1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the 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 financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value, and freehold land and buildings which are stated at valuation.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are effective for accounting periods beginning on or after 1 January 2005 and relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

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

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and other disclosures.

— HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28, 33, 36 and 38 had no material effect on the Group's policies.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)
The adoption of HKASs 32, 39 and 39 (Amendment) has resulted in a change in the accounting policy relating to the recognition, measurement and classification of financial instruments.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of stating investment properties at cost less accumulated depreciation and accumulated impairment. In prior years, investment properties were stated at fair value. In accordance with the provisions of HKAS 40, the amount of revaluation surplus in the asset revaluation reserve as at 1 January 2005 has been reclassified to retained earnings.

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

The adoption of HKFRS 3 has resulted in a change in the accounting policy for any excess of the acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (previously known as "negative goodwill"). The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition is recognised immediately in the income statement in the period when the acquisition takes place. In prior years, negative goodwill not exceeding the fair values of the non-monetary assets acquired was recognised as income over the remaining average useful life of the depreciable non-monetary assets acquired.

The changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. Most of the standards adopted by the Group require retrospective application other than:

HKAS 21 — prospectively accounting for goodwill and fair value adjustments as part of foreign operations
HKAS 39 — prospective application for the recognition, derecognition and measurement of financial assets and liabilities
HKAS 40 — prospectively after 1 January 2005
HKFRS 3 — prospectively after 1 January 2005

Effect of changes in the accounting policies on the consolidated income statements is as follows:

For the year ended 31 December	**2005**			2004	
	HKAS 17	**HKAS 40 & Int 21**	**Total**	HKAS 17	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Increase/(decrease) in general and administrative expenses	**385**	**213**	**598**	(66)	(66)
Increase/(decrease) in deferred tax expenses	**704**	**211**	**915**	(20)	(20)
(Decrease)/increase in profit attributable to equity holders of the Company	**(1,089)**	**(424)**	**(1,513)**	86	86
(Decrease)/increase in basic earnings per share attributable to equity holders of the Company	**—**	**—**	**—**	—	—

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)
Effect of changes in the accounting policies on the consolidated balance sheets is as follows:

As at 31 December	**2005**			2004	
	HKAS 17	**HKAS 40 & Int 21**	**Total**	HKAS 17	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Decrease in property, plant and equipment	**(16,359)**	**—**	**(16,359)**	(17,829)	(17,829)
Decrease in investment properties	**—**	**(4,296)**	**(4,296)**	—	—
Increase in leasehold land and land use rights	**15,284**	**3,989**	**19,273**	17,141	17,141
Increase/(decrease) in deferred tax liabilities	**370**	**(211)**	**159**	(332)	(332)
Increase/(decrease) in revaluation reserve	**62**	**(7,040)**	**(6,978)**	62	62
Increase/(decrease) in retained earnings	**(1,507)**	**6,944**	**5,437**	(418)	(418)

Standards, interpretations and amendments to published standards that are effective for accounting periods beginning on or after 1 December 2005

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for accounting periods beginning on or after the effective date as described below, as follows:

New HKFRS or interpretations	Effective date	Description
HKAS 1 (Amendment)	1 January 2007	Capital Disclosure
HKAS 19 (Amendment)	1 January 2006	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	1 January 2006	Net investment in a foreign operation
HKAS 39 & HKFRS 4 (Amendments)	1 January 2006	Financial guarantee contracts
HKAS 39 (Amendment)	1 January 2006	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	1 January 2006	The fair value option
HKFRS 6	1 January 2006	Exploration for and Evaluation of Mineral Resources
HKFRS 7	1 January 2007	Financial instruments: Disclosures
HKFRS-Int 4	1 January 2006	Determining whether an arrangement contains a lease
HKFRS-Int 5	1 January 2006	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC)-Int 6	1 December 2005	Liabilities arising from participating in a specific market — waste electrical and electronic equipment
HK(IFRIC)-Int 7	1 March 2006	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies

The Group has not early adopted these new/revised HKFRSs. The Group has started considering the potential impact of these HKFRSs. Based on preliminary assessment, the Group believes that the following new/revised HKFRSs are relevant to the Group's operation:

HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and loss and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from 1 January 2006.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

HKAS 39 and HKFRS 4 (Amendments), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. There is no financial guarantee contract issued at group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company shall adopt this amendment in 2006. The Group believes that adoption of this amendment should have no significant impact to the Company's financial statements.

Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective from 1 January 2007). The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of amendment to HKAS 1 and considered that the main additional disclosures will be the capital disclosures required by the amendment of HKAS 1. The Group will apply the amendment to HKAS 1 from 1 January 2007.

Amendment to HKAS 21, The Effects of Changes in Foreign Exchange Rates (effective from 1 January 2006). The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The Group is currently assessing the impact of this amendment on the Group's operation.

(b) Group accounting

(i) *Consolidation*
The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(ii) *Subsidiaries*
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(iii) *Associated companies*

Associated companies are entities, not being subsidiaries nor interests in joint ventures, 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 associated companies are accounted for in the consolidated financial statements under the equity method of accounting and are initially recognised at cost. The Group's investments in associated companies include goodwill (net of any unamortised impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated 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 associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

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

(c) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

The balance sheet of subsidiaries and associated companies denominated in foreign currencies are translated at the closing rates at the balance sheet date while income and expenses are translated at average exchange rates. Exchange differences resulting are recognised as a movement of reserve.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries and associated companies at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

Excess of the fair value of the Group's share of net identifiable assets of the acquired subsidiaries and associated companies at the date of acquisition over the cost of an acquisition is recognised immediately in the consolidated income statement at the date of acquisition.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Freehold land and buildings are shown at fair value, based on periodic valuations less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical costs includes expenditures directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation of the freehold land and buildings are credited to the asset revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the asset revaluation reserve directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from the asset revaluation reserve to retained earnings.

Property, plant and equipment are depreciated on a straight-line basis to write off their cost or revalued amounts less accumulated impairment losses over their estimated useful lives. The principal depreciation rates are as follows:

Buildings	2% – 10%
Plant and machinery	10% – 20%
Leasehold improvements, furniture, fixtures and equipment	4% – 33%
Motor vehicles	14% – 20%

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.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Upon disposal, any revaluation reserve balance remaining attributable to freehold land and buildings is transferred to retained earnings and is shown as a movement in reserves.

(f) Leasehold land and land use rights

Lease premium for land are up-front payments to acquire long term interests in lessee-occupied properties. The premium is stated at cost and are amortised on a straight-line basis over the period of the lease and land use rights in the income statement or where there is impairment, the impairment is expensed in the income statement.

(g) Investment properties

Investment properties are properties which are held by the Group, to earn rental income. The building component of the leasehold investment properties is stated at cost less accumulated depreciation and accumulated impairment losses. The land component is accounted for as lease premium for leasehold land.

Depreciation of the building component is calculated using straight-line method to allocate cost over their estimated useful lives of 10 to 50 years.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Bills receivable and accounts receivable

Bills receivables and accounts 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 bills and accounts receivables is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method or the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

(j) 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits*

The Group maintains a number of defined benefits and defined contribution plans in the countries in which it operates, the assets of which are generally held in separate trustees-administered funds. The retirement plans are generally funded by payments from employees and by the Group, taking account of the recommendations of qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are expensed in the income statement as incurred and are reduced by contributions forfeited with respect to employees who leave the scheme prior to vesting fully in the contributions.

For defined benefit plans, retirement benefit costs are assessed using the projected unit credit method. The cost of providing retirement benefit plans is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan each year.

The retirement benefit obligation is measured as the present value of the estimated future cash outflows discounted by using interest rates of government securities or high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognised over the average remaining service live of employees to the extent of the amount in excess of 10% of the greater of the present value of the retirement benefit obligation and the fair value of plan assets. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Deferred taxation

Deferred 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 financial statements. Deferred 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 profits will be available against which the temporary differences can be utilised.

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

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, it will then be recognised as an asset.

(n) Operating leases (as the lessee)

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

(o) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) 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) Commission income is recognised when services are rendered.

(iii) Rental income is recognised on a straight-line basis over the lease term.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) 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 with a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, inventories, receivables and operating cash and exclude mainly land and building not in use, investment properties and corporate cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and leasehold land and land use rights, including additions resulting from acquisitions through business combinations.

In respect of geographical segment reporting, sales are based on the countries/places in which the customers are located, and segment assets and capital expenditure are where the assets are located.

(q) Cash and cash equivalents

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

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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 liabilities for at least 12 months after the balance sheet date.

(s) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, and are tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts 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).

An impairment loss of an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined if no impairment loss has been recognised.

(t) Intangible assets – license rights/License fees payable

License rights on branded products are stated at cost, which represent capitalisation of the minimum license fees payments in accordance with the license agreements. License rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is made in accordance with the pattern of economic inflow to the Group.

License fees payable are recognised initially at fair value using the effective interest method and subsequently stated at amortised cost less the amounts paid.

2. FINANCIAL RISK MANAGEMENT

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, bills receivable, accounts receivable, bank borrowings, bills payable and accounts payable.

Management regularly monitors the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(a) Foreign exchange risk

A majority of the Group's transactions are denominated in United States dollars and Hong Kong dollars. The Group's business operations are exposed to foreign exchange risk arising from various currency exposure, primarily with respect to Philippine Peso, Thai Baht, New Taiwan dollars and Chinese Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. From time to time, the Group hedges its foreign exchange exposure.

(b) Credit risk

The Group's sales are mainly covered by letters of credit, payable at sight. The remaining portion of the sales is on open account, which is substantially covered by credit insurance. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(c) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

(d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances and bank borrowings. As the Group has no significant interest-bearing liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3. CRITICAL ACCOUNTING ESTIMATES

Estimates 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, seldomly equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment, leasehold land and land use rights and investment properties

The Group assesses annually whether property, plant and equipment, leasehold land and land use rights and investment properties have any indication of impairment. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgment and estimates.

(b) Income taxes and deferred tax

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determinations are uncertain. 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 are different from the amounts that were initially recorded, such differences will impact the income taxes and deferred tax provisions in the years in which such determinations are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the years in which such estimates have been changed.

3. CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivable is recognised in the years in which such estimates have been changed.

(d) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories and write-downs of inventories in the years in which such estimates have been changed.

4. REVENUES/INCOME AND SEGMENT INFORMATION

(a) Revenues/income by nature

	2005 HK$'000	2004 HK$'000
Sales of goods	**2,684,389**	2,530,165
Other revenues/income		
Quota income	**—**	16,246
Commission income	**9,836**	11,517
Rental income from investment properties	**1,280**	1,005
Interest income from bank deposits	**5,213**	663
Gain on disposal of a subsidiary	**3,189**	—
	19,518	29,431
	2,703,907	2,559,596

4. REVENUES/INCOME AND SEGMENT INFORMATION (continued)

(b) Primary reporting format — Business segments

The Group conducts majority of its business activities in three segments, namely garment manufacturing, garment trading and branded product distribution. The segment results are as follows:

	Garment manufacturing		Garment trading		Branded product distribution		Elimination		Group	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
External sales	**1,886,723**	1,832,356	**656,173**	558,699	**141,493**	139,110	**—**	—	**2,684,389**	2,530,165
Inter-segment sales*	**530**	—	**19,122**	19,124	**—**	—	**(19,652)**	(19,124)	**—**	—
Sales	**1,887,253**	1,832,356	**675,295**	577,823	**141,493**	139,110	**(19,652)**	(19,124)	**2,684,389**	2,530,165
Segment results	**60,814**	36,249	**63,998**	14,173	**78**	1,983	**—**	—	**124,890**	52,405
Share of profits of associated companies	**21,344**	17,936	**—**	—	**—**	—	**—**	—	**21,344**	17,936
Net gain arising from acquisitions of a subsidiary	**53,926**	—	**—**	—	**—**	—	**—**	—	**53,926**	—
Interest income									**5,213**	663
Finance costs									**(2,075)**	(3,963)
Taxation									**(35,507)**	(10,378)
Profit for the year									**167,791**	56,663

* Inter-segment sales are accounted for at commercial market prices and eliminated on consolidation.

	Garment manufacturing		Garment trading		Branded product distribution		Unallocated*		Group	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
Segment assets	**1,086,522**	696,515	**70,141**	118,783	**148,175**	57,784	**117,593**	79,862	**1,422,431**	952,944
Investments in associated companies	**—**	117,737	**—**	—	**—**	—	**—**	—	**—**	117,737
Total assets									**1,422,431**	1,070,681
Segment liabilities	**331,255**	343,976	**49,972**	69,833	**84,924**	16,268	**196,171**	13,256	**662,322**	443,333
Total liabilities									**662,322**	443,333
Capital expenditure	**202,990**	20,389	**125**	63	**3,491**	997	**8,424**	—	**215,030**	21,449
Depreciation	**45,267**	39,375	**296**	186	**2,505**	2,223	**618**	—	**48,686**	41,784
Amortisation of leasehold land and land use rights	**479**	478	**—**	—	**—**	—	**603**	—	**1,082**	478
Impairment of property, plant and equipment	**9,638**	—	**—**	—	**—**	—	**—**	—	**9,638**	—
Impairment on investment in an associated company	**14,768**	—	**—**	—	**—**	—	**—**	—	**14,768**	—
Amortisation of license rights	**—**	—	**—**	—	**6,480**	—	**—**	—	**6,480**	—

* Unallocated assets mainly include land and building not in use, investment properties and corporate cash. Unallocated liabilities mainly include taxation and certain corporate borrowings.

4. REVENUES/INCOME AND SEGMENT INFORMATION (continued)

(c) Secondary reporting format — Geographical segments

The Group's revenues are mainly derived from customers located in the United States, Asia and Europe, while the Group's business activities are conducted predominantly in the People's Republic of China* (the "PRC") and Thailand. An analysis of the Group's external sales by location of customers and an analysis of the Group's assets and capital expenditure by location of assets are as follows:

	The United States		Asia		Europe		Group	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
External sales	**2,159,873**	1,806,969	**322,554**	300,820	**201,962**	422,376	**2,684,389**	2,530,165

	PRC*		Thailand		Other locations		Group	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)				(Restated)		(Restated)
Segment assets	**931,392**	684,063	**232,377**	—	**141,069**	189,019	**1,304,838**	873,082
Investments in associated companies							**—**	117,737
Unallocated corporate assets							**117,593**	79,862
							1,422,431	1,070,681
Capital expenditure	**26,407**	19,860	**141,510**	—	**47,113**	1,589	**215,030**	21,449

* PRC includes Mainland China, Hong Kong and Macau.

5. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	2005	2004
	HK$'000	HK$'000
Crediting		
Net rental income from investment properties	**1,104**	980
Net reversal of revaluation deficit on investment properties previously charged to income statement	**—**	1,271
Reversal of write-downs of inventories to net realisable value	**1,495**	1,042
Reversal of provision for impairment of receivables	**1,622**	—

5. PROFIT FROM OPERATIONS (continued)

	2005 HK$'000	2004 HK$'000 (Restated)
Charging		
Net exchange losses	**11,780**	573
Depreciation on property, plant and equipment	**48,473**	41,784
Impairment of property, plant and equipment	**9,638**	—
Depreciation on investment properties	**213**	—
Amortisation of leasehold land and land use rights	**1,082**	478
Amortisation of license rights	**6,480**	—
Net loss on disposals of property, plant and equipment	**18,140**	2,170
Loss on disposal of leasehold land	**83**	391
Employment expenses (Note 12)	**429,923**	428,839
Operating lease rental in respect of land and buildings	**38,143**	37,199
Provision for impairment of receivables	**—**	10,262
Auditors' remuneration	**3,016**	2,923

6. NET GAIN ARISING FROM ACQUISITIONS OF A SUBSIDIARY

	2005 HK$'000	2004 HK$'000
Excess of fair value of the Group's share of net assets acquired over cost	**68,694**	—
Impairment loss on investment in an associated company	**(14,768)**	—
	53,926	—

During the year ended 31 December 2005, the Group acquired additional equity interest in Hua Thai Manufacturing Public Company Limited ("Hua Thai"). The Group's equity interest in Hua Thai was increased from 36.43% (then an associated company) to 55.43% on 28 October 2005, and then increased to 96.96% on 15 December 2005.

Excess of fair value of the Group's share of net assets acquired over the cost of acquisitions, totalling HK$68,694,000, was recognised in the consolidated income statement.

In connection with the above acquisitions, the Group recognised impairment loss of HK$14,768,000 relating to its original 36.43% equity interest in Hua Thai, by reference to the fair value of the net assets of Hua Thai as at 28 October 2005.

The details of the acquisitions of Hua Thai are set out in Note 36.

7. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	**2,075**	3,963

8. TAXATION

	2005 HK$'000	2004 HK$'000 (Restated)
Current income tax		
— Hong Kong profits tax	**27,162**	6,115
— Non-Hong Kong tax	**6,034**	4,128
Deferred income tax	**2,311**	135
	35,507	10,378

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on non-Hong Kong profits has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries/places in which the Group operates.

The subsidiaries in Mainland China are generally granted a tax holiday of 2-year exemption, followed by 3-year 50% reduction in income tax rate commencing from the first profit-making year, after offsetting accumulated tax loss. Upon expiry of the tax concession periods, a subsidiary is entitled to a 50% reduction of the income tax rate if its export sales exceeds 70% of the total sales, and the subsidiaries in Mainland China were enjoying this reduction during the year ended 31 December 2005.

The subsidiary in Vietnam is granted a tax holiday of 4-year exemption, followed by 7-year 50% reduction in income tax rate commencing from the first profit-making year. The subsidiary in Vietnam was enjoying tax exemption during the year ended 31 December 2005.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the profits tax rate in Hong Kong, where the Group maintains its corporate office, as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**203,298**	67,041
Less: Share of profits of associated companies	**(21,344)**	(17,936)
	181,954	49,105
Calculated at a tax rate of 17.5% (2004: 17.5%)	**31,842**	8,594
Effect of different tax rates in other countries/places	**(362)**	4,828
Tax concession	**(8,687)**	(6,195)
Income not subject to tax	**(725)**	(1,954)
Expenses not deductible for tax	**9,757**	793
Utilisation of previously unrecognised tax losses	**(1,805)**	(3,908)
Unrecognised current year tax losses	**5,019**	6,358
Net under-provision for prior years	**468**	1,862
Tax expenses	**35,507**	10,378

Share of associated companies' taxation of HK$2,147,000 (2004: HK$2,785,000) is included in the consolidated income statement under share of profits of associated companies.

A number of the subsidiaries have received preliminary enquiries from the Hong Kong Inland Revenue Department regarding the trading arrangements between the group companies. Management has reviewed the situation and considers the tax related provisions as at 31 December 2005 are adequate to settle the case.

9. 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$49,689,000 (2004: HK$49,399,000).

10. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend paid: HK$0.09 (2004: Nil) per share	24,186	—
Final dividend proposed: HK$0.15 (2004: HK$0.10) per share	40,310	26,874
	64,496	26,874

A final dividend in respect of 2005 of HK$0.15 (2004: HK$0.10) per share, totalling HK$40,310,000 (2004: HK$26,874,000), is recommended by the Directors for approval at the upcoming annual general meeting of the Company. The proposed dividend has not been dealt with as dividend payable as at 31 December 2005.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company for the year ended 31 December 2005 of HK$159,739,000 (2004: HK$51,952,000) by the 268,735,253 (2004: 268,735,253) weighted average number of shares in issue during the year.

Diluted earnings per share for the year is not disclosed as there were no potential dilutive shares.

12. EMPLOYMENT EXPENSES

	2005 HK$'000	2004 HK$'000
Wages, salaries, allowances and bonuses	408,272	402,383
Directors' emoluments (Note 13)	9,579	9,961
Defined contribution plans	8,806	10,394
Defined benefits plans (Note 27(b))	921	5,377
Long service payment liabilities (Note 27(c))	1,175	89
Other retirement benefits (Note 34(d))	1,170	635
	429,923	428,839

13. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are set out below:

Name	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Contribution to retirement benefit schemes HK$'000	2005 Total HK$'000	2004 Total HK$'000
Executive director						
Mr. WANG Kin Chung, Peter	5	4,054	3,215	115	7,389	5,050
Mr. WU Ching Her (Resigned on 26 January 2005)	—	167	34	8	209	2,810
Non-executive directors						
Ms. WANG KOO Yik Chun	64	717	300	—	1,081	1,036
Ms. Leslie TANG SCHILLING	60	—	—	—	60	50
Ms. MAK WANG Wing Yee, Winnie	120	—	—	—	120	75
Dr. WANG Shui Chung, Patrick	50	—	—	—	50	40
Independent non-executive directors						
Mr. YUAN Ching Man, James	210	—	—	—	210	75
Mr. LO Kai Yiu, Anthony	290	—	—	—	290	75
Mr. James Christopher KRALIK	170	—	—	—	170	50
Resigned/retired directors in 2004	—	—	—	—	—	700
	969	4,938	3,549	123	9,579	9,961

No director waived his/her emoluments during the year.

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2005 include one director (2004: two directors), whose emoluments are disclosed in Note 13. Details of emoluments of the other four (2004: three) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	10,298	7,388
Discretionary bonuses	11,070	3,670
Contribution to retirement benefit schemes	488	346
	21,856	11,404

The emoluments of these four (2004: three) employees are within the following bands:

	Number of employees 2005	2004
HK$1,500,001–HK$2,000,000	—	1
HK$2,000,001–HK$2,500,000	1	—
HK$2,500,001–HK$3,000,000	—	1
HK$3,000,001–HK$3,500,000	2	—
HK$3,500,001–HK$6,500,000	—	—
HK$6,500,001–HK$7,000,000	—	1
HK$7,000,001–HK$13,000,000	—	—
HK$13,000,001–HK$13,500,000	1	—
	4	3

No emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land*/+ HK$'000 (Restated)	Buildings+ HK$'000 (Restated)	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
As at 1 January 2005							
Cost or valuation	17,466	127,354	191,848	233,700	22,403	177	592,948
Accumulated depreciation	—	34,725	137,477	171,193	18,746	—	362,141
Net book amount	17,466	92,629	54,371	62,507	3,657	177	230,807
Year ended 31 December 2005							
Opening net book amount, as previously stated	35,295	92,629	54,371	62,507	3,657	177	248,636
Effect on adoption of HKAS 17	(17,829)	—	—	—	—	—	(17,829)
As restated	17,466	92,629	54,371	62,507	3,657	177	230,807
Additions	—	51	18,915	10,134	2,315	693	32,108
Acquisitions of a subsidiary	45,908	102,993	25,680	7,256	128	525	182,490
Disposal of a subsidiary	—	—	(610)	(104)	(6)	—	(720)
Transfers/Reclassification	—	98	(276)	338	—	(160)	—
Disposals	—	(9,576)	(6,641)	(14,148)	(730)	—	(31,095)
Depreciation	—	(7,784)	(15,877)	(23,340)	(1,472)	—	(48,473)
Impairment++	—	—	(6,283)	(3,355)	—	—	(9,638)
Exchange differences	(563)	27	724	418	14	(17)	603
Closing net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
As at 31 December 2005							
Cost or valuation	62,811	217,042	303,933	214,124	23,627	1,218	822,755
Accumulated depreciation	—	38,604	233,930	174,418	19,721	—	466,673
Net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Group (continued)

	Freehold land*/+ HK$'000 (Restated)	Buildings+ HK$'000 (Restated)	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
As at 1 January 2004							
Cost or valuation	17,396	127,110	200,711	244,924	24,499	27	614,667
Accumulated depreciation	—	27,700	142,887	168,204	20,890	—	359,681
Net book amount	17,396	99,410	57,824	76,720	3,609	27	254,986
Year ended 31 December 2004							
Opening net book amount, as previously stated	36,602	99,410	57,824	76,720	3,609	27	274,192
Effect on adoption of HKAS 17	(19,206)	—	—	—	—	—	(19,206)
As restated	17,396	99,410	57,824	76,720	3,609	27	254,986
Additions	—	346	10,917	7,967	942	1,277	21,449
Transfers/Reclassification	—	964	(858)	1,023	—	(1,129)	—
Disposals	—	(1,681)	(709)	(1,508)	(5)	—	(3,903)
Depreciation	—	(6,354)	(12,816)	(21,724)	(890)	—	(41,784)
Exchange differences	70	(56)	13	29	1	2	59
Closing net book amount	17,466	92,629	54,371	62,507	3,657	177	230,807
As at 31 December 2004							
Cost or valuation	17,466	127,354	191,848	233,700	22,403	177	592,948
Accumulated depreciation	—	34,725	137,477	171,193	18,746	—	362,141
Net book amount	17,466	92,629	54,371	62,507	3,657	177	230,807

* Prior to the adoption of HKAS17, this category included freehold land and leasehold land and land use rights. Freehold land is located in Thailand, Taiwan and the Philippines.

\+ The freehold land and buildings are stated at valuation. The net book value of freehold land and buildings of the Group as at 31 December 2005 would have been approximately HK$224,050,000 (2004: HK$87,064,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

++ During the year ended 31 December 2005, the Group recognised impairment loss of HK$9,638,000 (2004: Nil) in respect of obsolete machinery and equipment.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Company

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2005				
Cost	**33**	**23,101**	**1,840**	**24,974**
Accumulated depreciation	**25**	**20,868**	**1,316**	**22,209**
Net book amount	**8**	**2,233**	**524**	**2,765**
Year ended 31 December 2005				
Opening net book amount	**8**	**2,233**	**524**	**2,765**
Additions	**—**	**14**	**—**	**14**
Depreciation	**(3)**	**(1,320)**	**(210)**	**(1,533)**
Closing net book amount	**5**	**927**	**314**	**1,246**
As at 31 December 2005				
Cost	**33**	**23,067**	**1,325**	**24,425**
Accumulated depreciation	**28**	**22,140**	**1,011**	**23,179**
Net book amount	**5**	**927**	**314**	**1,246**

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2004				
Cost	33	23,334	1,840	25,207
Accumulated depreciation	21	17,645	1,029	18,695
Net book amount	12	5,689	811	6,512
Year ended 31 December 2004				
Opening net book amount	12	5,689	811	6,512
Additions	—	297	—	297
Disposals	—	(41)	—	(41)
Depreciation	(4)	(3,712)	(287)	(4,003)
Closing net book amount	8	2,233	524	2,765
As at 31 December 2004				
Cost	33	23,101	1,840	24,974
Accumulated depreciation	25	20,868	1,316	22,209
Net book amount	8	2,233	524	2,765

16. INVESTMENT PROPERTIES

	2005 HK$'000	2004 HK$'000
Net book amount as at 1 January	**13,150**	10,370
Opening adjustment on adopting HKAS 40	**(4,083)**	—
Balance as at 1 January after opening adjustment	**9,067**	10,370
Depreciation	**(213)**	—
Revaluation surplus	**—**	2,780
Net book amount as at 31 December	**8,854**	13,150

The investment properties are located in Hong Kong and are held under medium-term leases of 10 to 50 years.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	2005 HK$'000	2004 HK$'000 (Restated)
Opening book amount, as previously stated	**—**	—
Effect on adopting HKAS 17	**17,141**	18,451
Effect on adopting HKAS 40	**3,989**	—
As restated	**21,130**	18,451
Acquisitions of a subsidiary	**432**	—
Disposals	**(943)**	(841)
Amortisation	**(1,082)**	(478)
Exchange differences	**137**	9
Net book amount as at 31 December	**19,674**	17,141

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

	2005 HK$'000	2004 HK$'000 (Restated)
In Hong Kong		
— Medium-term leases of 10 to 50 years	**7,349**	4,984
Outside Hong Kong		
— Medium-term leases of 10 to 50 years	**12,042**	11,849
— Short-term lease of less than 10 years	**283**	308
	12,325	12,157
	19,674	17,141

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**397,639**	397,639
Less: Accumulated impairment losses	**(240)**	(5,931)
	397,399	391,708

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2005.

(b) Amounts due from/to subsidiaries

Amount due from a subsidiary, classified as non-current asset, is unsecured, interest free and has no pre-determined repayment terms.

Amounts due from/to subsidiaries, classified as current assets/liabilities, are unsecured, interest free, and repayable on demand.

(c) Particulars of principal subsidiaries as at 31 December 2005 are:

	Issued and paid up capital						Percentage of ordinary shares held		
Name of subsidiary	**No. of shares**	**Par value**	**Amount**	**Place of incorporation/ establishment**	**Place of operations**	**Principal activities**	**By the Company**	**By subsidiaries**	**Group's equity interest**
A-Grade Garments Manufacturing Corporation	260,000	P100	P26,000,000	The Philippines	The Philippines	Garment manufacturing	—	100%	100%
All Asia Garment Industries, Inc.	27,425	P1,000	P27,425,000	The Philippines	The Philippines	Garment manufacturing	—	100%	100%
All Asia Industrial Co., Ltd.+	—	—	RMB49,016,383	The People's Republic of China	The People's Republic of China	Garment manufacturing	—	100%	100%
All Asia Industrial Co., Ltd.	6,953	NT$10,000	NT$69,530,000	Taiwan	Taiwan	Garment manufacturing and sales liaison services	—	100%	100%
All Asia Industries Limited	40 15,006*	HK$100 HK$100	HK$4,000 HK$1,500,600	Hong Kong	Hong Kong	Investment holding	15%	85%	100%
Asia Wide Properties Company, Inc.	3,500	P1,000	P3,500,000	The Philippines	The Philippines	Investment holding	—	100%	100%
Asia Wide Trading Co., Ltd.	660,000	NT$10	NT$6,600,000	Taiwan	Taiwan	General trading and sales liaison services	—	100%	100%
Broad Street Apparel Co., Inc.	62,500	P100	P6,250,000	The Philippines	The Philippines	Garment manufacturing	—	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd.+	—	—	HK$30,000,000	The People's Republic of China	The People's Republic of China	Garment manufacturing	—	100%	100%

18. SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries as at 31 December 2005 are (continued):

Name of subsidiary	Issued and paid up capital: No. of shares	Par value	Amount	Place of incorporation/ establishment	Place of operations	Principal activities	Percentage of ordinary shares held: By the Company	By subsidiaries	Group's equity interest
Dress Line Holdings, Inc.	595,625 1,800,000**	P100 P100	P59,562,500 P180,000,000	The Philippines	The Philippines	Investment holding	—	100%	100%
Elite Fashion (Hong Kong) Limited (formerly known as "Elite Fashion House Company Limited")	2	HK$1	HK$2	Hong Kong	Hong Kong	General trading, sales and marketing services	100%	—	100%
Elkin Trading Limited	100	HK$1	HK$100	Hong Kong	Hong Kong	General trading and agency services	—	100%	100%
Excellent Jade Limited	10,000	HK$1	HK$10,000	Hong Kong	Hong Kong	Garment trading and manufacturing	—	100%	100%
Excellent Quality Apparel, Inc.	150,000	P100	P15,000,000	The Philippines	The Philippines	Garment manufacturing	—	100%	100%
Fashion Express Company Limited	1,000,000	THB100	THB100,000,000	Thailand	Thailand	Garment manufacturing	—	96.95%	96.95%
Guangzhou Tristate Industrial Co., Ltd.+	—	—	RMB13,226,944	The People's Republic of China	The People's Republic of China	Garment manufacturing	—	100%	100%
Gold Flower Limited	10,000	HK$1	HK$10,000	Hong Kong	Hong Kong	Administrative services	—	100%	100%
HFT Corp. Limited	10,000	HK$1,000	HK$10,000,000	Hong Kong	Hong Kong	Investment holding	—	100%	100%
HT Trading Limited	1	US$1	US$1	Malaysia	Macau	Garment trading and manufacturing	—	96.96%	96.96%
Hua Thai Manufacturing Public Company Limited++	10,000,000	THB10	THB100,000,000	Thailand	Thailand	Garment manufacturing	—	96.96%	96.96%
Hua Thai Merchandising (Singapore) Pte Limited	2	SGD1	SGD2	Singapore	Singapore	Sales liaison and administrative services	—	96.96%	96.96%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	12,500	HK$100	HK$1,250,000	Hong Kong	Hong Kong	Garment trading and investment holding	—	100%	100%
338 Fashion Co. Limited	3,000	HK$1,000	HK$3,000,000	Hong Kong	Hong Kong	Branded product distribution	—	100%	100%
338 Apparel Limited	1,000,000	HK$1	HK$1,000,000	Hong Kong	Hong Kong	Garment trading	—	60%	60%
Joint Holdings & Trading Company Limited	925 7,200,075*	HK$1 HK$1	HK$925 HK$7,200,075	Hong Kong	Hong Kong	Investment holding	—	100%	100%
Keybird Limited	3,000,000	HK$1	HK$3,000,000	Hong Kong	Hong Kong	Investment holding	100%	—	100%
Keyear Company Limited	1	US$1	US$1	British Virgin Islands	Hong Kong	Investment holding	100%	—	100%
Panyu United Asia Industrial Co., Ltd.+	—	—	RMB5,906,031	The People's Republic of China	The People's Republic of China	Garment manufacturing	—	100%	100%
Prime-Time Company Limited	1	US$1	US$1	British Virgin Islands	Hong Kong	Investment holding	—	100%	100%
Quality Time Limited	1	US$1	US$1	British Virgin Islands	Hong Kong	Investment holding	100%	—	100%
Shanghai Tristate Enterprises Co., Ltd.+	—	—	RMB20,000,000	The People's Republic of China	The People's Republic of China	Branded product distribution	—	100%	100%

18. SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries as at 31 December 2005 are (continued):

	Issued and paid up capital						Percentage of ordinary shares held		
Name of subsidiary	No. of shares	Par value	Amount	Place of incorporation/ establishment	Place of operations	Principal activities	By the Company	By subsidiaries	Group's equity interest
Sigsbee Investment Limited	534	—	US$1	The Republic of Liberia	Hong Kong	Investment holding	100%	—	100%
Tenmo Limited	200,000	HK$10	HK$2,000,000	Hong Kong	Hong Kong	Investment holding	100%	—	100%
Timely Corporate Limited	1	HK$1	HK$1	Hong Kong	Hong Kong	Nominee and secretarial services	100%	—	100%
Tristate Industrial Co., Inc.	49,930 47,620**	P1,000 P1,000	P49,930,000 P47,620,000	The Philippines	The Philippines	Garment manufacturing	—	100%	100%
Tristate Industrial Co., Ltd.	9,858	NT$10,000	NT$98,580,000	Taiwan	Taiwan	Garment manufacturing and sales liaison services	—	100%	100%
Tristate Industrial Company Limited	40 25,006*	HK$100 HK$100	HK$4,000 HK$2,500,600	Hong Kong	Hong Kong	Sales and administrative services	15%	85%	100%
Tristate (Macau) Garment Manufacturing Company Limited	—	—	MOP$25,000	Macau	Macau	Garment manufacturing	—	100%	100%
Tristate Trading Limited	1	US$1	US$1	Malaysia	Macau	Garment trading and manufacturing	—	100%	100%
Upgain (Laos) Manufacturing Company Limited	109,500	US$100	US$10,950,000	Laos	Laos	Investment holding	—	96.96%	96.96%
Upgain Limited	160,000	US$100	US$16,000,000	British Virgin Islands	Thailand	Investment holding	—	96.96%	96.96%
Upgain (Vietnam) Manufacturing Company Limited	—	—	US$4,000,000	Vietnam	Vietnam	Garment manufacturing	—	96.96%	96.96%
Zhejiang Huazhang Garment Co., Ltd.+	—	—	US$3,600,000	The People's Republic of China	The People's Republic of China	Garment manufacturing	—	100%	100%

* Deferred non-voting shares

** Preferred non-voting shares

\+ Wholly-owned foreign investment enterprise established in the People's Republic of China

++ The ordinary shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai") are listed on The Stock Exchange of Thailand. The quoted market value of the Group's 96.96% interest in Hua Thai as at 31 December 2005 amounted to HK$183,144,000 (2004: 36.43% interest of Hua Thai had a quoted market value of HK$37,103,000).

During the year ended 31 December 2005, the Group acquired additional equity interest in Hua Thai and Hua Thai was changed from a 36.43% owned associated company to a 96.96% owned subsidiary.

19. ASSOCIATED COMPANIES

(a) Investments in associated companies

	2005 HK$'000	2004 HK$'000
Investment at cost		
Share listed in Thailand	**—**	107,652
Unlisted shares	**—**	1,320
	—	108,972
Less: Accumulated impairment losses	**—**	(1,320)
	—	107,652
Share of net assets		
As at 1 January	**117,737**	99,801
Share of profits of associated companies	**21,344**	17,936
Exchange difference	**(482)**	—
Dividend received	**(4,261)**	—
Impairment	**(14,768)**	—
Reclassified under subsidiary (Note 36(a))	**(119,570)**	—
As at 31 December	**—**	117,737
Market value of listed associated company	**—**	37,103

During the year ended 31 December 2005, the Group acquired additional interest in the listed associated company, Hua Thai, which has become a 96.96% owned subsidiary as at 31 December 2005. Details of the acquisitions are set out in Note 36.

(b) Amounts due from/to associated companies

The amounts due from/to associated companies as at 31 December 2004 are unsecured, interest free and have pre-determined repayment terms.

20. INTANGIBLE ASSETS — LICENSE RIGHTS

	2005 HK$'000	2004 HK$'000
Net book amount as at 1 January	**—**	—
Additions	**68,785**	—
Amortisation	**(6,480)**	—
Net book amount as at 31 December	**62,305**	—

Intangible assets represent license rights on branded products up to 2010. Additions during the year represents capitalisation of minimum license fees payable, based on a discount rate equal to the Group's weighted average borrowing rate of 5.0% at the date of inception. Amortisation has been included in selling and distribution expenses in the income statement.

21. OTHER LONG-TERM ASSETS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with a financial institution	**9,633**	6,576	**9,633**	6,576
Club debentures	**1,200**	1,200	**—**	—
Unlisted investments, at cost	**202**	2	**—**	—
	11,035	7,778	**9,633**	6,576

Deposits with a financial institution are denominated in Hong Kong dollars with effective interest rate of 5.1% per annum (2004: 5.3% per annum).

Club debentures are stated at cost less accumulated impairment losses.

22. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**138,332**	109,859
Work-in-progress	**110,182**	78,304
Finished goods	**51,623**	37,246
	300,137	225,409

23. BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE

The aging analysis is as follows:

	2005	2004
	HK$'000	HK$'000
Less than 3 months	**298,565**	177,521
3 months to 6 months	**3,689**	10,960
Over 6 months	**229**	172
	302,483	188,653

Majority of the sales are covered by letters of credit with bills payable at sight. The remaining portion of the sales is on open account with credit term of about 30 days and is substantially covered by credit insurance.

The carrying amounts of the bills receivable and accounts receivable approximate their fair value.

24. BILLS PAYABLE AND ACCOUNTS PAYABLE

The aging analysis is as follows:

	2005 HK$'000	2004 HK$'000
Less than 3 months	**170,885**	198,517
3 months to 6 months	**3,791**	7,802
Over 6 months	**4,933**	10,775
	179,609	217,094

Payment terms with suppliers are on letters of credit and open account. Certain suppliers grant credit periods ranging from 30 to 60 days.

25. ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consisted of accrued operating expenses and accrued payables for purchase of raw materials.

26. BANK BORROWINGS

As at 31 December 2005, the Group's bank borrowings of HK$79,292,000 (2004: HK$2,636,000) were covered by corporate guarantees given by the Company. These borrowings were unsecured, due for repayment within four months, and bore interest at rates ranging from 4.8% to 5.3% per annum.

Short-term bank borrowings are denominated in the following currencies:

	2005 HK$'000	2004 HK$'000
Hong Kong Dollars	**—**	844
United States Dollars	**50,014**	1,792
Thai Baht	**29,278**	—
	79,292	2,636

The carrying amounts of the bank borrowings approximate their fair value.

27. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Defined contribution plans (Note (a))	**339**	328	**—**	—
Defined benefit plans (Note (b))	**15,589**	17,563	**—**	—
Long service payments liabilities (Note (c))	**9,265**	309	**—**	—
Other retirement benefits	**12,195**	635	**12,195**	635
	37,388	18,835	**12,195**	635

(a) Defined contribution plans

Forfeited contributions totaling HK$779,000 (2004: HK$510,000) were utilised during the year, leaving HK$281,000 (2004: HK$779,000) available at the year-end to reduce future contributions.

Contributions totalling HK$339,000 (2004: HK$328,000) were payable to the retirement plans at the year-end.

27. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (continued)

(a) Defined contribution plans (continued)

The Group operates/participates the following defined contribution plans:

(i) A defined contribution scheme for employees in Hong Kong, under which the Group and its employees each contributes 5% of the employees' salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer's contribution. The assets of the scheme are held separately from those of the Group in independent trustee-administered fund.

(ii) The Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a monthly cap of HK$1,000.

(iii) The Group's subsidiaries in Mainland China contribute approximately 8% to 12% of the basic salary of their employees to retirement schemes operated by municipal governments. Other than the mandatory contributions, the Group has no further obligations for the actual pension payments or any post retirement benefits. The retirement schemes are responsible for the entire pension obligations payable to retired employees.

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer's contribution. The assets of the schemes are held separately from those of the Group in independent trustee-administered funds.

(v) From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis.

(b) Defined benefits plans

The Group operates/participates the following defined benefits plans:

(i) A defined benefit retirement plan in the Philippines, which cover substantially all employees in the Philippines. The benefits are based on a prescribed percentage of the final monthly basic salary for every year of credited service.

The latest actuarial valuation of the plan was performed by Watson Wyatt Philippines, Inc., a professionally qualified independent actuarial firm, as at 31 December 2005. The actuarial method is the "projected unit credit actuarial cost" method. The principal actuarial assumptions used to determine retirement benefits are set out below. According to the actuarial report, the aggregate market value of the plans' assets as at 31 December 2005 was HK$6,836,000, representing approximately 512% of the aggregate actuarial accrued liabilities at that date.

(ii) A defined benefit retirement scheme operates by the Group's subsidiaries in Taiwan. The Group makes monthly contributions, at approximately 8% of the employees' salaries and wages, to a retirement fund which is administered by the employees retirement fund committee and is deposited in the committee's name in the Central Trust of China.

The latest actuarial valuation of the plan was performed by Actuarial Consulting Limited in Taiwan, a professionally qualified independent actuarial firm, as at 30 June 2005. The actuarial method is the "projected unit credit actuarial cost" method. The principal actuarial assumptions used to determine retirement benefits are set out below. Based on the actuarial report dated 30 June 2005, the aggregate market value of the plan's assets as at 31 December 2005 was HK$21,427,000, which representing approximately 96% of the actuarial accrued liabilities at that date.

27. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (continued)

(b) Defined benefits plans (continued)

The amounts recognised in the balance sheet are determined as follows:

	2005 HK$'000	2004 HK$'000
Present value of funded obligations	23,627	44,246
Fair value of plan assets	(28,263)	(29,706)
	(4,636)	14,540
Unrecognised actuarial gain	20,225	3,023
Liability in the balance sheet	15,589	17,563

The amounts recognised in the income statement, which are included as general and administrative expenses, were as follows:

	2005 HK$'000	2004 HK$'000
Current service cost	2,102	3,433
Interest cost	1,623	2,455
Expected return on plan assets	(1,185)	(1,520)
Net actuarial (gain)/loss recognised	(1,619)	1,009
Total, included in employment expenses	921	5,377
Actual return on plan assets	1,194	1,147

Movement in the liability recognised in the balance sheet:

	2005 HK$'000	2004 HK$'000
As at 1 January	17,563	15,928
Exchange differences	(466)	791
Total expense — as shown above	921	5,377
Contributions paid	(2,429)	(4,533)
As at 31 December	15,589	17,563

27. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (continued)

(b) Defined benefits plans (continued)

The principal actuarial assumptions used were as follows:

	2005	2004
The Philippines		
Discount rate	**12.0%**	10.0%
Expected rate of return on plan assets	**12.0%**	10.0%
Expected rate of future salary increases	**8.0%**	10.0%
Taiwan		
Discount rate	**3.8%**	3.8%
Expected rate of return on plan assets	**2.8%**	2.8%
Expected rate of future salary increases	**2.5%**	2.5%

(c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make lump sum payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's defined contribution schemes. The Group does not set aside any assets to fund any remaining obligations.

An actuarial valuation of the long service payment liabilities was carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, as at 31 December 2005 using the "projected unit credit actuarial cost" method.

(ii) Under the Labor Protection Act, A.D. 1998, of Thailand, the Group is obliged to make lump sum payments to their employees in Thailand upon cessation of employment. The amount payable is dependent on the employee's final salary and years of service.

The latest actuarial valuations of the long service payment as at 30 June 2005 were carried out by a professionally qualified independent actuarial firm, Watson Wyatt (Malaysia) Sdn Bhd, using the "projected unit credit actuarial cost" method.

(iii) Under labour law of Vietnam, the Group is obliged to make lump sum payments on cessation of employment to the employees who have employed by the Group for more than twelve months. The amount payable is dependent on the employee's average salary prior to the termination and years of service.

27. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (continued)

(c) Long service payment liabilities (continued)

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Present value of unfunded obligations	**8,734**	309	**—**	—
Unrecognised actuarial gains	**531**	—	**—**	—
Liability in balance sheet	**9,265**	309	**—**	—
Current services cost	**1,089**	43	**—**	—
Interest cost	**86**	46	**—**	—
Total, included in employment expenses	**1,175**	89	**—**	—

Movement in the liability recognised in the balance sheet:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
As at 1 January	**309**	534	**—**	—
Acquisitions of a subsidiary	**7,535**	—	**—**	—
Total expense — as shown above	**1,175**	89	**—**	—
Contributions paid	**(119)**	(813)	**—**	—
Loss on curtailment	**—**	421	**—**	—
Actuarial gain recognised	**365**	78	**—**	—
As at 31 December	**9,265**	309	**—**	—

The principal actuarial assumptions used were as follows:

	Group		Company	
	2005	2004	**2005**	2004
Hong Kong				
Discount rate	**4.3%**	5.0%	**4.3%**	5.0%
Salary increase rate	**3.3%**	4.0%	**3.3%**	4.0%
Thailand				
Discount rate	**4.5%**	—	**—**	—
Salary increase rate	**3.0%**	—	**—**	—
Vietnam				
Discount rate	**4.5%**	—	**—**	—
Salary increase rate	**3.5%**	—	**—**	—

28. LICENSE FEES PAYABLE

	2005 HK$'000	2004 HK$'000
License fees payable as at 31 December 2005	62,305	—
Current portion included under accruals and other payables	(9,609)	—
Long-term portion	52,696	—

License fees payable represents the minimum license fees payable up to 2010 and is recognised based on a discount rate equal to the Group's weighted average borrowing rate of 5.0% at the date of inception less license fee paid.

29. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the balance sheets are, after appropriate offsetting, as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Deferred tax assets to be recovered:				
— After more than 12 months	552	—	—	—
— Within 12 months	5,651	2,260	328	140
	6,203	2,260	328	140
Deferred tax liabilities to be realised:				
— After more than 12 months	86,294	13,238	—	—
— Within 12 months	1,984	18	—	—
	88,278	13,256	—	—
Net deferred tax liabilities/(assets)	82,075	10,996	(328)	(140)

29. DEFERRED TAXATION (continued)

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Withholding tax for distribution of overseas retained earnings of subsidiaries and associated companies		Revaluation of land and buildings of acquired subsidiary		Total	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
As at 1 January	**9,247**	10,299	**4,892**	2,933	**—**	—	**14,139**	13,232
Exchange differences	**—**	—	**(487)**	—	**(416)**	—	**(903)**	—
Acquisitions of a subsidiary	**—**	—	**47,403**	—	**31,010**	—	**78,413**	—
Recognised in the income statement	**(2,150)**	(785)	**3,561**	1,959	**(287)**	—	**1,124**	1,174
Credited to equity	**(418)**	(267)	**—**	—	**—**	—	**(418)**	(267)
As at 31 December	**6,679**	9,247	**55,369**	4,892	**30,307**	—	**92,355**	14,139

Deferred tax assets

	Provisions		Decelerated tax depreciation		Tax losses		Others		Total	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
As at 1 January	**3,413**	1,568	**488**	356	**—**	180	**(758)**	—	**3,143**	2,104
Exchange differences	**(107)**	—	**—**	—	**(4)**	—	**—**	—	**(111)**	—
Acquisitions of a subsidiary	**8,173**	—	**—**	—	**262**	—	**—**	—	**8,435**	—
Recognised in the income statement	**(2,605)**	1,845	**643**	132	**2**	(180)	**773**	(758)	**(1,187)**	1,039
As at 31 December	**8,874**	3,413	**1,131**	488	**260**	—	**15**	(758)	**10,280**	3,143

Deferred 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 tax assets amounting to HK$21,043,000 (2004: HK$17,829,000) in respect of losses that can be carried forward indefinitely to offset against future taxable income.

30. SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
500,000,000 (2004: 500,000,000) shares of HK$0.10 each	**50,000**	50,000
Issued and fully paid:		
268,735,253 (2004: 268,735,253) shares of HK$0.10 each	**26,874**	26,874

31. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Assets revaluation reserve HK$'000	Translation differences HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2005, as previously reported	8,124	115,421	51,877	44,060	(144,749)	383,043	137,468	595,244
Effect on adoption of HKAS 17	—	—	—	62	—	—	(418)	(356)
As at 1 January 2005, as restated	8,124	115,421	51,877	44,122	(144,749)	383,043	137,050	594,888
Opening adjustment on adoption of HKAS 40	—	—	—	(7,040)	—	—	6,946	(94)
Balance as at 1 January 2005 after opening adjustment	8,124	115,421	51,877	37,082	(144,749)	383,043	143,996	594,794
Deferred tax credited to equity	—	—	—	—	—	—	418	418
Assets revaluation reserve realised upon disposal of property, plant and equipment	—	—	—	(11,139)	—	—	11,139	—
Currency translation differences	—	—	—	—	12,056	—	—	12,056
Profit for the year	—	—	—	—	—	—	159,739	159,739
Transfers	—	—	3,991	—	—	—	(3,991)	—
Dividends to equity holders of the Company	—	—	—	—	—	—	(51,060)	(51,060)
Unclaimed dividends credited back	—	—	—	—	—	—	924	924
As at 31 December 2005	8,124	115,421	55,868	25,943	(132,693)	383,043	261,165	716,871
Representing:								
Proposed dividend							40,310	
Other reserves							220,855	
							261,165	

31. RESERVES (continued)

Group (continued)

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Assets revaluation reserve HK$'000	Translation differences HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2004, as previously reported	8,124	115,421	37,089	42,597	(146,837)	383,043	100,390	539,827
Effect on adoption of HKAS 17	—	—	—	62	—	—	(504)	(442)
As at 1 January 2004, as restated	8,124	115,421	37,089	42,659	(146,837)	383,043	99,886	539,385
Currency translation difference	—	—	—	—	2,088	—	—	2,088
Net deferred tax charged to equity	—	—	—	(46)	—	—	—	(46)
Surplus on revaluation of investment properties	—	—	—	1,509	—	—	—	1,509
Profit for the year	—	—	—	—	—	—	51,952	51,952
Transfers	—	—	14,788	—	—	—	(14,788)	—
As at 31 December 2004	8,124	115,421	51,877	44,122	(144,749)	383,043	137,050	594,888
Representing:								
Proposed dividend							26,874	
Other reserves							110,176	
							137,050	
The Company and subsidiaries	8,124	115,421	51,877	44,122	(139,488)	383,043	116,685	579,784
Associated companies	—	—	—	—	(5,261)	—	20,365	15,104
	8,124	115,421	51,877	44,122	(144,749)	383,043	137,050	594,888

31. RESERVES (continued)

Company

	Share premium HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2005	**8,124**	**431,020**	**71,824**	**510,968**
Profit for the year	**—**	**—**	**49,689**	**49,689**
Dividends to equity holders of the Company	**—**	**—**	**(51,060)**	**(51,060)**
Unclaimed dividends credited back	**—**	**—**	**924**	**924**
As at 31 December 2005	**8,124**	**431,020**	**71,377**	**510,521**
Representing:				
Proposed dividend			**40,310**	
Other reserves			**31,067**	
			71,377	

	Share premium HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2004	8,124	431,020	22,425	461,569
Profit for the year	—	—	49,399	49,399
As at 31 December 2004	8,124	431,020	71,824	510,968
Representing:				
Proposed dividend			26,874	
Other reserves			44,950	
			71,824	

(a) The contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under Bermuda Law, the contributed surplus is distributable.

(b) Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals to the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. Subsidiaries in Taiwan did not transfer any amount to the statutory reserve during the year ended 31 December 2005 (2004: Nil).

31. RESERVES (continued)

(c) The laws and regulations in Mainland China require wholly foreign-owned enterprises established in Mainland China to provide for statutory reserves, namely general reserve and enterprise expansion fund, which are appropriated from net profit, based on profit reported in the statutory accounts.

Certain subsidiaries in Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

Appropriation to enterprise expansion fund is at the discretion of the board of directors of the subsidiaries in Mainland China. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority.

For the year ended 31 December 2005, the subsidiaries in Mainland China have transferred HK$3,991,000 (2004: HK$14,788,000) to statutory reserves.

32. SHARE OPTIONS SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 28 November 1997, under which the directors of the Company may, at their discretion, invite any full-time employees (including executive directors) of the Company or its subsidiaries to take up options upon payment of HK$1 by each grantee as consideration for the options to subscribe for shares in the Company. Each option entitles the grantee to subscribe for one share in the Company and the subscription price is determined by the Board of Directors at a price of not less than 80% of the average closing price of the shares of the Company as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five business days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher. An option is exercisable at any time during a period determined by the Board of Directors or is exercisable according to restrictions imposed by the Board of Directors. The expiry dates of the options granted are the earlier of (i) the last day of three years after their respective dates of grant, and (ii) 27 November 2007.

With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Hong Kong Stock Exchange on the date of grant and the average closing prices of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant.

The Company has not granted any options during the year ended 31 December 2005 (2004: Nil). As at 31 December 2005, there was no share option outstanding (2004: Nil).

33. COMMITMENTS

(a) Operating lease commitments

(i) The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

	2005 **HK$'000**	2004 HK$'000
Not later than 1 year	**26,761**	24,759
Later than 1 year and not later than 5 years	**23,412**	23,293
Later than 5 years	**59,930**	62,286
	110,103	110,338

33. COMMITMENTS (continued)

(a) Operating lease commitments (continued)

(ii) The Group had future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of land and buildings, as follows:

	2005 HK$'000	2004 HK$'000
Not later than 1 year	**1,173**	474
Later than 1 year and not later than 5 years	**529**	—
	1,702	474

(b) Capital commitments

The Group had the following capital commitments in relation to office renovation and purchase of equipment:

	2005 HK$'000	2004 HK$'000
Contracted but not provided for	**3,898**	—
Authorised but not contracted for	**5,384**	2,797
	9,282	2,797

34. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns approximately 70.05% of the Company's issued shares as at 31 December 2005.

Parties are considered to be related to the Group if the Group or any member of its key management personnel or their close family members has the ability, directly or indirectly, to exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common significant influence. Related parties may be individuals or entities.

(a) Transactions

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business:

	Note	2005 HK$'000	2004 HK$'000
TDB Company Limited			
Rental expense	(i)	**(4,457)**	(4,457)
Hua Thai and its subsidiaries*			
Purchases of finished goods	(ii)	**(428,728)**	(403,790)
Sales of finished goods	(ii)	**55,682**	32,262
Handling expense on purchase of raw materials	(iii)	**(1,102)**	(745)
Handling income on sales of raw materials	(iii)	**15,597**	19,380
Handling income on sales of finished goods	(iii)	**6,846**	4,547
Sample and other income	(iv)	**3,390**	2,833

* Hua Thai was an associated company up to 27 October 2005, and thereafter has become a subsidiary. These transactions were up to 27 October 2005 when Hua Thai was an associated company.

34. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions (continued)

Notes:

(i) A majority of the shares of TDB Company Limited is indirectly held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was for the leasing of factory, office and warehouse space and was determined by reference to open market rental.

(ii) Purchases/sales of finished goods were determined on a cost plus markup basis.

(iii) Handling expense/income on purchases/sales of raw materials/finished goods were determined based on the amount of purchases/sales and at rates mutually agreed between the two parties.

(iv) Sample and other income were determined under normal commercial terms.

(b) Balances with associated companies

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from associated companies (Note 19(b))	**—**	53,145	**—**	2,073
Amounts due to associated companies (Note 19(b))	**—**	86,878	**—**	—

(c) Transactions/balances with subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Transactions with subsidiaries		
— Management fee charged to subsidiaries	**44,552**	33,337
— Expenses recharged to subsidiaries	**—**	656
Balances with subsidiaries (Note 18(b))		
— Amounts due from subsidiaries		
Non-current	**54,607**	98,551
Current	**110,337**	50,903
— Amounts due to subsidiaries	**7,744**	501

(d) Key management compensation

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Wages, salaries, allowances and bonuses	**37,645**	26,079	**27,248**	17,335
Defined contribution plans	**745**	725	**555**	412
Other long-term benefits	**1,170**	635	**1,170**	635
	39,560	27,439	**28,973**	18,382

34. RELATED PARTY TRANSACTIONS (continued)

(e) Acquisitions of additional interest in Hua Thai

During the year, the Group acquired an additional 19% equity interest in Hua Thai from related parties at an aggregate consideration of approximately HK$36,398,000 (equivalent to Thai Baht 190 million). Details of the acquisitions are set out in Note 36.

35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2005 **HK$'000**	2004 HK$'000 (Restated)
Profit before taxation	**203,298**	67,041
Adjustments for:		
Share of profits of associated companies	**(21,344)**	(17,936)
Depreciation on property, plant and equipment	**48,473**	41,784
Impairment of property, plant and equipment	**9,638**	—
Depreciation on investment properties	**213**	—
Amortisation of leasehold land and land use rights	**1,082**	478
Loss on disposal of leasehold land	**83**	391
Net loss on disposals of property, plant and equipment	**18,140**	2,170
Gain on disposal of a subsidiary	**(3,189)**	—
Net gain arising from acquisitions of a subsidiary	**(53,926)**	—
Reversal of impairment of an unlisted investment	**(200)**	—
Amortisation of license rights	**6,480**	—
Interest income	**(5,213)**	(663)
Interest expense	**2,075**	3,963
Net reversal of revaluation deficit on investment properties previously charged to income statement	**—**	(1,271)
Effect of foreign exchange rate changes	**10,529**	2,016
	216,139	97,973
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
Decrease in inventories	**29,870**	47,569
Increase in bills receivable and accounts receivable	**(54,040)**	(18,175)
Decrease in prepayments and other receivables	**2,489**	28,831
Increase in intangible assets — license rights	**(68,785)**	—
(Decrease)/increase in net amounts due to associated companies	**(4,691)**	8,546
(Decrease)/increase in bills payable and accounts payable	**(51,308)**	2,694
Increase/(decrease) in accruals and other payables	**66,994**	(2,204)
Increase in provision for retirement benefits and other post retirement obligations	**11,018**	2,185
Increase in license fees payable	**52,696**	—
Cash generated from operations	**200,382**	167,419

35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary

During the year ended 31 December 2005, the Group disposed of its entire interest in a subsidiary for approximately HK$3,822,000. Details of the net assets of the subsidiary as at the date of disposal are:

	2005 HK$'000
Net assets disposed of:	
Property, plant and equipment	720
Accruals and other payables	(136)
	584
Gain on disposal	3,189
Direct expenses relating to the disposal	49
Consideration, satisfied by cash	3,822
Analysis of cash generated from disposal of a subsidiary:	
Cash consideration	3,822
Direct expenses relating to the disposal	(49)
Net cash generated from disposal of a subsidiary	3,773

36. BUSINESS COMBINATION

On 28 October 2005, the Group completed the acquisitions of an additional 19% equity interest in Hua Thai from related parties at an aggregate consideration of approximately HK$36,398,000 (equivalent to approximately Thai Baht 190 million). Consequently, the Group's equity interest in Hua Thai was increased from 36.43% (an associated company) to 55.43% (a subsidiary). The ordinary shares of Hua Thai are listed on The Stock Exchange of Thailand.

Upon completion of the aforementioned acquisitions, the Group was obliged under the Securities and Exchange Act of Thailand to make a tender offer to acquire all the remaining issued ordinary shares of Hua Thai at the same purchase price of Thai Baht 100 per ordinary share. As at the close of the tender offer on 15 December 2005, shareholders representing approximately 41.53% equity interest in Hua Thai accepted the tender offer. Consequently, the Group's equity interest in Hua Thai was increased from 55.43% to 96.96%.

(a) Details of the net assets acquired and the excess of the fair value of the Group's share of the net assets acquired over the cost of the acquisitions on 28 October 2005 are as follows:

	HK$'000
Fair value of net assets acquired (as shown below)	58,968
Purchase consideration:	
Cash consideration	(36,398)
Direct expenses relating to the acquisitions	(4,735)
Excess of fair value of net assets acquired over the cost of the acquisitions	17,835

36. BUSINESS COMBINATION (continued)

(a) Details of the net assets acquired and the excess of the fair value of the Group's share of the net assets acquired over the cost of the acquisitions on 28 October 2005 are as follows (continued):

The assets and liabilities arising from the acquisitions are as follows:

	Fair value HK$'000	Acquiree's carrying value HK$'000
Property, plant and equipment*	182,490	85,810
Leasehold land and land use rights*	432	793
Deferred tax assets	3,828	3,828
Inventories	104,598	104,598
Amounts due from related parties	29,042	29,042
Bills receivable and accounts receivable	59,790	59,790
Prepayments and other receivables	8,236	8,236
Cash and cash equivalents	106,964	106,964
Bank borrowings	(55,047)	(55,047)
Bills payable and accounts payable	(13,823)	(13,823)
Accruals and other payables	(26,066)	(26,066)
Current income tax liabilities	(2,426)	(2,426)
Retirement benefits and other post retirement obligations	(7,535)	(7,535)
Deferred tax liabilities	(62,282)	(31,272)
Net assets	328,201	262,892
Deferred tax on distributable retained earnings of the acquired subsidiary	(3,380)	
Minority interests	(146,283)	
Equity interest held originally as investment in an associated company** *(Note 19(a))*	(119,570)	
Net assets acquired	58,968	
Analysis of net cash generated from the acquisitions of a subsidiary:		
Purchase consideration settled in cash	(36,398)	
Direct expenses relating to the acquisitions	(4,735)	
Cash and cash equivalents acquired	106,964	
Net cash generated from the acquisitions of a subsidiary	65,831	

* In determining the fair values of the property, plant and equipment and leasehold land of Hua Thai and its subsidiaries on the acquisition date, the Group has considered valuations performed by CB Richard Ellis (Thailand) Co. Ltd., CB Richard Ellis Vietnam Ltd. and Jones Lang LaSalle (Thailand) Ltd., independent professional valuers, as at 30 June 2005.

** In connection with the above acquisitions, the Group reviewed the fair value of its original 36.43% interest in Hua Thai (an associated company). An impairment loss of HK$14,768,000 was recognised in the consolidated income statement.

36. BUSINESS COMBINATION (continued)

(b) Details of the fair value of net assets relating to the additional 41.53% equity interest in Hua Thai acquired on 15 December 2005 and the related excess of the fair value of net assets acquired over the cost of acquisition are as follows:

	HK$'000
Fair value of net assets acquired*	137,888
Deferred tax on distributable retained earnings of the acquired subsidiary	(8,144)
Purchase consideration:	
Cash consideration	(78,675)
Direct expenses relating to the acquisition	(210)
Excess of fair value of net assets acquired over the cost of the acquisition	50,859

* The fair value of the net assets of Hua Thai acquired by the Group on 15 December 2005 was determined by considering the fair value of the net assets of Hua Thai at that date, after taking into account the valuations of the property, plant and equipment and leasehold land of Hua Thai and its subsidiaries as at 30 June 2005 performed by professional valuers as mentioned in Note 36(a) above.

(c) Hua Thai contributed an after-tax profit of HK$5,987,000 to the Group for the period from 28 October 2005 to 31 December 2005. If the acquisitions had occurred on 1 January 2005, the Group's total revenue would have been HK$3,001,679,000 and after-tax profit excluding net gain arising from acquisitions of a subsidiary for the year ended 31 December 2005 would increase from HK$113,865,000 to HK$136,934,000.

37. ULTIMATE HOLDING COMPANY

The Directors regard Silver Tree Holdings Inc., a company incorporated in the British Virgin Islands, as the ultimate holding company.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's Board of Directors on 13 April 2006.