NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

Glorious Sun Enterprises Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of Glorious Sun Enterprises Limited is located at Glorious Sun Group Building, 97 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group was engaged in the retailing, export and production of casual wear.

2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property, certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
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 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes-Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases-Determination of the Length of Lease Term in respect of Hong Kong Land Leases

NOTES TO FINANCIAL STATEMENTS

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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 36, 37 and 38, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated summary statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to jointly-controlled entities and associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of jointly-controlled entities and associates is presented net of the Group's share of tax attributable to jointly-controlled entities and associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effect of the above changes are summarised in note 2.4 to the financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Discounted bills with recourse

In prior years, the Group accounted for bills discounted with recourse as a contingent liability. Upon the adoption of HKAS 39, bills discounted with recourse are no longer derecognised since the derecognition criteria for financial assets are not met. Accordingly, the related bank advances received as consideration for the bills discounted are recognised as a liability prospectively on or after 1 January 2005. The effects of the above changes are summarised in note 2.4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of the investment properties are included in the income statement in the year in which they arise.

As the Group's investment property had revaluation deficit in aggregate, which were previously charged to the income statement. The adoption of HKAS 40 has had no effect on the consolidated income statement and retained profits.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(d) HKFRS 2 – Share-based Payment *(continued)*

The Group has adopted the transitional provision of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employees share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004 nor has it had an impact on the current year's income statement.

(e) HKFRS 3 – Business Combinations

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired business.

The transitional provisions of HKFRS 3 have required goodwill previously eliminated against the consolidated retained profits remained eliminated against the consolidated retained profits.

NOTES TO FINANCIAL STATEMENTS

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2.3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1& 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial statements. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortization recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting		
	HKAS 17# Prepaid land lease payments *HK$'000*	**HKAS 39* Bills discounted with recourse** *HK$'000*	**Total** *HK$'000*
Effect of new policies (increase/(decrease))			
At 1 January 2005			
Assets			
Property, plant and equipment	(21,610)	–	(21,610)
Prepaid land lease payments	17,618	–	17,618
Prepayments, deposits and other receivables	409	–	409
Trade and bills receivables	–	104,086	104,086
			100,503
Liabilities/equity			
Interest-bearing bank and other borrowings	–	104,086	104,086
Retained profits	(1,163)	–	(1,163)
Asset revaluation reserve	(1,643)	–	(1,643)
Exchange fluctuation reserve	(1)	–	(1)
Minority interests	(776)	–	(776)
			100,503
At 31 December 2005			
Assets			
Property, plant and equipment	(17,618)	–	(17,618)
Prepaid land lease payments	17,209	–	17,209
Prepayments, deposits and other receivables	409	–	409
Trade and bills receivables	–	83,115	83,115
			83,115
Liabilities/equity			
Interest-bearing bank and other borrowings	–	83,115	83,115
			83,115

* *Adjustments taken effect prospectively from 1 January 2005*
\# *Adjustments/presentation taken effect retrospectively*

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Total
	HK$'000
Effect of new policy – HKAS 17 Prepaid land lease payments	
1 January 2004	
Asset revaluation reserve	(319)
Exchange fluctuation reserve	(1)
Retained profits	(281)
Minority interests	328
	(273)
1 January 2005	
Asset revaluation reserve	(1,643)
Exchange fluctuation reserve	(1)
Retained profits	(1,163)
Minority interests	(776)
	(3,583)

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting		
Effect of new policies	**HKAS 1 Share of post-tax profits and losses of jointly-controlled entities and associates** *HK$'000*	**HKAS 17 Prepaid land lease payments** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2005			
Decrease in share of profits and losses of jointly-controlled entities	(519)	–	(519)
Decrease in share of profits and losses of associates	(15,051)	–	(15,051)
Decrease in tax	15,570	–	15,570
Increase in recognition of prepaid land lease payments	–	(409)	(409)
Decrease in depreciation	–	181	181
Total decrease in profit	–	(228)	(228)
Decrease in basic earnings per share – HK cents	–	(0.02)	(0.02)
Decrease in diluted earnings per share – HK cents	–	(0.02)	(0.02)
Year ended 31 December 2004			
Decrease in share of profits and losses of jointly-controlled entities	(963)	–	(963)
Decrease in share of profits and losses of associates	(16,806)	–	(16,806)
Decrease in tax	17,769	–	17,769
Increase in revaluation deficit on leasehold buildings	–	(1,390)	(1,390)
Increase in recognition of prepaid land lease payments	–	(409)	(409)
Foreign exchange difference, net	–	(1)	(1)
Decrease in depreciation	–	181	181
Decrease in minority interests	–	737	737
Total decrease in profit	–	(882)	(882)
Decrease in basic earnings per share – HK cents	–	(0.09)	(0.09)
Decrease in diluted earnings per share – HK cents	–	(0.09)	(0.09)

NOTES TO FINANCIAL STATEMENTS

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its broad of directors, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associate, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interest in associates.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	1.67%-5% or over the terms of the leases, whichever is shorter
Leasehold improvements	20%-25% or over the terms of the leases, whichever is shorter
Plant and machinery	10%-25%
Furniture, fixtures and office equipment	10%-33%
Motor vehicles	20%-30%

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and office premises under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets (applicable to the year ended 31 December 2005) *(continued)*

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gain and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risk associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out and weighted average basis and, in the case of work in progress and finished goods comprises direct materials direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interest in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interest in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) commission income, when the services have been rendered;

(c) income from the temporary transfer of permanent quota, upon execution of a legally binding, unconditional and irrevocable transfer to a third party;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(e) rental income, on a time proportion basis over the lease terms; and

(f) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Share-based payment transactions (applicable to options granted to employees on or before 7 November 2002)

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to option granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Retirement benefits schemes (continued)

Prior to the MPF Scheme becoming effective, the Group operated two defined contribution retirement benefits schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. Under one of the schemes, contributions payable by the employers and employees were suspended in January 1994, but the administrator continues to manage and invest the assets of the scheme and to make payments to employees in accordance with the rules of the scheme. Under the other scheme, contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Group employer contribution vesting fully, the ongoing contributions payable by the Group may be reduced the relevant amount of forfeited contribution. This scheme is still operating after 1 December 2000.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with rules of the central pension scheme.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of difference on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments-Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Estimation of realisability of deferred tax assets

The Group reviews the carrying amount of deferred tax assets at each balance sheet date and estimate whether sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation requires the Group to make an estimate of the expected future taxable profit from the related taxable entities. The carrying amount of deferred tax assets at 31 December 2005 was HK$14,525,000 (2004: HK$11,887,000). More details are given in note 30.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) retail operations segment engages in the retailing of casual wear;

(b) export operations segment manufactures and exports apparel; and

(c) the "others" segment comprises, principally, the trading of fabric and other businesses.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(CONTINUED)*

There were no inter-segment sales and transfers during the year (2004: Nil).

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments, for the years ended 31 December 2005 and 2004

Group

	Retail operations		Export operations		Others		Consolidated	
	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)
Segment revenue:								
Sales to external customers	**2,492,489**	2,277,659	**1,148,110**	1,144,528	**161,799**	161,564	**3,802,398**	3,583,751
Other income and gains	**30,636**	33,785	**46,189**	51,383	**9,104**	14,170	**85,929**	99,338
Total	**2,523,125**	2,311,444	**1,194,299**	1,195,911	**170,903**	175,734	**3,888,327**	3,683,089
Segment results	**221,730**	218,945	**86,264**	100,501	**6,657**	33,503	**314,651**	352,949
Interest income and unallocated revenue							**46,203**	16,661
Unallocated expenses							**(25,501)**	(20,555)
Finance costs							**(9,481)**	(7,944)
Share of profits and losses of:								
Jointly-controlled entities	**-**	-	**(338)**	709	**769**	1,085	**431**	1,794
Associates	**-**	(12,119)	**44,628**	32,153	**-**	-	**44,628**	20,034
Profit before tax							**370,931**	362,939
Tax							**(79,446)**	(90,196)
Profit for the year							**291,485**	272,743

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

Group

	Retail operations		Export operations		Others		Consolidated	
	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)
Assets and liabilities:								
Segment assets	**717,032**	678,041	**782,249**	670,919	**182,204**	194,066	**1,681,485**	1,543,026
Interests in jointly-controlled entities	**-**	-	**3,745**	11,173	**18,116**	17,163	**21,861**	28,336
Interests in associates	**84,292**	44,029	**129,521**	113,882	**-**	-	**213,813**	157,911
Unallocated assets							**1,494,778**	1,299,518
Total assets							**3,411,937**	3,028,791
Segment liabilities	**531,014**	455,258	**433,402**	374,862	**124,095**	213,451	**1,088,511**	1,043,571
Unallocated liabilities							**510,598**	365,853
Total liabilities							**1,599,109**	1,409,424
Other segment information:								
Depreciation, recognition and amortisation	**66,033**	55,334	**47,875**	51,604	**10,366**	7,195	**124,274**	114,133
Net impairment/(reversal of impairment) losses recognised in the income statement	**416**	-	**(521)**	1,094	**-**	-	**(105)**	1,094
Net deficit/(surplus) on revaluation recognised in the income statement	**-**	-	**72**	1,135	**(285)**	1,550	**(213)**	2,685
Change in fair value of investment property	**-**	-	**-**	-	**(600)**	(250)	**(600)**	(250)
Other non-cash expenses/(income)	**39,325**	5,593	**12,004**	(18,891)	**(8,683)**	3,325	**42,646**	(9,973)
Capital expenditure	**114,970**	84,430	**37,475**	26,386	**128,517**	13,624	**280,962**	124,440
Net surplus on revaluation recognised directly in equity	**-**	-	**(917)**	(2,978)	**(4,043)**	(46)	**(4,960)**	(3,024)

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(CONTINUED)*

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2005 and 2004.

Group

	Mainland China 2005 *HK$'000*	Hong Kong 2005 *HK$'000*	United States of America ("USA") 2005 *HK$'000*	Australia and New Zealand 2005 *HK$'000*	Canada 2005 *HK$'000*	Others 2005 *HK$'000*	Con-solidated 2005 *HK$'000*
Segment revenue:							
Sales to external customers	1,781,836	118,004	934,090	785,207	80,793	102,468	3,802,398
Other segment information:							
Segment assets	992,000	84,282	226,363	179,038	11,472	188,330	1,681,485
Capital expenditure	213,183	2,821	-	44,670	-	20,288	280,962

NOTES TO FINANCIAL STATEMENTS

31 December 2005

4. SEGMENT INFORMATION *(CONTINUED)*

(b) Geographical segments *(continued)*

Group

	Mainland China 2004 *HK$'000*	Hong Kong 2004 *HK$'000*	United States of America ("USA") 2004 *HK$'000*	Australia and New Zealand 2004 *HK$'000*	Canada 2004 *HK$'000*	Others 2004 *HK$'000*	Con-solidated 2004 *HK$'000* (Restated)
Segment revenue:							
Sales to external customers	1,510,634	135,643	953,691	806,926	83,646	93,211	3,583,751
Other segment information:							
Segment assets	972,631	55,099	127,862	205,069	9,829	172,536	1,543,026
Capital expenditure	80,755	1,854	–	38,759	–	3,072	124,440

NOTES TO FINANCIAL STATEMENTS

31 December 2005

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-group transactions, and revenue from the temporary transfer of permanent quota.

An analysis of revenue, other income and gains is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Revenue		
Retailing of casual wear	**2,492,489**	2,277,659
Export of apparel	**1,148,110**	1,144,528
Trading of fabric and other businesses	**161,799**	161,564
	3,802,398	3,583,751
Other income		
Bank interest income	**30,294**	14,451
Services and sub-contracting fee income	**19,524**	32,961
Other sales income	**1,402**	4,406
Commission and management fee income	**5,886**	14,165
Decoration and renovation income	**5,353**	1,828
Gross rental income	**204**	204
Others	**34,163**	27,522
	96,826	95,537
Gains		
Foreign exchange differences, net	**10,573**	17,508
Fair value gains, net:		
Equity investments at fair value through profit or loss	**13,853**	–
Derivative instruments – transactions not qualifying as hedges	**8,370**	–
Others	**2,510**	2,954
	35,306	20,462
	132,132	115,999

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Cost of inventories sold*		**2,176,579**	2,032,440
Depreciation	14	**123,865**	111,639
Recognition of prepaid land lease payments	16	**409**	409
Amortisation of permanent quota**		**-**	2,085
Minimum lease payments under operating leases:			
Land and buildings		**403,021**	321,830
Plant and machinery		**198**	592
		403,219	322,422
Auditors' remuneration		**6,312**	4,886
Employee benefits expenses (including directors' remuneration, note 8):			
Wages and salaries		**657,877**	624,933
Pension scheme contributions		**16,652**	16,443
Less: Forfeited contributions		**(112)**	(399)
Net pension scheme contributions***		**16,540**	16,044
		674,417	640,977
Impairment/(reversal of impairment) of items of property, plant and equipment	14	**(105)**	1,094
Loss on disposal/write-off of items of property, plant and equipment		**25,204**	7,113
Net revaluation deficit/(surplus) on buildings	14	**(213)**	2,685
Change in fair value of an investment property	15	**(600)**	(250)
Gain on disposal of permanent quota		**-**	(42)
Loss on disposal of an associate		**-**	714
Write-down/(write-back) of inventories to net realisable value*		**16,368**	(17,758)
Impairment of interest in associates#		**11,106**	–
Gross rental income from an investment property		**(204)**	(204)
Direct operating expenses (including repairs and maintenance) arising on rental-earning of an investment property		**10**	9

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. PROFIT BEFORE TAX *(CONTINUED)*

* *The cost of inventories sold and the cost of sales include the write-down of inventories to net realisable value of HK$16,368,000 (2004: write-back of inventories to net realisable value of HK$17,758,000).*

** *In prior year, the amortisation of permanent quota was included in "Cost of sales" on the face of the consolidated income statement.*

*** *As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2004: Nil).*

\# *The impairment of interests in associates are included in "Other operating expenses" on the face of the consolidated income statement.*

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**9,307**	7,819
Interest on finance leases	**174**	125
	9,481	7,944

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**400**	250
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**6,729**	6,246
Discretionary bonuses	**11,295**	7,412
Pension scheme contributions	**271**	261
	18,295	13,919
	18,695	14,169

(a) Independent non-executive directors

The fees paid and payable to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Mr. Wong Man Kong, Peter, BBS, JP	**100**	100
Mr. Lau Hon Chuen, Ambrose, GBS, JP	**100**	100
Mr. Chung Shui Ming, Timpson, GBS, JP	**100**	25
	300	225

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION *(CONTINUED)*

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Executive directors:					
Dr. Charles Yeung, SBS, JP	-	60	3,290	3	3,353
Mr. Yeung Chun Fan	-	1,731	3,544	46	5,321
Mr. Yeung Chun Ho	-	1,051	294	53	1,398
Mr. Pau Sze Kee, Jackson	-	1,694	2,785	72	4,551
Mr. Hui Chung Shing, Herman, JP	-	1,200	455	60	1,715
Ms. Cheung Wai Yee	-	660	927	33	1,620
Mr. Chan Wing Kan, Archie	-	333	-	4	337
Mr. Teo Heng Kee, Peter	-	-	-	-	-
	-	6,729	11,295	271	18,295
Non-executive director:					
Dr. Lam Lee G.	100	-	-	-	100
	100	6,729	11,295	271	18,395
2004					
Executive directors:					
Dr. Charles Yeung, SBS, JP	-	60	10	3	73
Mr. Yeung Chun Fan	-	1,716	3,390	46	5,152
Mr. Yeung Chun Ho	-	1,021	260	51	1,332
Mr. Pau Sze Kee, Jackson	-	1,631	2,495	70	4,196
Mr. Hui Chung Shing, Herman, JP	-	1,200	447	60	1,707
Ms. Cheung Wai Yee	-	618	810	31	1,459
	-	6,246	7,412	261	13,919
Non-executive director:					
Dr. Lam Lee G.	25	-	-	-	25
	25	6,246	7,412	261	13,944

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**5,531**	5,003
Discretionary bonuses	**9,503**	3,239
Pension scheme contributions	**522**	132
	15,556	8,374

The number of non-director, highest paid employees whose remuneration fell within the following bands is as set out below:

	Number of employees	
	2005	2004
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	**–**	1
HK$3,500,001-HK$4,000,000	**1**	–
HK$4,500,001-HK$5,000,000	**1**	–
HK$7,000,001-HK$7,500,000	**1**	–
	3	3

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	**21,131**	23,568
Under/(Over) provision in prior years	**1,690**	(237)
Current – Elsewhere	**60,729**	79,445
Deferred *(note 30)*	**(4,104)**	(12,580)
Total tax charge for the year	**79,446**	90,196

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX *(CONTINUED)*

A reconciliation of the tax expense applicable to profit before tax, using the statutory rate for the country in which the Company and the majority of its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the Group's effective tax rate and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate is as follows:

	Group			
	2005		2004	
	HK$'000	%	*HK$'000*	%
Profit before tax	**370,931**		362,939	
Tax at the statutory tax rate	**64,912**	**17.5**	63,514	17.5
Higher tax rates of other countries	**41,433**	**11.1**	46,241	12.8
Adjustments in respect of current tax of previous periods	**1,690**	**0.4**	(237)	(0.1)
Profit and losses attributable to jointly-controlled entities and associates	**(7,885)**	**(2.1)**	(2,889)	(0.8)
Income not subject to tax	**(20,507)**	**(5.5)**	(9,164)	(2.5)
Expenses not deductible for tax	**3,192**	**0.9**	4,935	1.4
Tax losses utilised from previous periods	**(3,686)**	**(1.0)**	(16,698)	(4.6)
Tax losses not recognised	**5,378**	**1.4**	5,419	1.5
Other	**(5,081)**	**(1.3)**	(925)	(0.3)
Tax charge at the Group's effective rate	**79,446**	**21.4**	90,196	24.9

Under the People's Republic of China (the "PRC") income tax law, companies with operations in the PRC are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income.

Sino-foreign equity joint ventures are subject to the State CIT rate of 30% and the local CIT rate at 3%. They are entitled to full exemption from such tax for the first two/three years and 50% reduction in the next three/four years, commencing from the first profitable year.

The tax rate applicable to subsidiaries established and operating in Australia is 30%. Provision for Australian income tax has been made on the estimated assessable profits arising in Australia for the year.

The share of tax attributable to jointly-controlled entities and associates amounting to HK$519,000 (2004: HK$963,000) and HK$15,051,000 (2004: HK$16,806,000), respectively, is included in "Share of profits and losses of associates and jointly – controlled entities" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$15,723,000 (2004: HK$184,641,000) (note 33).

12. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim – HK2.90 cents (2004: HK2.70 cents) per ordinary share (note 33)	**30,432**	27,016
Underaccrual of 2004 final dividends (note 33)	**265**	–
	30,697	27,016
Proposed final – HK10.90 cents (2004: HK10.50 cents) per ordinary share (note 33)	**114,382**	105,061
Proposed special – HK10.00 cents (2004: Nil) per ordinary share (note 33)	**104,938**	–
	219,320	105,061
	250,017	132,077

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(CONTINUED)*

The calculations of basic and diluted earning per share are based on:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Net profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculations	**242,809**	219,193

	Number of shares	
	2005	2004
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**1,020,029**	1,000,584
Effect of dilution – Weighted average number of ordinary shares:		
Share options	**19,660**	14,550
	1,039,689	1,015,134

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2005							
At 31 December 2004 and at 1 January 2005							
Cost or valuation	101,261	237,521	431,835	286,802	46,381	5,346	1,109,146
Accumulated depreciation and impairment	–	(142,780)	(250,615)	(187,525)	(30,870)	–	(611,790)
Net carrying amount	101,261	94,741	181,220	99,277	15,511	5,346	497,356
At 1 January 2005, net of accumulated depreciation and impairment	101,261	94,741	181,220	99,277	15,511	5,346	497,356
Additions	68,685	69,349	25,091	53,045	4,421	60,967	281,558
Disposals/write-off	(391)	(21,808)	(1,216)	(3,069)	(1,069)	–	(27,553)
Surplus on revaluation	6,101	–	–	–	–	–	6,101
Depreciation provided during the year	(4,005)	(34,314)	(43,333)	(37,900)	(4,313)	–	(123,865)
Reversal of impairment/(impairment)	–	162	31	(29)	(59)	–	105
Exchange realignment	(4,504)	(436)	(2,663)	(3,558)	(378)	–	(11,539)
At 31 December 2005, net of accumulated depreciation and impairment	167,147	107,694	159,130	107,766	14,113	66,313	622,163
At 31 December 2005:							
Cost or valuation	167,147	259,455	444,498	295,904	47,450	66,313	1,280,767
Accumulated depreciation and impairment	–	(151,761)	(285,368)	(188,138)	(33,337)	–	(658,604)
Net carrying amount	167,147	107,694	159,130	107,766	14,113	66,313	622,163
Analysis of cost or valuation:							
At cost	–	259,455	444,498	295,904	47,450	66,313	1,113,620
At valuation	167,147	–	–	–	–	–	167,147
	167,147	259,455	444,498	295,904	47,450	66,313	1,280,767

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group

	Buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 31 December 2003 and at 1 January 2004							
Cost or valuation	105,297	252,388	415,880	262,119	45,768	108	1,081,560
Accumulated depreciation and impairment	(5,330)	(165,433)	(218,302)	(169,468)	(30,895)	–	(589,428)
Net carrying amount	99,967	86,955	197,578	92,651	14,873	108	492,132
At 1 January 2004, net of accumulated depreciation and impairment	99,967	86,955	197,578	92,651	14,873	108	492,132
Additions	94	40,053	31,244	39,029	5,632	7,865	123,917
Disposals/write off	(1,346)	(1,867)	(2,682)	(3,352)	(586)	–	(9,833)
Transfers	2,142	485	–	–	–	(2,627)	–
Surplus on revaluation	2,063	–	–	–	–	–	2,063
Depreciation provided during the year	(3,682)	(30,984)	(41,093)	(31,094)	(4,786)	–	(111,639)
Reversal of impairment/(impairment)	2,027	100	(3,922)	445	256	–	(1,094)
Exchange realignment	(4)	(1)	95	1,598	122	–	1,810
At 31 December 2004, net of accumulated depreciation and impairment	101,261	94,741	181,220	99,277	15,511	5,346	497,356
At 31 December 2004:							
Cost or valuation	101,261	237,521	431,835	286,802	46,381	5,346	1,109,146
Accumulated depreciation and impairment	–	(142,780)	(250,615)	(187,525)	(30,870)	–	(611,790)
Net carrying amount	101,261	94,741	181,220	99,277	15,511	5,346	497,356
Analysis of cost or valuation:							
At cost	–	237,521	431,835	286,802	46,381	5,346	1,007,885
At valuation	101,261	–	–	–	–	–	101,261
	101,261	237,521	431,835	286,802	46,381	5,346	1,109,146

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The net book value of the Group's fixed assets held under finance leases at 31 December 2005, amounted to HK$2,771,000 (2004: HK$3,250,000).

The Group's buildings were revalued individually at balance sheet date by DTZ Debenham Tie Leung Limited, S.F. Ahmed & Co and PT Saptasentra Jasa Pradana, independent professionally qualified valuers, at an aggregate open market value of HK$167,147,000 based on their existing use. Net revaluation surplus of HK$213,000 and revaluation surplus, net of minority interests of HK$4,960,000 resulting from the above valuations, have been credited to the income statement and asset revaluation reserve, respectively.

Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$144,144,000.

The Group's buildings at valuation included above are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
Freehold	–	8,465	8,465
Long term leases	–	77,732	77,732
Medium term leases	3,000	77,950	80,950
	3,000	164,147	167,147

At 31 December 2005, certain of the Group's buildings with a net book value of HK$52,885,000 (2004: HK$2,400,000) and plant and machinery with a net book value of HK$4,722,000 (2004: HK$8,034,000), were pledged to secure banking facilities granted to the Group (note 27).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

15. INVESTMENT PROPERTY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,900**	1,650
Net profit from a fair value adjustment	**600**	250
Carrying amount at 31 December	**2,500**	1,900

The Group's investment property is situated in Hong Kong and is held under a medium term lease.

The Group's investment property was revalued on 31 December 2005 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$2,500,000 on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements. The particulars of the Group's investment property are as follows:

Location	**Use**	**Tenure**	**Percentage of attributable interest of the Group**
Workshop Nos.1, 2, 3 and 5 10th Floor, International Trade Centre No. 11 Sha Tsui Road Tsuen Wan New Territories, Hong Kong	Industrial	Medium term lease	60

NOTES TO FINANCIAL STATEMENTS

31 December 2005

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000* (Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**18,027**	18,437
As restated	**18,027**	18,437
Recognised during the year	**(409)**	(409)
Exchange realignment	**–**	(1)
Carrying amount at 31 December	**17,618**	18,027
Current portion included in prepayments, deposits and other receivables	**(409)**	(409)
Non-current portion	**17,209**	17,618

The leasehold land is held under a medium lease and is situated in Mainland China.

17. INTEREST IN A SUBSIDIARY

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**377,717**	377,717
Due from a subsidiary	**316,419**	438,182
	694,136	815,899
Impairment	**(45,000)**	(45,000)
	649,136	770,899

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount due from a subsidiary approximate to its fair value.

Particulars of the principal subsidiaries are set out in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**45,005**	46,865
Due from jointly-controlled entities	**1,804**	308
Due to jointly-controlled entities	**(16,806)**	(10,695)
	30,003	36,478
Impairment	**(8,142)**	(8,142)
	21,861	28,336

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/to jointly-controlled entities approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group* 2005	2004	Principal activities
湖北長進制衣有限公司	Corporate	Mainland China	**30**	30	Manufacturing of apparel
湖北長旭制衣有限公司	Corporate	Mainland China	**30**	30	Manufacturing of apparel
Nanjing Jiangda Clothes Co., Ltd.	Corporate	Mainland China	**45**	45	Manufacturing of apparel
Mingshi Dyeing Factory Co., Ltd.	Corporate	Mainland China	**40**	40	Provision of dyeing services
Hubei Xian Garment Mfg. Co., Ltd.	Corporate	Mainland China	**15.1**	15.1	Manufacturing of apparel

All jointly-controlled entities are held indirectly through subsidiaries.

All the above jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* *The percentages of voting power and profit sharing are the same as the percentage of equity attributable to the Group.*

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005	2004
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**62,701**	64,164
Non-current assets	**24,494**	26,536
Current liabilities	**(50,332)**	(51,977)
Net assets	**36,863**	38,723
Share of the jointly-controlled entities' results:		
Turnover	**174,467**	222,226
Other revenue	**428**	328
Total revenue	**174,895**	222,554
Total expenses	**(173,945)**	(219,797)
Tax	**(519)**	(963)
Profit after tax	**431**	1,794

NOTES TO FINANCIAL STATEMENTS

31 December 2005

19. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**117,652**	103,337
Goodwill on acquisition	**8,282**	8,282
Due from associates	**1,470**	1,170
Due to associates	**(7,682)**	(9,628)
Loan to associates	**113,479**	63,032
	233,201	166,193
Impairment	**(19,388)**	(8,282)
	213,813	157,911

The balances with associates and loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to associates and loans approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

19. INTERESTS IN ASSOCIATES *(CONTINUED)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation or registration and operations	Percentage of equity attributable to the Group 2005	2004	Principal activities
Glorious Sun Fashion Garment Mfg. Co. (Phil.) Inc.	Corporate	Philippines	**49.5**	49.5	Manufacturing of apparel
Rays Apparel (H.K.) Limited	Corporate	Hong Kong	**35**	35	Provision of agency services
Rays Apparel, Inc.	Corporate	USA	**35**	35	Import and distribution of apparel
RTG Garments Manufacturing (HK) Limited	Corporate	Hong Kong	**50**	50	Manufacturing of apparel
G.S – i.t Limited	Corporate	Hong Kong	**50**	50	Investment holding
Quiksilver Glorious Sun JV Limited	Corporate	Hong Kong	**50**	50	Retail of apparel

All associates are held indirectly through subsidiaries.

All the above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

19. INTERESTS IN ASSOCIATES *(CONTINUED)*

The Group has discontinued the recognition of its share of losses of G.S – i.t Limited and Quiksilver Glorious Sun JV Limited because the share of losses of these associates exceeded the Group's interests in these associates. The Group's unrecognised share of losses of these associates for the current year was HK$11,106,000.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts and financial statements:

	2005	2004
	HK$'000	*HK$'000*
Assets	**875,666**	809,182
Liabilities	**(640,320)**	(602,482)
Revenues	**1,184,830**	1,106,277
Profits	**89,256**	40,038

20. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**101,628**	95,765
Work in progress	**112,629**	115,262
Finished goods	**346,278**	352,179
	560,535	563,206

At 31 December 2005, the carrying amount of the Group's inventories was pledged as security for the Group's bank loans amounting to HK$86,017,000 (2004: HK$86,270,000), as further detailed in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

21. TRADE AND BILLS RECEIVABLES

The trade and bills receivables include trade receivables, net of provision for impairment, of HK$233,326,000 (2004: HK$148,958,000) and bills receivable of HK$198,324,000 (2004: HK$127,919,000). The bills receivable were aged less than four months at the balance sheet date for the year. An aged analysis of the trade receivables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Less than 4 months	**219,060**	136,485
4 – 6 months	**13,496**	9,980
Over 6 months	**770**	2,493
	233,326	148,958

The Group allows an average credit period of 45 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

At 31 December 2005, the Group had discounted bills receivable of HK$83,115,000 to the banks with recourse (the "Discounted Bills"). The Discounted Bills were included in the above bills receivable because the derecognition criteria for the financial assets were not met. Accordingly, the advances from the relevant banks received by the Group as consideration for the Discounted Bills at the balance sheet date were recognised as liabilities and included in interest-bearing bank and other borrowings (note 27).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

22. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

Name	Balance at 31 December 2005	Maximum outstanding during the year	Balance at 1 January 2005
	HK$'000	*HK$'000*	*HK$'000*
Jeanswest Corporation (New Zealand) Limited	589	14,076	14,076
G.S. Property Management Limited	197	674	583
Golden Sunshine Enterprises Limited	151	156	124
Harbour Guide Limited	29	107	107
Gloryear Management Limited	106	117	87
	1,072		14,977

All of the above companies are controlled by Dr. Charles Yeung, SBS, JP, and Mr. Yeung Chun Fan, both of whom are directors of the Company.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from related companies approximate to their fair values.

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong listed equity investment, at market value	**59,525**	–

The above equity investments at 31 December 2005 were classified as held for trading.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2005	2004	**2005**	2004
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**497,650**	523,313	**315**	855
Time deposits		**790,331**	750,336	**692,677**	596,176
		1,287,981	1,273,649	**692,992**	597,031
Less: Pledged time deposits:					
Pledged for bank overdrafts and long term bank loans facilities	27	**(21,784)**	(21,784)	**–**	–
Cash and cash equivalents		**1,266,197**	1,251,865	**692,992**	597,031

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$347,717,000 (2004: HK$363,844,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and each interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

25. TRADE AND BILLS PAYABLES

The trade and bills payables include trade payables of HK$405,466,000 (2004: HK$306,022,000). An aged analysis of the trade payables is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Less than 4 months	**391,685**	293,051
4 – 6 months	**10,597**	4,590
Over 6 months	**3,184**	8,381
	405,466	306,022

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$8,370,000 were credited to the income statement during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 28)*	5 – 13	2006	**1,381**	1,659
Bank overdrafts – unsecured	Prime – Prime+2.5	On demand	**7,388**	4,840
Bank overdrafts – secured	Prime – Prime+2.5	On demand	**3,742**	7,787
Bank loans – unsecured	HIBOR+0.875	2006	**24,272**	24,675
Bank loans – secured	HIBOR+0.5	2006	**56,169**	60,474
Advances from bank as consideration for the Discounted Bills *(note 21)*	HIBOR+0.75	2006	**83,115**	–
Trust receipt loans – secured	HIBOR+0.75	2006	**75,120**	26,605
			251,187	126,040
Non-current				
Finance lease payables *(note 28)*	5 – 13	2007 – 2009	**1,088**	2,044
Bank loans – secured	HIBOR+0.5	2007 – 2008	**4,916**	23,017
			6,004	25,061
			257,191	151,101

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

	Group	
	2005	2004
	HK$'000	*HK$'000*
Analysed into:		
Bank loans, trust receipt loans and overdrafts repayable:		
Within one year or on demand	**249,806**	124,381
In the second year	**4,878**	11,600
In the third to fifth years, inclusive	**38**	11,417
	254,722	147,398
Other borrowings repayable:		
Within one year or on demand	**1,381**	1,659
In the second year	**671**	1,152
In the third to fifth years, inclusive	**417**	892
	2,469	3,703
	257,191	151,101

Notes:

(a) Certain of the Group's bank overdrafts, trust receipt loans and bank loans are secured by:

(i) mortgages over certain of the Group's buildings which had an aggregate net carrying amount at the balance sheet date of HK$52,885,000 (2004: HK$2,400,000);

(ii) mortgages over certain of the Group's plant and machinery which had an aggregate carrying value at the balance sheet date of HK$4,722,000 (2004: HK$8,034,000);

(iii) certain bank deposits at the balance sheet date of HK$21,784,000 (2004: HK$21,784,000); and

(iv) charges over certain of the Group's inventories with an aggregate carrying amount at the balance sheet date of HK$86,017,000 (2004: HK$86,270,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

Notes: (continued)

(b) Except for a bank loan of HK$2,900,000, which is denominated in Japanese Yen, all interest-bearing bank and other borrowings are denominated in the functional currency of the entity to which they related.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**2,469**	**-**	3,703	–
Bank overdrafts – unsecured	**-**	**7,388**	–	4,840
Bank overdrafts – secured	**-**	**3,742**	–	7,787
Bank loans – unsecured	**-**	**24,272**	–	24,675
Bank loans – secured	**-**	**61,085**	–	83,491
Advances from bank as consideration for the Discounted Bills	**-**	**83,115**	–	–
Trust receipt loans – secured	**-**	**75,120**	–	26,605

NOTES TO FINANCIAL STATEMENTS

31 December 2005

28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicles for its manufacturing process and business purposes. These leases are classified as finance leases and have remaining lease terms ranging from three to five years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments**		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**1,542**	1,882	**1,381**	1,659
In the second year	**756**	1,297	**671**	1,152
In the third to fifth years, inclusive	**473**	952	**417**	892
Total minimum finance lease payments	**2,771**	4,131	**2,469**	3,703
Future finance charges	**(302)**	(428)		
Total net finance lease payables	**2,469**	3,703		
Portion classified as current liabilities (*note 27*)	**(1,381)**	(1,659)		
Non-current portion (*note 27*)	**1,088**	2,044		

29. LONG TERM LOANS FROM MINORITY SHAREHOLDERS

The long term loans from minority shareholders are unsecured, interest-free and are repayable beyond one year. The carrying amounts of long term loans from minority shareholders approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profit 2005 HK$'000	2004 HK$'000
At 1 January 2005	**11,887**	–
Deferred tax credited to the income statement during the year *(note 10)*	**3,484**	11,887
Exchange differences	**(846)**	–
Gross deferred tax assets at 31 December 2005	**14,525**	11,887

Deferred tax liabilities

Group

	Accelerated tax depreciation 2005 HK$'000	2004 HK$'000
At 1 January 2005	**1,057**	1,750
Deferred tax credited to the income statement during the year *(note 10)*	**(620)**	(693)
Exchange differences	**(26)**	–
Gross deferred tax liabilities at 31 December 2005	**411**	1,057
Net deferred tax assets at 31 December 2005	**14,114**	10,830

NOTES TO FINANCIAL STATEMENTS

31 December 2005

30. DEFERRED TAX *(CONTINUED)*

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$5,384,000 (2004: HK$10,132,000) have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

Shares

	Number of ordinary shares		Company	
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**6,000,000**	6,000,000	**600,000**	600,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each	**1,049,376**	1,000,584	**104,938**	100,058

During the year, the subscription rights attaching to 40,434,000, 5,708,000 and 2,650,000 share options were exercised at the subscription price of HK$1.800, HK$2.564 and HK$2.876 per share, respectively (note 32), resulting in the issue of 48,792,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$95,039,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

31. SHARE CAPITAL *(CONTINUED)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
	'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004 and at 1 January 2005	1,000,584	100,058	268,668	368,726
Share options exercised	48,792	4,880	90,159	95,039
	1,049,376	104,938	358,827	463,765
Share issued expenses	–	–	(18)	(18)
At 31 December 2005	1,049,376	104,938	358,809	463,747

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements below.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. SHARE OPTION SCHEME

On 1 September 2005, the shareholders of the Company approved the termination (to the effect that the Company can no longer grant any further options) of the share option scheme adopted by the Company on 2 September 1996 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"). All options granted and outstanding prior to the termination of the Old Scheme will remain in full force and effect.

(a) Old Scheme

The Old Scheme was adopted by the Company on 2 September 1996. The purpose of the Old Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme include the executive directors and other full-time employees of the Group.

Share options under the Old Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. SHARE OPTION SCHEME *(CONTINUED)*

(a) Old Scheme *(continued)*

The following share options were outstanding under the Old Scheme during the year:

Name or category of participant	Number of shares subject to options: At 1 January 2005 '000	During the year: Exercised '000	During the year: Lapsed '000	During the year: Cancelled '000	At 31 December 2005 '000	Share options: Date of grant *	Share options: Subscription price** HK$	Share options: Exercised period	Price of Company's share***: Immediately before the exercise date HK$	Price of Company's share***: At exercise date of share options HK$
Directors										
Mr. Yeung Chun Fan	5,940	(5,940)	-	-	-	31/10/1997	1.800	31/10/1997 to 30/10/2007	3.418	3.424
Mr. Yeung Chun Ho	10,000	(10,000)	-	-	-	31/10/1997	1.800	31/10/1997 to 30/10/2007	3.418	3.424
Mr. Pau Sze Kee, Jackson	2,962	(2,962)	-	-	-	30/08/1997	2.564	16/09/1997 to 29/08/2007	3.418	3.424
	7,000	(7,000)	-	-	-	31/10/1997	1.800	31/10/1997 to 30/10/2007	3.418	3.424
Mr. Hui Chung Shing, Herman, JP	10,000	(10,000)	-	-	-	31/10/1997	1.800	31/10/1997 to 30/10/2007	3.418	3.424
Ms. Cheung Wai Yee	2,404	(2,404)	-	-	-	30/08/1997	2.564	16/09/1997 to 29/08/2007	3.418	3.424
	7,494	(7,494)	-	-	-	31/10/1997	1.800	31/10/1997 to 30/10/2007	3.418	3.424
	45,800	(45,800)	-	-	-					
Other employees in aggregate										
	10,450	(2,650)	-	-	**7,800**	16/06/1997	2.876	15/06/2000 to 14/06/2007	3.427	3.435
	13,188	(342)	(30)	-	**12,816**	30/08/1997	2.564	16/09/1997 to 29/08/2007	3.424	3.433
	6,656	-	-	-	**6,656**	31/10/1997	1.800	31/10/1997 to 30/10/2007	-	-
	30,294	(2,992)	(30)	-	**27,272**					
	76,094	(48,792)	(30)	-	**27,272**					

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. SHARE OPTION SCHEME *(CONTINUED)*

(a) Old Scheme *(continued)*

Notes to the reconciliation of share options under the Old Scheme outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised.

The 48,792,000 share options exercised during the year resulted in the issue of 48,792,000 ordinary shares of the Company and new share capital of HK$4,880,000 and share premium of HK$90,159,000 (before issue expenses), as further detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 27,272,000 share options outstanding under the Old Scheme, which represented approximately 2.60% of the Company's shares in issue as at that date. The exercise in full of all outstanding share options would, under the present capital structure of the Company, result in the issue of 27,272,000 additional shares of HK$0.10 each and proceeds of approximately HK$67,274,000.

No theoretical value of share option is disclosed as no share options were granted during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

32. SHARE OPTION SCHEME *(CONTINUED)*

(b) New Scheme

The New Scheme was adopted by the Company on 1 September 2005, unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from the date of adoption.

The purpose of the New Share Option Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted must not in aggregate exceed 10% of the shares in issue at the date of approval of the New Scheme. The maximum number of shares issuable under share options to each eligible participant in the New Scheme in any 12-month period is limited to 1% of the ordinary shares of the Company in issue.

The subscription price of the share options is determinable by the board of directors, but shall not be less than whichever is the higher of (i) the closing price of the ordinary shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing prices of the ordinary shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of an ordinary share of the Company.

During the year, no share options were granted or exercised under the New Scheme. Therefore, no theoretical value of share option is disclosed.

NOTES TO FINANCIAL STATEMENTS

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33. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve (note i) HK$'000	Non-distributable reserves (note ii) HK$'000	Retained profits (note ii) HK$'000	Total HK$'000	Minority interest HK$'000
At 1 January 2004									
As previously reported		268,668	115,551	14,099	(26,300)	5,566	790,314	1,167,898	183,531
Prior year adjustment	2.4	-	-	(319)	(1)	-	(281)	(601)	328
As restated		268,668	115,551	13,780	(26,301)	5,566	790,033	1,167,297	183,859
Net surplus on revaluation (restated)		-	-	3,024	-	-	-	3,024	1,723
Exchange realignment on translation overseas subsidiaries, jointly-controlled entities and associates		-	-	-	7,697	-	-	7,697	(693)
Transfer from retained profits		-	-	-	-	78	(78)	-	-
Capital contributed by a minority shareholder		-	-	-	-	-	-	-	496
Dividends paid to minority shareholders		-	-	-	-	-	-	-	(89,821)
Share of non-distributable reserves of jointly-controlled entities		-	-	-	-	298	(298)	-	-
Revaluation reserve released on disposal		-	-	(603)	-	-	603	-	-
Net profit for the year (restated)		-	-	-	-	-	219,193	219,193	53,550
Interim 2004 dividend	12	-	-	-	-	-	(27,016)	(27,016)	-
Proposed final 2004 dividend	12	-	-	-	-	-	(105,061)	(105,061)	-
At 31 December 2004		268,668	115,551	16,201	(18,604)	5,942	877,376	1,265,134	149,114

NOTES TO FINANCIAL STATEMENTS

31 December 2005

33. RESERVES *(CONTINUED)*

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve (note i) HK$'000	Non-distributable reserves (note ii) HK$'000	Retained profits (note ii) HK$'000	Total HK$'000	Minority interest HK$'000
At 1 January 2005									
As previously reported		268,668	115,551	17,844	(18,603)	5,942	878,539	1,267,941	149,890
Prior year adjustment	2.4	-	-	(1,643)	(1)	-	(1,163)	(2,807)	(776)
As restated		268,668	115,551	16,201	(18,604)	5,942	877,376	1,265,134	149,114
Net surplus on revaluation	14	-	-	4,960	-	-	-	4,960	851
Exchange realignment on translation of overseas subsidiaries, jointly-controlled entities and associates		-	-	-	(14,147)	-	-	(14,147)	919
Transfer from retained profits		-	-	-	-	465	(465)	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	(49,887)
Revaluation reserve released on disposal		-	-	(17)	-	-	17	-	17
Net profit for the year		-	-	-	-	-	242,809	242,809	48,676
Issue of shares	31	90,159	-	-	-	-	-	90,159	-
Share issue expenses	31	(18)	-	-	-	-	-	(18)	-
Underaccrual of 2004 final dividend	12	-	-	-	-	-	(265)	(265)	-
Interim 2005 dividend	12	-	-	-	-	-	(30,432)	(30,432)	-
Proposed final 2005 dividend	12	-	-	-	-	-	(114,382)	(114,382)	-
Proposed special 2005 dividend	12	-	-	-	-	-	(104,938)	(104,938)	-
At 31 December 2005		358,809	115,551	21,144	(32,751)	6,407	869,720	1,338,880	149,690

NOTES TO FINANCIAL STATEMENTS

31 December 2005

33. RESERVES *(CONTINUED)*

As detailed in note 2.2 (e) to the financial statements, on the adoption of HKFRS 3, the Group applied the transitional provision of HKFRS 3 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the HKFRS, to remain eliminated against or credited to the retained profits. The amounts of the goodwill and negative goodwill remaining in the retained profits as at 31 December 2005, arising from the acquisition of subsidiaries, jointly-controlled entities and associates prior to the adoption of HKFRS 3, were HK$2,429,000 (2004: HK$2,429,000) and HK$7,145,000 (2004: HK$8,971,000), respectively.

Notes:

(i) Included in the exchange fluctuation reserve is an amount of HK$15,386,000 (2004: exchange gains of HK$34,411,000), representing the exchange gains arising on the translation of loans to overseas subsidiaries that are not repayable in the foreseeable future and, in the opinion of the directors, are part of the Company's net investments in the subsidiaries.

(ii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries and jointly-controlled entities in Mainland China has been transferred to reserve funds, which are restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

33. RESERVES *(CONTINUED)*

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004		268,668	377,567	464,325	1,110,560
Net profit for the year	11	–	–	184,641	184,641
Interim 2004 dividend	12	–	–	(27,016)	(27,016)
Proposed final 2004 dividend	12	–	–	(105,061)	(105,061)
At 31 December 2004 and 1 January 2005		268,668	377,567	516,889	1,163,124
Issue of shares	31	90,159	–	–	90,159
Share issue expenses	31	(18)	–	–	(18)
Net profit for the year	11	–	–	15,723	15,723
Underaccrual of 2004 final dividend	12	–	–	(265)	(265)
Interim 2005 dividend	12	–	–	(30,432)	(30,432)
Proposed final 2005 dividend	12	–	–	(114,382)	(114,382)
Proposed special 2005 dividend	12	–	–	(104,938)	(104,938)
At 31 December 2005		358,809	377,567	282,595	1,018,971

The Group's contributed surplus represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in 1996.

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$596,000 (2004: HK$397,000).

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank guarantees provided for facilities granted to subsidiaries	**–**	–	**1,079,860**	913,570
Extent of the guaranteed facilities utilised by subsidiaries	**–**	–	**27,062**	42,592
Bills discounted with recourse	**–**	104,086	**–**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2005

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15 to the financial statements) under an operating lease arrangement, with the lease negotiated for a term of two years. The terms of the lease generally also require the tenants to pay security deposits.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**119**	204
In the second to fifth years, inclusive	**–**	119
	119	323

(b) As lessee

The Group leases certain of its plant and machinery, retail stores and office properties under operating lease arrangements, with leases negotiated for terms ranging from three to six years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**291,311**	279,282
In the second to fifth years, inclusive	**554,700**	513,501
After five years	**174,446**	184,345
	1,020,457	977,128

NOTES TO FINANCIAL STATEMENTS

31 December 2005

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Construction in progress	**27,284**	47,781
Capital contributions payable to associates	**–**	12,900
	27,284	60,681
Authorised, but not contracted for:		
Construction in progress	**35,774**	49,213
Capital contributions payable to associates	**12,900**	30,500
	48,674	79,713
	75,958	140,394

(b) Others

	Group	
	2005	2004
	HK$'000	*HK$'000*
Forward foreign exchange contracts	**–**	4,848

At the balance sheet date, the Company had no significant commitment.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

38. RELATED PARTY TRANSACTIONS

(a) In addition to the connected transactions disclosed in the report of the directors, which were also related party transactions, the Group had the following material transactions with related parties during the year:

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Purchases of raw materials from jointly-controlled entities	*(i)*	**172**	583
Processing charges paid to jointly-controlled entities	*(ii)*	**63,449**	112,789
Processing charges paid to an associate	*(ii)*	**33,045**	43,056
Management fee paid to an associate	*(iii)*	**5,968**	5,968
Sales of good to associates	*(iv)*	**293**	–

Notes:

(i) The directors consider that purchases of raw materials were made according to terms and conditions comparable to those offered to other customers of the jointly-controlled entities.

(ii) The processing charges were calculated at the costs incurred by the jointly-controlled entities and associates plus a mark-up agreed between the parties.

(iii) The management fee was based on direct costs incurred, plus mark-up agreed between the parties.

(iv) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group.

(b) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding receivables from its related companies of HK$1,072,000 (2004: HK$14,977,000), as at the balance sheet date. The receivables are unsecured, interest-free and have no fixed terms of repayment.

(ii) Details of the Group's loans to and due from/to its associates as at the balance sheet date are included in note 19 to the financial statements, and details of the Group's amounts due from/to its jointly-controlled entities are included in note 18 to the financial statements.

(iii) Details of the Group's long term loans from its minority shareholders are included in note 29 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

38. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Compensation of key management personnel of the Group:

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**37,088**	29,005
Post-employment benefit	**821**	606
Total compensation paid to key management personnel	**37,909**	29,611

Further details of directors' emoluments are included in note 8 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken to enhance the yield from idle fund. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily to the Group's long term debts obligation with a floating interest rate.

As the Group's long-term debts obligation is not significant, the group does not anticipate significant impact under this type of risks. The Group's policy is to manage its interest cost under variable rate debts.

(b) Foreign currency risk

The Group manages its foreign currency risk with trading policies and close monitoring of adherence to such policies. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group's functional currencies consist of Hong Kong dollars, RMB, and Australian dollars. As Hong Kong dollars are pegged to United States dollar, the Company does not anticipate significant movement in the exchange rates except those relating to Australian dollars. Approximately 20%. (2004: 22%) of the Group's sales are denominated in Australian dollars while almost 24% (2400: 28%) of the related costs are denominated in United States dollars. The Groups enters into forward contracts to hedge the foreign currency risk.

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is to match the maturity of borrowings with expected cash inflow from the relevant assets acquired to ensure proper funding.

(e) Fair values

As at 31 December 2005, the carrying amounts of the Group's financial assets and liabilities approximate to their fair values.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Glorious Sun Enterprises (BVI) Limited*	British Virgin Islands/ Hong Kong	US$200	**100**	100	Investment holding
Jeanswest (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Jeanswest International (L) Limited	Malaysia/ Hong Kong	US$1	**100**	100	Investment holding
Glorious Sun Licensing (L) Limited	Malaysia/ Hong Kong	US$1	**100**	100	Holding of trademarks
Jeanswest Investments (Australia) Pty. Ltd.	Australia	A$12,002,202	**100**	100	Investment holding
Jeanswest Wholesale Pty. Ltd.	Australia	A$2	**100**	100	Trading of apparel
Jeanswest Corporation Pty. Ltd.	Australia	A$11,000,000 Ordinary A$1,000,000 A class shares	**100**	100	Retail of apparel in Australia
Renher Pty. Ltd.	Australia	A$2,200 Ordinary	**100**	100	Provision of shop leasing services in Australia
Jeanswest International (H.K.) Limited	Hong Kong/ Mainland China	HK$10,000,000 Ordinary	**100**	100	Retail of apparel in Mainland China
Advancetex Investment Limited	Hong Kong/ Mainland China	HK$10,000,000 Ordinary	**100**	100	Retail of apparel in Mainland China

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31 December 2005

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group		Principal activities
			2005	2004	
Glorious Sun Industries (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
The Glorious Sun Fashion Garment Manufactory (H.K.) Limited	Hong Kong	HK$2,600,000 Ordinary	**100**	100	Trading and manufacturing of apparel and provision of management services
Pacific Potential Trading Company Limited	Hong Kong	HK$200,000 Ordinary	**100**	100	Provision of agency services
Advancetex International Trading (HK) Company Limited	Hong Kong	HK$6,000,000 Ordinary	**100**	100	Trading and production of apparel
Parkent Industries Limited	Hong Kong	HK$600,000 Ordinary	**100**	100	Import and export of apparel
Gold Treasure Investment Limited	Hong Kong	HK$2 Ordinary	**100**	100	Provision of production management services
Advancetex Fashion Garment Mfy. (Hui Zhou) Limited**	Mainland China	US$8,128,000 paid up to US$6,128,000	**100**	100	Manufacturing of apparel
新東江服飾(惠州)有限公司**	Mainland China	US$4,923,000	**100**	100	Manufacturing and trading of apparel

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31 December 2005

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Glorious Sunshine Textiles Company Limited	Hong Kong	HK$10,000,000 Ordinary	**100**	100	Import and distribution of textile products
Sparrow Apparels Limited#	Bangladesh	Tk10,000,000 Ordinary	**70**	70	Manufacturing of apparel
Gennon Industries Limited	Hong Kong	HK$10,000 Ordinary	**100**	100	Investment holding
大進貿易(惠州)有限公司**	Mainland China	HK$500,000	**100**	–	Trading of apparel
Chapman International Macao Commercial Offshore Limited	Macau	MOP100,000	**50.4**	50.4	Trading of apparel
Main Pui Investments Limited	Hong Kong	HK$1,460,000 Ordinary	**50.4**	50.4	Property holding and provision of management services
Recent Garments and Knitting Industries Ltd.#	Bangladesh	Tk100,000 Ordinary	**35.3##**	35.3	Manufacturing of apparel
Shamoli Garments Limited#	Bangladesh	Tk10,000,000 Ordinary	**35.3##**	35.3	Manufacturing of apparel
P.T. Crownfund Garment Factory #	Indonesia	US$1,000,000	**47.9##**	47.9	Manufacturing of apparel
Gennon (Cambodia) Garment Manufacturing Ltd.#	Cambodia	US$500,000 Ordinary	**50.4**	50.4	Manufacturing of apparel
惠州新安制衣有限公司***	Mainland China	HK$5,000,000	**48.4##**	48.4	Manufacturing of apparel

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31 December 2005

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Dongguan Ming Hoi Dyeing & Finishing Factory Co., Ltd.**	Mainland China	HK$147,660,000 paid up to HK$121,043,763	**50.4##**	50.4	Provision of dyeing and knitting services
Recent Sweaters Limited#	Bangladesh	Tk200,000 Ordinary	**35.3##**	35.3	Manufacturing of apparel
Rays The Glorious Investment (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Full Yuen Investments Limited	Hong Kong	HK$2 Ordinary	**100**	100	Investment holding
Shijiazhuang Changhong Building Decoration Engineering Co., Ltd.***	Mainland China	US$2,100,000	**65**	65	Provision of interior decoration and renovation services
Taizhou Famebish Apparel Co. Ltd. ***	Mainland China	US$100,000	**60**	60	Manufacturing of apparel

* *Directly held by the Company.*

** *Registered as wholly-foreign owned enterprises under the PRC law.*

*** *Registered as sino-foreign equity joint ventures under the PRC law.*

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Subsidiaries of a non wholly-owned subsidiary of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

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41. POST BALANCE SHEET EVENT

On 7 April 2006, Jeanswest International (L) Limited, a wholly owned subsidiary of the Company entered into an acquisition agreement with Dr. Charles Yeung, SBS, JP, and Mr. Yeung Chun Fan, directors of the Company, for the acquisition of the entire equity interest of Goldpromise Limited and related shareholders' loans for a total consideration of US$10,180,000. The completion of the transaction is conditional, upon the Company obtaining independent shareholders' approvals required the Listing Rules on or before 26 May 2006 and there being no material adverse change to the business, financial condition or results of operations of Goldpromise Limited and its subsidiaries until completion. Details of the connected transaction have been included in an announcement of the Company dated 7 April 2006.

42. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2006.