenses not deductible for tax purposes	**2,420**	5,451
Utilisation of previously unrecognised tax losses	**(244)**	(1,019)
Tax losses for which no deferred income tax asset was recognised	**2,826**	2,012
Others	**312**	2,359
Income tax expense	**72,715**	30,186

Notes to the Consolidated Financial Statements

28. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling, marketing and distribution costs and administrative expenses are analysed as follows:

	2005 HK$'000	2004 HK$'000
Auditors' remuneration	4,000	1,200
Amortisation of leasehold land and land use rights (Note 8)	1,061	852
Amortisation of trademark (Note 11)	3,381	1,561
Depreciation of property, plant and equipment (Note 6)	26,606	24,881
Employee benefit expenses (Note 29)	217,289	173,394
Changes in inventories of finished goods and work in progress	64,708	(31,025)
Raw materials and consumables used	751,553	602,618
Advertising costs	2,442	2,733
Direct operating expenses arising from investment properties that generate rental income	81	78
Repairs and maintenance	2,211	3,426
Operating lease rental in respect of property, plant and equipment	6,307	7,523
Inventory write-down (Note 12)	17,102	1,361
Provision for impairment of receivables (Note 15)	3,069	633
Bad debts written off (Note 15)	78	8,320

29. EMPLOYEE BENEFIT EXPENSES

	2005 HK$'000	2004 HK$'000
Salaries, wages and bonuses	**195,720**	151,186
Pension costs — defined contribution plans (Note (i))	**10,926**	9,125
Staff welfare	**10,643**	13,083
	217,289	173,394

Note (i): Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 18.8% of employees' basic salary to the scheme to fund the retirement benefits of the employees.

(a) Directors', supervisors' and senior management's emoluments

The remuneration of each director of the Company during the year is set out below:

Name	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefits in kind HK$'000	Contributions to pension plans HK$'000	Discretionary bonus HK$'000	Total HK$'000
For the year ended 31 December 2004					
Ting Man Yi	—	1,616	12	—	1,628
Ding Jianer	—	442	12	—	454
Ting Hung Yi	—	1,633	12	—	1,645
Wong Sin Yung	—	390	12	—	402
	—	4,081	48	—	4,129
For the year ended 31 December 2005					
Ting Man Yi	**—**	**1,707**	**12**	**2,880**	**4,599**
Ding Jianer	**—**	**691**	**12**	**940**	**1,643**
Ting Hung Yi	**—**	**1,618**	**12**	**2,880**	**4,510**
Wong Sin Yung	**—**	**565**	**12**	**500**	**1,077**
Cheng Chi Pang	**—**	**36**	**—**	**—**	**36**
Wong Chi Keung	**—**	**24**	**—**	**—**	**24**
Leung Man Kit	**—**	**24**	**—**	**—**	**24**
	—	**4,665**	**48**	**7,200**	**11,913**

29. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Directors', supervisors' and senior management's emoluments (Continued)

During the year ended 31 December 2005, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2005 include 3 (2004: 2) directors of the Company whose emoluments are reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining 2 (2004: 3) individuals during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,177**	3,188
Contributions to pension plans	**24**	24
Discretionary bonuses	**3,100**	600
	7,301	3,812

The emoluments fell within the following bands:

	2005	2004
HK$1,000,001–HK$1,500,000	**—**	3
HK$2,500,001–HK$3,000,000	**1**	—
HK$4,000,001–HK$4,500,000	**1**	—

During the year, no five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

30. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$95,038,000.

31. 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. In determining the weighted average number of ordinary shares in issue, a total of 1,490,000,000 ordinary shares were deemed to be in issue since 1 January 2004 after taking into consideration of the effect of the capitalisation issue as detailed in Note 19(iv).

	2005	2004
Profit attributable to equity holders of the Company (HK'000)	**380,997**	192,803
Weighted average number of ordinary shares in issue (thousands)	**1,514,658**	1,490,000
Basic earnings per share (HK cents per share)	**25.15 cents**	12.94 cents

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

31. EARNINGS PER SHARE (CONTINUED)

	2005
Profit attributable to equity holders of the Company and used to determine diluted earnings per share (HK$'000)	**380,997**
Weighted average number of ordinary shares in issue (thousands)	**1,514,658**
Adjustments for — share options (thousands)	**1,147**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,515,805**
Diluted earnings per share (HK per share)	**25.13 cents**

No disclosure of diluted earnings per share for the year ended 31 December 2004 has been made as there was no potential dilutive ordinary shares outstanding during the year.

32. DIVIDEND

A dividend in respect of 2005 of HK4.6 cents per share, amounting to a final dividend of HK$94,990,000 is to be proposed at the Annual General Meeting on 30 May 2006. These financial statements do not reflect this dividend payable.

	2005 **HK$'000**	2004 HK$'000
Interim dividend, paid (note (i))	**256,270**	—
Proposed final dividend of HK4.6 cents (2004: Nil) per ordinary share (note (ii))	**94,990**	—
	351,260	—

32. DIVIDEND (CONTINUED)

Notes:

(i) Interim dividend

Dividend for the year ended 31 December 2005 represents (i) the dividend declared and paid by Zhejiang Huading Group Company Limited to its then shareholders of which HK$15,270,000 was paid to the equity holders of the Company and HK$13,985,000 was paid to minority shareholders of Zhejiang Huading Group Company Limited; (ii) the dividend of HK$1,566,000 declared and paid by Zhejiang China Ting Jincheng Company Limited to an independent third party; and (iii) the dividend declared and paid by Witpower Investments Limited, Skyyear Holdings Limited and Joyocean Investments Limited to its then shareholder of which HK$74,000,000, HK$80,000,000 and HK$87,000,000, respectively, were paid to the equity holders of the Company.

(ii) Proposed final dividend

At a meeting held on 11 April 2006, the directors proposed a final dividend of HK4.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retain profit for the year ending 31 December 2006. Such dividend represented HK$91,540,000 for the 1,990,000,000 shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK$3,450,000 for the shares issued in January 2006 under the over-allotment arrangement as disclosed in Note 19(vi).

33. CASH GENERATED FROM OPERATING ACTIVITIES

	2005 HK$'000	2004 HK$'000
Operating profit	**462,748**	243,154
Adjustments for:		
— Depreciation	**26,606**	24,881
— Amortisation	**4,442**	2,413
— Gain on disposal of property, plant and equipment and leasehold land and land use rights (see below)	**(6,489)**	(489)
— Fair value gain on investment properties	**(630)**	(1,270)
— Amortisation of share option scheme	**1,902**	—
— Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**	(8,129)
— Interest income	**(10,249)**	(5,842)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
— Inventories	**(30,242)**	(47,973)
— Trade and other receivables	**(49,981)**	(14,283)
— Amounts due from/(to) related companies	**156,527**	27,022
— Amounts due from/(to) directors	**(116,994)**	(32,336)
— Trade and other payables	**22,146**	(23,127)
Cash generated from operating activities	**459,786**	164,021

33. CASH GENERATED FROM OPERATING ACTIVITIES (CONTINUED)

In the cash flow statement, proceeds from disposal of property, plant and equipment and land use rights comprise:

	2005 HK$'000	2004 HK$'000
Net book amount of:		
Property, plant and equipment (Note 6)	**17,906**	25,455
Leasehold land and land use rights (Note 8)	**8,903**	4,996
Less: Assets used in exchange of land use rights and property, plant and equipment	**—**	(25,975)
Net book value of assets disposed	**26,809**	4,476
Gain on disposal of property, plant and equipment and leasehold land and land use rights (Note 25)	**6,489**	489
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	**33,298**	4,965

Major non-cash transactions

During the year ended 31 December 2004, the Group disposed of certain land use rights, buildings and plant and machinery to the local government in exchange for certain land use rights.

Details of the exchange are as follows:

	2004 HK$'000
Land use rights	4,996
Buildings	20,648
Plant and machinery	331
Assets given up	25,975
Less: fair value of asset received	(25,975)
Loss on exchange of assets	—

There was no major non-cash transaction during the year ended 31 December 2005.

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet incurred is as follows:

	2005	2004
	HK$'000	HK$'000
Property, plant and machinery	**10,547**	—

(b) Operating lease commitments

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation claims and renewal rights.

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

	2005	2004
	HK$'000	HK$'000
Land and buildings		
Amounts payable		
— Not later than 1 year	**6,246**	1,956
— Later than 1 year and not later than 5 years	**4,465**	2,366
— Later than 5 years	**—**	886
	10,711	5,208
Plant and equipment		
Amounts payable		
— Not later than 1 year	**132**	—
— Later than 1 year and not later than 5 years	**44**	—
	176	—
	10,887	5,208

35. BUSINESS COMBINATIONS

In May 2005, the Group contributed additional capital of US$175,000 to Jiangsu Fuze Textile Company Limited and the Group's attributable interest in this company increased from 45% to 52%.

The acquired businesses contributed revenues of approximately HK$337,000 and net loss of HK$115,000 to the Group for the year 31 December 2005. If the acquisitions had occurred on 1 January 2005, the Group's revenue would have been increased by HK$1,958,000, and profit before allocations would have been decreased by HK$232,000, for the year ended 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	2005 **HK$'000**
Purchase consideration:	
— Cash paid	**1,354**
— Equity interests in acquiree's prior to acquisition	**3,956**
Total purchase consideration	**5,310**
Fair value of net assets acquired — shown as below	**(5,310)**
Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**

Excess of fair-value of net assets of subsidiaries over the cost of acquisition has arisen as a result of gains from purchases in discount.

35. BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities acquired during the year ended 31 December 2005 are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Property, plant and equipment (Note 6)	5,995	5,995
Leasehold land and land use rights (Note 8)	293	293
Inventories	1,841	1,841
Trade and other receivables	1,535	1,535
Cash and cash equivalents	1,929	1,929
Tax recoverable	344	344
Trade and other payables	(1,753)	(1,753)
Net assets	10,184	10,184
Minority interests	(4,874)	
Net assets acquired	5,310	
Purchase consideration settled in cash		1,354
Cash and cash equivalents in subsidiaries acquired		(1,929)
Cash inflow on acquisition		(575)

36. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The directors are of the view that the following companies are related parties of the Group:

Name	Relationship with the Group
China Ting Industrial Investment (Hong Kong) Limited ("China Ting Industrial")	A company in which the Company's Controlling Shareholders have equity interest
Chinamine Garment Manufacturing Enterprises Limited ("Chinamine Garment")	A company in which the Company's Controlling Shareholders have equity interest
Hangzhou Yuhang Huading Real Estate Development Company Limited ("Yuhang Huading Real Estate")	A company in which the Company's Controlling Shareholders have equity interest
Hangzhou Fuze Textile Technology Company Limited ("Hangzhou Fuze")	A company in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest
Hangzhou Huaze Textile Technology Company Limited ("Hangzhou Huaze")	A company in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest
Hangzhou Huasheng Accessories Company Limited ("Huasheng Accessories")	An associated company
Interfield Industrial Limited ("Interfield")	An associated company
Hangzhou Yuhang Huaming Garment Manufacturing Company Limited ("Yuhang Huaming")	A related company
Mr. Ting Man Yi ("Ting Man Yi")	A director of the Company

The names of certain companies referred to in the above represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the related party transactions undertaken in connection with the Reorganisation and directors' emoluments (Note 29) as disclosed above, the Group had the following significant continuing and discontinuing transactions carried out with related parties during the year:

(a) Transactions with related parties:

In the opinion of the Directors, the transactions below were conducted in the ordinary and usual course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties.

	2005	2004
	HK$'000	HK$'000
Interest income from Yuhang Huading Real Estate	**—**	1,658
Purchases of property, plant and equipment from Yuhang Huaming	**2,634**	—
Sales of property, plant and equipment and leasehold land to Ting Man Yi	**19,900**	
Purchases of accessories from Huasheng Accessories	**7,525**	827
Purchases of silk fabric from Hangzhou Fuze	**3,826**	—
Purchases of silk fabric from Hangzhou Huaze	**6,292**	—
Subcontracting charges paid to Interfield	**18,904**	53,231

(b) Key management compensation

	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**20,661**	8,760

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances

(i) *Due from related companies*

	2005 HK$'000	2004 HK$'000
China Ting Industrial		
— Non-trade	—	30,658
Hangzhou Yuhang Huading Real Estate		
— Non-trade	—	129,216
	—	159,874

Maximum non-trade amount outstanding during the year:

Name	2005 HK$'000	2004 HK$'000
China Ting Industrial	30,658	30,658
Hangzhou Yuhang Huading Real Estate	129,916	5,689

All the current accounts maintained with related parties were interest-free, non-secured and with no fixed repayment terms.

(ii) *Due from directors — Non-trade*

	2005 HK$'000	2004 HK$'000
Mr. Ting Man Yi	—	4,099
Mr. Ding Jianer	—	2,471
Mr. Ting Hung Yi	—	21,898
	—	28,468

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances (Continued)

(ii) *Due from directors — Non-trade (Continued)*

Maximum amount outstanding during the year

Name of directors	**2005** **HK$'000**	2004 HK$'000
Mr. Ting Man Yi	**140,600**	5,976
Mr. Ding Jianer	**68,400**	2,479
Mr. Ting Hung Yi	**32,000**	35,202

All the current accounts maintained with directors were interest-free, non-secured and fully settled during the year.

(iii) *Due to directors — Non-trade*

	2005 **HK$'000**	2004 HK$'000
Mr. Ting Man Yi	**—**	44,878
Mr. Ding Jianer	**—**	81,181
Mr. Ting Hung Yi	**—**	16,262
	—	142,321

All the current accounts maintained with directors were interest-free, non-secured and fully settled during the year.

37. CONTINGENT LIABILITIES

As at 31 December 2005, the Company has given corporate guarantees for bank facilities of subsidiaries amounting to HK$67,500,000 (2004: HK$140,548,000) of which HK$31,938,000 (2004: HK$98,023,000) has not been utilised.

38. ULTIMATE HOLDING COMPANY

The Directors regard Longerview Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

39. SUBSEQUENT EVENTS

In February 2006, the Group has signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu to construct a new apparel production base with an estimated annual production capacity of approximately six million pieces. The construction of the project has commenced in March 2006 and it is expected that the first stage and the final stage of the production will be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project was approximately HK$234 million.