NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") together with its subsidiaries (collectively, the "Group") is principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistics services. During the year, the Group acquired 71% equity interest in Partner Joy Group Limited, a manufacturer and trader of sweaters.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of United States dollars (US$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 April 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

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

The consolidated financial statements of the Group for the year ended 31 December 2004 are prepared using the merger accounting as permitted by the Statement of Standard Accounting Practice ("SSAP") Number 27 "Accounting for the Group Reconstructions" as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
HKAS-Int 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, HKAS-Ints 15, 25 and 27 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates, jointly controlled entities and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Ints 15, 25 and 27 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

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

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

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. On 1 January 2005, the long-term investment amounting to approximately US$1,648,000 was reclassified as available-for-sale financial assets.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group is required to expense the cost of share options in the income statement. The change in the accounting policy does not have any material effect on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight line basis over a period of 10 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2.7):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 amounting to approximately US$1,124,000 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for Investments in Securities" to long-term investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

– HKFRS 2 – retrospective application is only required for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively applied after 1 January 2005.

The Group has not early adopted the following new standards or interpretations that have been issued and not yet effective, which are relevant to the operations of the Group. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 and HKFRS 4 (Amendment)	Transition and Initial Recognition of Financial Liabilities and Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease

2.2 Consolidation

(a) *Subsidiaries*

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.7).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

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

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

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognized at cost.

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

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

(c) *Joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) *Transactions with minority interest*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in income statement, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

2.5 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

Buildings	5%
Leasehold improvements	6.7% – 20% or over the unexpired period of the lease, whichever is shorter
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	20% – $33\frac{1}{3}$%
Motor vehicles	20% – $33\frac{1}{3}$%

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2.8).

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

2.6 Construction-in-progress

Construction-in-progress represents buildings, plants and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance such assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in note 2.5 in this Section.

2.7 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in "intangible assets". Goodwill on acquisitions of associates is included in "interests in associated companies". Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(a) *Goodwill (continued)*

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

(b) *Other intangible asset*

Other intangible asset representing customer relationship which has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of other intangible asset over its estimated useful life of 14 years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as long-term investments.

Long-term investments are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value.

The impairment loss is recognized as an expense in the consolidated income statement. This impairment loss is written back to the consolidated income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (note 2.11).

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial Assets (continued)

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other income, net", in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivable

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings under current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Borrowings

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

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

2.15 Deferred income tax

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

2.16 Employee benefits

(a) *Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(a) Pension obligations (continued)

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are recognized in the income statement over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Share based compensation

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

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

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of returns and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(i) *Sale of goods*

Sale of goods is recognized when products have been delivered to its customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) *Freight forwarding and logistics services income*

Freight forwarding and logistics services income are recognized when services are rendered.

(iii) *Interest income*

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

(iv) *Rental income*

Rental income is recognized on a straight-line basis over the lease period.

(v) *Management and commission income*

Management and commission income are recognized when services are rendered.

2.19 Operating leases

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

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to currency risk, interest rate risk, credit risk and liquidity risk.

(a) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Most of the Group's operating activities are denominated in US dollars and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts to reduce foreign exchange risk.

(b) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from bank borrowings. As at 31 December 2005, borrowings were primarily at floating rates. The Group generally has not used interest rate swaps to hedge its exposure to interest rate risk.

(c) Credit risk

The carrying amount of trade receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivable has been made.

(d) Liquidity risk

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimated impairment of goodwill

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill by comparing its recoverable amount to its carrying amount as at 31 December 2005. The Group has conducted a valuation of the goodwill based on value-in-use calculation. The resulting values of the goodwill as at 31 December 2005 were higher than their carrying amounts. This valuation uses cash flow projections based on financial estimates covering a three-year to five-year periods, expected gross margin of 10% to 18.3% and a discount rate of 14%. The cash flows beyond the three-year/five-year periods are extrapolated using a steady 2% growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. The Directors have considered the above assumptions and valuation and also taken into account the business expansion plan going forward. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

(b) Income taxes

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

In prior years, certain overseas subsidiaries had made provisions for tax liabilities based on their estimated taxable profits arising from their respective operating countries outside Hong Kong. The Directors have undertaken a review of the Group's tax provisions as at 31 December 2005 and have determined that a provision for tax of US$3,338,000 would no longer be required and should be derecognized. Consequently, the amount of US$3,338,000 was taken to the consolidated income statement for the year ended 31 December 2005.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

(a) Analysis of turnover and revenues

The Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistics services. Revenues recognized during the year are as follows:

	2005 **US$'000**	2004 US$'000
Turnover –		
Sales of garment and textile products to		
– third parties	**565,436**	537,933
– a jointly controlled entity *(note 33)*	**12,926**	3,465
Provision of freight forwarding and logistic services to		
– third parties	**10,574**	10,659
– related companies and a jointly controlled entity *(note 33)*	**1,298**	1,414
Provision of system consultancy services	**–**	295
	590,234	553,766
Other revenues –		
Interest income on bank deposits	**1,980**	671
Management fee income from		
– third parties	**–**	189
– related companies, a jointly controlled entity and an associated company *(note 33)*	**594**	540
Rental income from a related company and a jointly controlled entity *(note 33)*	**176**	144
Commission income from a related company and an associated company *(note 33)*	**998**	1,005
Others	**70**	94
	3,818	2,643
Total revenues	**594,052**	556,409

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information

(i) Primary reporting format – business segments

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

	Garment	Freight forwarding/ logistics services	Group
	US$'000	US$'000	US$'000
Total gross segment sales	578,362	14,692	593,054
Inter-segment sales	–	(2,820)	(2,820)
	578,362	11,872	590,234
Operating profit	21,127	1,928	23,055
Finance costs	(3,474)	–	(3,474)
Share of loss of associated companies	–	(1,891)	(1,891)
Share of loss of jointly controlled entities	(257)	–	(257)
Profit before taxation			17,433
Taxation	(2,936)	3	(2,933)
Profit for the year			14,500
Minority interest	(1,247)	(13)	(1,260)
Profit attributable to the equity holders of the Company			13,240

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(i) *Primary reporting format – business segments (continued)*

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

	Garment US$'000	Freight forwarding/ logistics services US$'000	System consultancy US$'000	Group US$'000
Total gross segment sales	541,398	16,731	1,114	559,243
Inter-segment sales	–	(4,658)	(819)	(5,477)
	541,398	12,073	295	553,766
Operating profit	32,861	5,440	62	38,363
Finance costs	(1,432)	–	–	(1,432)
Share of profit of associated companies	2	527	–	529
Share of loss of jointly controlled entities	(847)	–	–	(847)
Profit before taxation				36,613
Taxation	(5,529)	(676)	–	(6,205)
Profit for the year				30,408
Minority interest	–	(47)	–	(47)
Profit attributable to the equity holders of the Company				30,361

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(i) Primary reporting format – business segments (continued)

Other segment terms included in the consolidated income statement are as follows:

	Year ended 31 December 2005				Year ended 31 December 2004			
	Garment US$'000	**Freight forwarding/ logistics services US$'000**	**System consultancy US$'000**	**Total US$'000**	Garment US$'000	Freight forwarding/ logistics services US$'000	System consultancy US$'000	Total US$'000
Depreciation *(note 14)*	**10,690**	**542**	**–**	**11,232**	8,882	553	167	9,602
Amortisation *(notes 13 & 15)*	**572**	**–**	**–**	**572**	486	–	–	486
Impairment of trade receivable	**66**	**22**	**–**	**88**	815	44	–	859
(Write-back of)/provision for inventory obsolescence	**(980)**	**–**	**–**	**(980)**	428	–	–	428

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

	Garment US$'000	**Freight forwarding/ logistics services** US$'000	**Group total** US$'000
Assets	388,192	24,437	412,629
Associated companies	8	223	231
Jointly controlled entities	2,560	–	2,560
Total assets	390,760	24,660	415,420
Liabilities	181,112	10,304	191,416
Capital expenditure *(notes 13, 14 and 15)*	43,486	1,033	44,519

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(i) Primary reporting format – business segments (continued)

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

	Garment	Freight forwarding/ logistics services	System consultancy	Group
	US$'000	US$'000	US$'000	US$'000
Assets	329,772	20,447	–	350,219
Associated companies	9	2,679	–	2,688
Jointly controlled entities	852	–	–	852
Total assets	330,633	23,126	–	353,759
Liabilities	169,511	9,722	–	179,233
Capital expenditure *(notes 13, 14 and 15)*	33,368	1,090	60	34,518

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

Segment liabilities comprise operating liabilities, taxation and corporate borrowings.

Capital expenditure comprises additions to leasehold land and land use rights (note 13), property, plant and equipment (note 14), and intangible assets (note 15), including additions resulting from acquisitions through business combinations (notes 13, 14, 15 and 32).

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(ii) Secondary reporting format – geographical segments

The Group's revenue is mainly derived from customers located in the United States of America (the "United States" or "USA"), Asia and Europe, while the Group's business activities are conducted predominantly in Hong Kong, the People's Republic of China (the "PRC"), Commonwealth of Northern Mariana Islands, the Philippines and the United States.

Sales

	2005 **US$'000**	2004 US$'000
The United States	**427,602**	411,662
Europe	**64,117**	47,349
Commonwealth of Northern Mariana Islands	**8,281**	7,907
Japan	**50,557**	45,039
Canada	**3,814**	4,870
Hong Kong	**4,446**	3,017
Korea	**3,866**	3,982
The Philippines	**1,692**	1,544
Australia	**2,362**	1,662
Mexico	**2,670**	1,381
Others	**20,827**	25,353
	590,234	553,766

Sales are allocated based on the places/countries in which the customers are located.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(ii) Secondary reporting format – geographical segments (continued)

Total assets

	2005 **US$'000**	2004 US$'000
The United States	**37,483**	44,236
The PRC	**87,402**	71,396
Hong Kong	**206,998**	149,261
The Philippines	**37,784**	42,014
Commonwealth of Northern Mariana Islands	**23,772**	33,238
Others	**19,190**	10,074
	412,629	350,219
Interests in associated companies	**231**	2,688
Interests in jointly controlled entities	**2,560**	852
	415,420	353,759

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

Capital expenditures

	2005 **US$'000**	2004 US$'000
The United States	**111**	146
The PRC	**20,462**	23,663
Hong Kong	**20,778**	2,693
The Philippines	**1,760**	4,918
Commonwealth of Northern Mariana Islands	**881**	2,146
Mexico	**–**	103
Others	**527**	849
	44,519	34,518

Capital expenditure is allocated based on where the assets are located.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analyzed as follows:

	2005	2004
	US$'000	US$'000
Exchange gains, net	**–**	(677)
Write-back of other payables *(note a)*	**(5,407)**	–
Write-back of provision for inventory obsolescence	**(980)**	–
Auditors' remuneration	**689**	633
Amortization of leasehold land and land use rights	**82**	24
Amortization of goodwill (included in general and administrative expenses)	**–**	462
Amortization of other intangible asset (included in general and administrative expenses)	**490**	–
Depreciation of property, plant and equipment	**11,232**	9,602
Provision for claims	**2,173**	3,725
Exchange losses, net	**638**	–
Loss on disposal of property, plant and equipment, net	**426**	214
Operating leases		
– office premises and warehouses	**4,222**	4,467
– plant and machinery	**156**	161
Provision for impairment of receivables	**88**	859
Provision for inventory obsolescence	**–**	428
Quota expenses	**231**	8,382
Employee benefit expenses *(note 12)*	**113,985**	112,612

(a) In prior years, the Group had made provision of approximately US$5,407,000 for certain expenses. As at 31 December 2005, the Directors have undertaken an updated review and have determined that the provision of such payment of expenses of approximately US$5,407,000 would no longer be required and should be derecognised. Consequently, the amount of approximately US$5,407,000 was taken to the consolidated income statement for year ended 31 December 2005.

7 FINANCE COSTS

	2005 **US$'000**	2004 US$'000
Interest expense on bank loans and overdrafts	**3,474**	1,432

8 TAXATION

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

	2005 **US$'000**	2004 US$'000 (As restated)
Current taxation:		
– Hong Kong profits tax	**742**	913
– Overseas taxation	**5,102**	7,753
Over-provision in prior years	**(3,338)**	(1,994)
Deferred taxation relating to the origination and reversal of temporary differences *(note 21)*	**427**	(467)
	2,933	6,205

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 **US$'000**	2004 US$'000
Profit before taxation	**17,433**	36,613
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**3,051**	6,407
Effect of different taxation rates in other countries	**3,090**	2,801
Income not subject to tax	**(1,991)**	(2,057)
Expenses not deductible for taxation purposes	**871**	774
Tax losses for which no deferred income tax asset was recognized	**1,284**	952
Utilization of previously unrecognized tax lossess	**(34)**	(678)
Over-provision in prior years	**(3,338)**	(1,994)
Tax expense	**2,933**	6,205

9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately US$4,459,000 (2004: US$5,991,000).

10 EARNINGS PER SHARE

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

	2005 US$'000	2004 US$'000
Profit attributable to equity holders of the Company	**13,240**	30,361
Weighted average number of ordinary shares in issue	**983,356,000**	780,117,000
Basic earnings per share (US cents per share)	**1.3**	3.9

There was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

11 DIVIDENDS

A final dividend in respect of 2005 of US0.156 cent per share, amounting to a total dividend of approximately US$1,548,000 is to be proposed at the Annual General Meeting on 26 May 2006. These financial statements do not reflect this dividend payable.

	2005 US$'000	2004 US$'000
Dividend paid by the subsidiaries to their then shareholders before the Reorganisation *(note a)*	**–**	7,400
Interim dividend paid of US0.244 cent (2004: nil) per ordinary share	**2,422**	–
Proposed final dividend of US0.156 cent (2004: US0.52 cent) per ordinary share	**1,548**	5,161
	3,970	12,561

(a) During 2004 and prior to the completion of the Initial Public Offering reorganisation ("the Reorganisation"), certain wholly-owned subsidiaries of the Company declared dividends of approximately US$7,400,000 to their then shareholders. As part of the Reorganisation, such amounts were capitalized by the then shareholders.

The rates of dividend and the number of shares ranking for dividends paid by the subsidiaries to their then shareholders before the Reorganisation are not presented as such information is not meaningful having regard to the purpose of these financial statements.

12 EMPLOYEE BENEFIT EXPENSES – INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses during the year are as follows:

	2005	2004
	US$'000	US$'000
Wages, salaries and allowances	**110,282**	108,378
Unutilized annual leave	**13**	461
Termination benefits	**502**	679
Pension costs		
– Defined contribution plans *(note 27(a))*	**603**	669
– Defined benefit plans *(note 27(b))*	**523**	388
– Long service payments *(note 27(c))*	**74**	57
Others	**1,988**	1,980
	113,985	112,612

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

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

Name of Director	**Fees**	**Salary**	**Discretionary bonuses**	**Employer's contribution to pension scheme**	**Total**
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors					
Mr. Tan Siu Lin	–	128	–	–	128
Mr. Tan Henry	–	331	–	2	333
Mr. Tan Willie	–	321	–	–	321
Mr. Tan Cho Lung, Raymond	–	240	19	2	261
Ms. Mok Siu Wan, Anne *(note (ii))*	–	433	300	2	735
Independent non-executive Directors					
Mr. Chan Henry	13	–	–	–	13
Mr. Cheung Siu Kee	13	–	–	–	13
Mr. Seing Nea Yie	13	–	–	–	13
Mr. Fok Kwan Wing *(deceased on 21 January 2005)*	1	–	–	–	1

12 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Directors' and senior management (continued)

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

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors					
Mr. Tan Siu Lin	–	124	7	–	131
Mr. Tan Henry	–	287	23	2	312
Mr. Tan Willie	–	281	4	2	287
Mr. Tan Cho Lung, Raymond	–	204	21	2	227
Ms. Mok Siu Wan, Anne *(note (i))*	–	384	–	2	386
Independent non-executive Directors					
Mr. Chan Henry	9	–	–	–	9
Mr. Cheung Siu Kee	9	–	–	–	9
Mr. Seing Nea Yie *(note (i))*	–	–	–	–	–
Mr. Fok Kwan Wing *(deceased on 21 January 2005)*	9	–	–	–	9

(i) Ms. Mok Siu Wan, Anne and Mr. Seing Nea Yie were appointed as an executive Director and independent non-executive Director respectively in 2005. Their 2004 remuneration information is presented for comparative purpose.

(ii) Ms. Mok Siu Wan, Anne's 2005 remuneration disclosed on page 82 included the remuneration paid and payable to her prior to her appointment as a Director in the same year.

None of the Directors of the Company waived any emoluments paid by the group companies during the year.

12 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year (2004: two) are as follows:

	2005	2004
	US$'000	US$'000
Fees	**–**	–
Basic salaries and allowances	**654**	704
Bonuses	**609**	–
Pension scheme contributions	**12**	2
	1,275	706

(d) Five highest paid individuals

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument bands		
US$258,001 to US$323,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**–**	1
US$323,001 to US$387,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**–**	1
US$387,001 to US$452,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**3**	–
	3	2

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

13 LEASEHOLD LAND AND LAND USE RIGHTS

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

	2005 **US$'000**	2004 US$'000
Leases of 10 to 50 years held outside Hong Kong	**4,727**	3,515
Opening	**3,515**	2,624
Additions	**1,359**	915
Amortization of prepaid operating lease payments	**(82)**	(24)
Disposal	**(65)**	–
	4,727	3,515

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US$'000	**Leasehold improve-ments** US$'000	**Plant and machinery** US$'000	**Furniture, fixtures and equipment** US$'000	**Motor vehicles** US$'000	**Construction-in-progress** US$'000	**Total** US$'000
At 1 January 2004							
Cost	17,633	19,913	39,118	21,474	3,507	4,121	105,766
Accumulated depreciation	(3,296)	(12,417)	(16,560)	(14,664)	(2,468)	–	(49,405)
Net book amount	14,337	7,496	22,558	6,810	1,039	4,121	56,361
Year ended 31 December 2004							
Opening net book amount	14,337	7,496	22,558	6,810	1,039	4,121	56,361
Additions	8,892	2,250	9,584	7,295	527	3,112	31,660
Acquisition of a subsidiary	–	78	–	164	3	–	245
Disposals	–	(296)	(1,303)	(314)	(44)	–	(1,957)
Transfer from construction-in–progress	3,368	489	–	–	–	(3,857)	–
Disposal of a subsidiary	–	(247)	(608)	(28)	–	–	(883)
Disposal of subsidiaries by way of distribution in specie	(1,347)	(287)	(1,173)	(827)	(26)	–	(3,660)
Depreciation	(1,199)	(1,840)	(3,060)	(3,085)	(418)	–	(9,602)
Exchange differences	(1)	(8)	(3)	26	17	–	31
Closing net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
At 31 December 2004							
Cost	28,103	21,403	43,157	27,037	3,595	3,376	126,671
Accumulated depreciation	(4,053)	(13,768)	(17,162)	(16,996)	(2,497)	–	(54,476)
Net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land and buildings US$'000	Leasehold improve-ments US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2005							
Opening net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
Acquisition of a subsidiary *(note 30(c))*	–	238	1,221	261	54	–	1,774
Additions	151	1,049	5,006	6,196	680	9,927	23,009
Disposals	(118)	(776)	(605)	(59)	(58)	–	(1,616)
Transfer from construction-in-progress	4,256	921	(3)	16	–	(5,190)	–
Depreciation	(1,443)	(1,994)	(3,669)	(3,700)	(426)	–	(11,232)
Exchange differences	52	112	45	(51)	13	8	179
Closing net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
At 31 December 2005							
Cost	32,542	22,780	47,476	33,110	3,960	8,121	147,989
Accumulated depreciation	(5,594)	(15,595)	(19,486)	(20,406)	(2,599)	–	(63,680)
Net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309

(a) Depreciation expense of US$6,300,000 (2004: US$5,635,000) has been expensed in cost of sales, and US$4,932,000 (2004: US$3,967,000) has been expensed in general and administrative expenses.

(b) The construction in-progress mainly represents factories and office buildings under construction in the PRC. Upon completion, the accumulated cost under construction-in-progress will be transferred to other property, plant and equipment.

15 INTANGIBLE ASSETS

	Goodwill	Other intangible asset	Total
	US$'000	US$'000	US$'000
At 1 January 2004			
Cost	3,765	–	3,765
Accumulated amortization and impairment	(1,036)	–	(1,036)
Net book amount	2,729	–	2,729
Year ended 31 December 2004			
Opening net book amount	2,729	–	2,729
Acquisition of a subsidiary *(note 30(c))*	1,698	–	1,698
Amortization *(note 6)*	(462)	–	(462)
Closing net book amount	3,965	–	3,965
At 31 December 2004			
Cost	5,089	–	5,089
Accumulated amortization	(1,124)	–	(1,124)
Net book amount	3,965	–	3,965
Year ended 31 December 2005			
Opening net book amount	3,965	–	3,965
Acquisition of a subsidiary *(note 30(c))*	8,098	10,279	18,377
Amortization *(note 6)*	–	(490)	(490)
Closing net book amount	12,063	9,789	21,852
At 31 December 2005			
Net book amount/cost	12,063	10,279	22,342
Accumulated amortization	–	(490)	(490)
Net book amount	12,063	9,789	21,852

16 INVESTMENTS IN SUBSIDIARIES

	2005 US$'000	2004 US$'000
Unlisted shares	**71,564**	71,564
Amounts due from subsidiaries	**127,562**	86,679
	199,126	158,243

Particulars of the principal subsidiaries as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Asialink Shipping Lines, Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	5,000 ordinary shares of Peso 100 each	100%
Chatelaine, Inc.	USA	Import and distribution of apparel in the USA	100 ordinary shares with total paid-in capital of US$10,000	100%
Chelton Force Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Concorde Garment Manufacturing Corporation	CNMI	Garment manufacturing in CNMI	1,510,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc.	CNMI	Provision of freight forwarding and logistics services in CNMI	1,000,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services (FSM), Inc.	Pohnpei	Provision of freight forwarding and logistics services in Pohnpei	100,000 ordinary shares of US$1 each	90%
Consolidated Transportation Services, Incorporated (Guam)	Guam	Provision of freight forwarding and logistics services in Guam	400,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc. (Palau)	Palau	Provision of freight forwarding and logistics services in Palau	100,000 ordinary shares of US$1 each	80%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Holdings Limited	BVI	Investment holding in the Philippines	1 ordinary share of US$1 each	100%
CTSI Logistics, Inc.	USA	Provision of freight forwarding and logistics services in the USA	10,000 ordinary shares with total paid-in capital of US$100,000	100%
CTSI Logistics Inc.	Cambodia	Provision of freight forwarding and logistics services in Cambodia	100 ordinary shares of Riels 380,000 each	100%
CTSI Logistics (Korea), Inc.	Korea	Provision of freight forwarding and logistics services in Korea	60,000 ordinary shares of Won 5,000 each	60%
CTSI Logistics Limited	Hong Kong	Provision of freight forwarding and logistics services in Hong Kong	100,000 ordinary shares of HK$10 each	100%
CTSI Logistics Phils., Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	100,000 ordinary shares of Peso 100 each	100%
Dongguan Luen Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of HK$225,350,000 with total paid-in capital of HK$211,970,611	100%
Fortune Investment Overseas Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
GJM (HK) Limited	Hong Kong	Sourcing, manufacturing and trading of garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
G.J.M. (H.K.) Manufacturing Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$100 each	100%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
GJM (Qingyuan) Light Industrial Development Limited	The PRC	Garment manufacturing in the PRC	Registered capital of HK$62,000,000 with total paid-in capital of HK$54,813,757	100%
GJM (UK) Limited	United Kingdom	Distribution of garments in the UK	1 ordinary share of GBP 1 each	100%
GJM (USA), Inc.	USA	Distribution of garments in the USA	200 ordinary shares with total paid-in capital of US$100,000	100%
Golden Dragon Apparel, Inc.	The Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	100%
Hongquan Consulting Services (Shenzhen) Co., Ltd.	The PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
Kingsmere, Inc.	USA	Investment holding in the USA	100 ordinary shares with total paid-in capital of US$310,000	100%
L & T International Group Phils., Inc.	The Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	100%
L & T Macao Garment Manufacturing Company Limited	Macau	Garment manufacturing in Macau	MOP$25,000	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
Luen Thai Macao Commercial Offshore Company Limited	Macau	Souring, manufacturing and trading of textile and garment products in Macau	MOP$25,000	100%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,804 ordinary shares of US$1 each	100%
Panyu G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	US$5,500,000	100%
Philippine Luen Thai Holdings Corporation	The Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	100%
Partner Joy Group Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US$1 each	71%
Power Might Limited	BVI	Investment holding in Hong Kong	12,207,164 ordinary shares of US$1 each	100%
Sunny Force Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
TellaS Ltd.	USA	Import and distribution of garments in the USA	100 ordinary shares with total paid-in capital of US$100,000	100%
Tomwell Limited	Hong Kong	Provision of subcontracting services in Hong Kong	2 ordinary shares of HK$10 each	100%
Tien-Hu Knitters Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%

All subsidiaries of the Company are indirectly held except for Luen Thai Overseas Limited.

The outstanding balances with subsidiaries, except for the amount due from a subsidiary of approximately US$2,500,000 (2004: Nil), which is repayable within the coming twelve months, are interest-free and not repayable in the coming twelve months.

17 INTERESTS IN ASSOCIATED COMPANIES

	2005 US$'000	2004 US$'000
Beginning of year	**2,688**	2,148
Share of (loss)/profit of associated companies	**(1,891)**	529
Disposal of an associated company	**(563)**	–
Exchange difference	**(3)**	11
End of year	**231**	2,688

Particulars of the Group's interest in its principal associated companies as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Logistics (Taiwan), Inc.	Taiwan	Provision of freight forwarding and logistics services in Taiwan	10,000,000 ordinary shares of TWD 10 each	49%
LT Investment Co. Ltd.	Cambodia	Property holding in Cambodia	25 ordinary shares of US$8,000 each	49%

The investments are unlisted.

The aggregate amount of profits retained by the associated companies included in the Group's retained earnings amounted to approximately US$75,000 as at 31 December 2005 (2004: US$2,312,000).

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 US$'000	2004 US$'000
Share of net (liabilities)/assets	**(84)**	208
Loan to a jointly controlled entity	**2,644**	644
	2,560	852
Unlisted investments, at cost	**2,461**	2,370

The aggregate amount of accumulated losses retained by the jointly controlled entities included in the Group's retained earnings amounted to approximately US$1,522,000 as at 31 December 2005 (2004: US$1,246,000).

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Loan to a jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months.

Particulars of the Group's interest in its principal jointly controlled entities as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	Rmb2,400,000	25%
Suzhou F&T Garments Manufacture Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$210,000	80%
Suzhou Nantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$210,000	50%
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of US$2,050,000 with total paid-in capital of US$1,241,400	50%
Yuen Thai Industrial Company Limited	Hong Kong	Manufacturing of sports and active wear in the PRC	2 ordinary shares of HK$1 each	50%

The investments are unlisted.

19 LONG-TERM INVESTMENTS

	2005 US$'000	2004 US$'000
Unlisted club debentures, at cost	–	1,795
Less: provision for impairment losses	–	(147)
	–	1,648

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005 US$'000	2004 US$'000
Beginning of the year	**1,648**	–
Additions	**724**	–
Revaluation deficit charged to equity *(note 29)*	**(349)**	–
End of the year	**2,023**	–

21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2005 US$'000	2004 US$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(792)**	(822)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	**401**	–

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

	Group	
	2005 US$'000	2004 US$'000
Beginning of the year	**(822)**	(345)
Recognized in the income statement *(note 8)*	**427**	(467)
Acquisition of a subsidiary	**4**	–
Exchange differences	**–**	(10)
End of the year	**(391)**	(822)

21 DEFERRED INCOME TAX (CONTINUED)

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

	Group			
	Provision	**Accelerated tax depreciation**	**Others**	**Total**
	US$'000	US$'000	US$'000	US$'000
At 1 January 2004	213	(1)	133	345
Recognized in the income statement	69	64	334	467
Exchange differences	(2)	–	12	10
At 31 December 2004	280	63	479	822
Recognized in the income statement	(18)	(414)	5	(427)
Acquisition of a subsidiary	–	(4)	–	(4)
At 31 December 2005	262	(355)	484	391

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of US$4,705,000 (2004: US$3,421,000) in respect of losses to carry forward against future taxable income. These tax losses have expiry dates from 2006 to 2011.

22 INVENTORIES

	2005	2004
	US$'000	US$'000
Raw materials	**29,270**	23,016
Work-in-progress	**15,175**	13,431
Finished goods	**20,338**	26,121
	64,783	62,568

As at 31 December 2005, certain inventories were held under trust receipts bank loan arrangement.

23 TRADE RECEIVABLES

	2005 US$'000	2004 US$'000
Trade receivables	**73,217**	77,520
Less: provision for impairment of receivables	**(1,899)**	(2,405)
	71,318	75,115

The carrying amount of trade receivables approximates its fair value.

The Group normally grants credit terms to its customers ranging from 30 to 60 days. The ageing analysis of the trade receivables is as follows:

	2005 US$'000	2004 US$'000
Current	**41,851**	39,718
0 to 30 days	**15,831**	20,396
31 to 60 days	**4,902**	8,996
61 to 90 days	**2,704**	3,018
Over 91 days	**7,929**	5,392
	73,217	77,520

The Group has recognized a loss of US$88,000 (2004: US$859,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in general and administrative expenses in the consolidated income statement.

24 TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

	2005 US$'000	2004 US$'000
Current	**16,242**	19,890
0 to 30 days	**8,464**	5,253
31 to 60 days	**909**	1,956
61 to 90 days	**1,602**	811
Over 91 days	**4,341**	2,156
	31,558	30,066

25 BANK BORROWINGS

	2005	2004
	US$'000	US$'000
Non-current		
Bank loans	**386**	54,000
Current		
Bank overdrafts	**11,361**	12,628
Collateralised borrowings	**740**	–
Bank loans	**45,000**	–
Current portion of non-current bank loans	**1,399**	1,600
Trust receipt bank loans	**24,801**	29,164
	83,301	43,392
Total borrowings	**83,687**	97,392

	Bank overdraft and trust receipt bank loans		**Bank loans**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Within one year	**36,162**	41,792	**47,139**	1,600	**83,301**	43,392
Between 1 and 2 years	**–**	–	**386**	54,000	**386**	54,000
	36,162	41,792	**47,525**	55,600	**83,687**	97,392

As at 31 December 2005, the Group's bank loans were secured by the corporate guarantee provided by the Company and certain related parties.

The effective interest rates at the balance sheet date were as follows:

	2005	2004
	US$'000	US$'000
Bank loans	**4.08%**	4.08%
Trust receipt bank loans	**4.78%**	3.47%
Bank overdraft	**6.25%**	5.00%

The carrying amounts of the borrowings approximately equal their fair values.

25 BANK BORROWINGS (CONTINUED)

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

	2005	2004
	US$'000	US$'000
Hong Kong dollars	**10,459**	3,999
US dollars	**73,228**	93,393
	83,687	97,392

26 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprised:

	Group	
	2005	2004
	US$'000	US$'000
Consideration payable for acquisition of a subsidiary *(note a)*	**3,717**	–
Financial liability in connection with the put options granted for the acquisition of a subsidiary *(note 32)*	**6,579**	–
	10,296	–

Note a:

The consideration payable related to the acquisition of 71% equity interest in Partner Joy Group Limited ("Partner Joy") (note 32). Such consideration is payable in 2006 and 2007, and the amounts of consideration are subject to adjustments by reference to the average consolidated net profit of Partner Joy for the years ended/ending 31 December 2005 and 31 December 2006.

26 OTHER LONG-TERM LIABILITIES (CONTINUED)

The repayment schedule is as follows:

	Group 2005 US$'000	Group 2004 US$'000
Consideration payable:		
Within one year	**5,559**	–
Between two and five years	**3,973**	–
	9,532	–
Less: Amount representing interest element	**(256)**	–
Present value of consideration payable	**9,276**	–
Less: Current portion included in other payables and accruals	**(5,559)**	–
	3,717	–

27 RETIREMENT BENEFIT OBLIGATIONS

	2005 US$'000	2004 US$'000
Balance sheet obligations for:		
Defined benefits plans	**1,667**	1,129
Provision for long service payments	**374**	468
	2,041	1,597
Expensed in the consolidated income statement for		
– Defined benefits plan	**523**	388
– Provision for long service payment	**74**	57
	597	445

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in the Philippines are valued by Mercer Human Resource Company Ltd, an independent qualified actuary valuer.

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$603,000 for the year ended 31 December 2005 (2004: US$669,000) (note 12).

(b) Defined benefit plans

The amounts recognized in the consolidated balance sheet are determined as follows:

	2005	2004
	US$'000	US$'000
Present value of unfunded obligations	**1,199**	1,270
Unrecognized actuarial gains/(losses)	**468**	(141)
Liability in the consolidated balance sheet	**1,667**	1,129

The amounts recognized in the consolidated income statement are as follows:

	2005	2004
	US$'000	US$'000
Current service cost	**374**	300
Interest cost	**148**	88
Actuarial loss recognized during the year	**1**	–
Total, included in staff costs *(note 12)*	**523**	388

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (continued)

The movements of the liability recognized in the consolidated balance sheet are as follows:

	2005 US$'000	2004 US$'000
At 1 January	**1,129**	832
Total expense – included in staff costs as shown above	**523**	388
Contributions paid	**(2)**	(91)
Exchange difference	**17**	–
At 31 December	**1,667**	1,129

The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate	**12.0%**	12.0%
Future salary increases	**7.5%**	7.5%

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. Such long service payment obligations are valued by Mercer Human Resource Consulting Ltd, an independent qualified actuary valuer.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2005 US$'000	2004 US$'000
Present value of unfunded obligations	**656**	737
Unrecognized actuarial losses	**(282)**	(269)
Liability in the consolidated balance sheet	**374**	468

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments (continued)

The amounts recognized in the consolidated income statement are as follows:

	2005	2004
	US$'000	US$'000
Current service cost	**16**	18
Interest cost	**18**	34
Net actuarial losses recognized	**40**	5
Total, included in employee benefit expense *(note 12)*	**74**	57

The above charges were included in general and administrative expenses.

Movements of the provision for long service payments of the Group are as follows:

	2005	2004
	US$'000	US$'000
At 1st January	**468**	746
Total expenses – included in staff costs as shown above	**74**	57
Contributions paid	**(168)**	(335)
At 31 December	**374**	468

The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate	**4.0%**	3.0%
Future salary increases	**3.5%**	3.0%

28 SHARE CAPITAL

	Number of shares	Nominal value US$'000
Authorized – ordinary shares of US$0.01 each		
At 31 December 2004 and 2005	1,500,000,000	15,000
Issued and fully paid – ordinary shares of US$0.01 each		
At 1 January 2005	902,300,000	9,023
Issue of new shares (a)	90,200,000	902
At 31 December 2005	992,500,000	9,925

Note:

(a) On 7 February 2005, the Company issued 90,200,000 new ordinary shares at approximately HK$4.070 (equivalent to approximately US$0.52) per share pursuant to the Subscription and Placing Agreements signed on 24 January 2005 for additional working capital. These shares rank pari passu with the existing shares. This resulted in a net proceed of approximately US$46,214,000.

28 SHARE CAPITAL (CONTINUED)

Share option

The Company has adopted a share option scheme (the "Scheme") which is effective adopted for a period of 10 years commencing 27 June 2004. Pursuant to a written resolution of the then sole shareholder of the Company on 27 June 2004.

Under the Scheme, the Company may grant options to selected full-time employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Movements in the number of share options are as follows:

			Number of shares		
Date of grant	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Granted**	**End of year**
			'000	'000	'000
28 December 2004	From 28 December 2004 to 27 December 2007	HK$4.1	7,757	–	7,757
			7,757	–	7,757

29 RESERVES

(a) Group

	Share premium US$'000	Capital reserve *(note (i))* US$'000	Other reserves US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2004	–	4,322	–	(4,101)	55,438	55,659
Reserve from the Reorganisation	–	7,400	–	–	–	7,400
Disposal of subsidiaries by way of a distribution in specie *(note (ii))*	–	–	–	–	7,007	7,007
Net proceeds from issuance of new shares	78,436	–	–	–	–	78,436
Capitalization of share premium	(6,750)	–	–	–	–	(6,750)
Profit attributable to the equity holders of the Company	–	–	–	–	30,361	30,361
Dividends	–	–	–	–	(7,400)	(7,400)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	492	–	492
At 31 December 2004	71,686	11,722	–	(3,609)	85,406	165,205
At 1 January 2005	71,686	11,722	–	(3,609)	85,406	165,205
Net proceeds from issuance of new shares *(note 28)*	45,312	–	–	–	–	45,312
Profit attributable to the equity holders of the Company	–	–	–	–	13,240	13,240
Recognition of financial liability arising from acquisition of a subsidiary *(note 32)*	–	–	(6,579)	–	–	(6,579)
Revaluation deficit *(note 20)*	–	–	(349)	–	–	(349)
Dividends	–	–	–	–	(7,583)	(7,583)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	(457)	–	(457)
As at 31 December 2005	116,998	11,722	(6,928)	(4,066)	91,063	208,789

29 RESERVES (CONTINUED)

(b) Company

	Share premium US$'000	Capital reserve *(note (iii))* US$'000	Retained earnings US$'000	Total US$'000
At 15 March 2004 (date of incorporation)	–	–	–	–
Reserve from the Reorganisation	–	71,564	–	71,564
Net proceeds from issuance of new shares	78,436	–	–	78,436
Capitalization of share premium	(6,750)	–	–	(6,750)
Profit attributable to the equity holders of the Company	–	–	5,991	5,991
At 31 December 2004	71,686	71,564	5,991	149,241
At 1 January 2005	71,686	71,564	5,991	149,241
Net proceeds from issuance of new shares	45,312	–	–	45,312
Profit attributable to the equity holders of the Company	–	–	4,459	4,459
Dividends	–	–	(7,583)	(7,583)
At 31 December 2005	116,998	71,564	2,867	191,429

Note:

(i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange thereof.

(ii) As part of the Reorganisation, the Group disposed of its entire interest in the Mexican Operations and the System Consultancy Operations to its then shareholders by way of distribution in specie in May 2004. At the date of the distribution, the Mexican Operations and the System Consultancy Operations were in net deficit position. As a result, an amount of approximately US$7,007,000 resulting from such distribution in specie was recognized in retained earnings.

(iii) The Company's capital reserve represents the difference between the aggregate net asset value of the subsidiaries acquired and the norminal value of the Company's shares issued for the acquisition of the subsidiaries through the share exchange under the Reorganisation.

(iv) The Group's retained earnings of approximately US$91,063,000 (2004: US$85,406,000) included the proposed final dividend of approximately US$1,548,000 (2004: US$5,161,000) for the year.

(v) The Company's retained earnings of approximately US$2,867,000 (2004: US$5,991,000) includes the proposed final dividend of approximately US$1,548,000 (2004: US$5,161,000) for the year.

30 CONSOLIDATED CASH FLOW STATEMENT

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

	2005	2004
	US$'000	US$'000
Profit before taxation	**17,433**	36,613
Share of losses/(profits) of associated companies	**1,891**	(529)
Share of losses of jointly controlled entities	**257**	847
Interest income	**(1,980)**	(671)
Interest expense	**3,474**	1,432
Amortization of intangible assets	**490**	462
Amortization of leasehold land	**82**	24
Depreciation of property, plant and equipment	**11,232**	9,602
Loss on disposal of property, plant and equipment, net	**426**	214
Gain on disposal of an associate	**(98)**	–
Operating profit before working capital changes	**33,207**	47,994
Inventories	**9,390**	2,908
Trade receivables	**12,774**	(18,290)
Deposits, prepayments and other receivables	**3,395**	1,157
Amount due from related companies	**(859)**	(2,285)
Amount due from associated companies and jointly controlled entities	**2,638**	(3,523)
Amount due to related companies	**(4,223)**	(15,935)
Amount due to associated companies and jointly controlled entities	**(644)**	312
Trade and bills payables	**(6,927)**	457
Other payables and accruals	**8,379**	2,996
Retirement benefit obligations	**444**	19
Net cash inflow generated from operations	**57,574**	15,810

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year:

	Share capital and share premium US$'000	Long-term bank loans US$'000	Short-term bank loans US$'000	Long-term loans from related companies US$'000	Total US$'000
Balance at 1 January 2004	–	5,500	2,322	43,029	50,851
New loans	–	67,581	877	–	68,458
Repayment of loans	–	(17,281)	–	(37,605)	(54,886)
Distribution in specie	–	(200)	(3,199)	(5,424)	(8,823)
Net proceeds from issuance of new shares	80,709	–	–	–	80,709
Balance at 31 December 2004	80,709	55,600	–	–	136,309
Acquisition of a subsidiary	–	3,840	–	–	3,840
Repayment of loans	–	(12,655)	–	–	(12,655)
New proceeds from issuance of new shares	46,214	–	–	–	46,214
Balance at 31 December 2005	126,923	46,785	–	–	173,708

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Acquisition of a subsidiary

	2005 US$'000	2004 US$'000
Property, plant and equipment	**1,774**	245
Inventories	**11,605**	1,027
Bank deposits maturing beyond three months	**4,448**	–
Trade receivables	**8,977**	44
Deposits, prepayments and other receivables	**1,451**	45
Intangible asset	**10,279**	–
Bank balances and cash	**2,226**	22
Trade and bills payables	**(8,419)**	(330)
Other payables and accruals	**(586)**	(236)
Taxation payable	**(531)**	(15)
Amount due to related companies	**(6,503)**	–
Bank borrowings	**(11,848)**	–
Deferred tax liabilities	**(4)**	–
Net assets	**12,869**	802
Minority interest	**(3,732)**	–
Net assets acquired	**9,137**	802
Goodwill	**8,098**	1,698
	17,235	2,500
Satisfied by		
Cash	**7,959**	2,500
Balance of purchase consideration payable *(note 26)*	**9,276**	–
	17,235	2,500

Analysis of the net cash outflow in respect of the acquisition of a subsidiary:

	2005 US$'000	2004 US$'000
Purchase consideration settled in cash	**7,959**	2,500
Cash and cash equivalents in the subsidiary acquired	**(2,226)**	(22)
Net cash outflow in respect of the purchase of the subsidiary	**5,733**	2,478

(d) Bank balances and cash

The effective interest rate on bank deposits was 1.84% (2004: 2.06%).

As at 31 December 2005, bank deposits (consolidated) of approximately US$1,954,000 (2004: US$1,028,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the Government of the People's Republic of China.

31 COMMITMENTS

(a) Capital commitments

	2005 **US$'000**	2004 US$'000
Contracted but not provided for	**3,878**	5,643

(b) Operating lease commitments

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

	2005 **US$'000**	2004 US$'000
Land and buildings		
– Not later than one year	**4,292**	2,703
– Later than one year and not later than five years	**5,614**	6,333
– Later than five years	**3,287**	3,132
	13,193	12,168
Facilities and equipment		
– Not later than one year	**218**	65
– Later than one year and not later than five years	**623**	37
	841	102

32 BUSINESS COMBINATIONS

On 3 May 2005, the Group acquired 71% of the entire issued capital of Partner Joy Group Limited ("Partner Joy"), a company incorporated in the BVI and is principally engaged in the business of manufacturing and trading of sweaters through its three wholly owned subsidiaries in Hong Kong, namely: Tien-Hu Knitters Limited; Tien-Hu Knitting Factory (Hong Kong) Limited; and Tien-Hu Trading (Hong Kong) Limited (collectively, "Tien-Hu group"). The acquired business contributed revenues of approximately US$83,792,000 and net profit of approximately US$3,063,000 to the Group for the period from 3 May 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, turnover of the group and profit attributable to equity holders of the Company would have been approximately US$601,324,000 and US$13,983,000 respectively.

32 BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired and goodwill are as follows:

	2005
	US$'000
Purchase consideration:	
– Cash paid	7,959
– Balance of purchase consideration payable	9,276
Total purchase consideration	17,235
Fair value of net assets acquired	(9,137)
Goodwill *(note 15)*	8,098

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Partner Joy.

For the assets and liabilities arising from the acquisitions, please refer to note 30(c).

Certain call options have been granted to the Group in connection with the acquisition of Partner Joy which allow the Group to acquire the remaining 29% of the entire share capital of Partner Joy from its minority shareholders of Partner Joy under certain terms and conditions as stipulated in the shareholders' agreement. In addition, certain put options have been granted to the minority shareholders of Partner Joy which allow the minority shareholders to sell their 29% of equity interests in Partner Joy to the Group under similar terms and conditions as stipulated in the shareholders' agreement. These options are recognized as financial liability, which amount to US$6,579,000 and are recognized in equity (notes 26 and 29).

33 RELATED PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the British Virgin Islands, owns 61.89% of the Company's total issued shares. The Directors regard the ultimate holding Company to be Helmsley Enterprises Limited, a company incorporated in the Bahamas.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies, associated companies and jointly controlled entities. Related companies are companies which are beneficially owned, or controlled, by Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Willie and Mr. Tan Cho Lung, Raymond, Executive Directors of the Company, individually, jointly or collectively, or together with their close family members (collectively referred to as the "Tan's Family").

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

	2005	2004
	US$'000	US$'000
Management fee income from		
– related companies	**–**	74
– an associated company	**261**	149
– a jointly controlled entity	**333**	317
	594	540
Commission income from		
– a related company	**36**	78
– an associated company	**962**	927
	998	1,005
Freight forwarding and logistics services income from		
– related companies	**1,288**	1,388
– a jointly controlled entity	**10**	26
	1,298	1,414
Sales to a jointly controlled entity	**12,926**	3,465
Subcontracting income from a jointly controlled entity	**53**	148
Rental income from		
– a related company	**173**	141
– a jointly controlled entity	**3**	3
	176	144

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

	2005 **US$'000**	2004 US$'000
Management fee charged by a related company	**10**	32
Rental expenses for occupying office premises, warehouses and staff quarters charged by		
– related companies	**1,001**	887
– an associated company	**–**	5
	1,001	892
Office supplies charged by related companies	**267**	456
Packaging expenses charged by a related company	**1,001**	1,321
Insurance expenses charged by related companies	**888**	1,230
Travel-related services charged by related companies	**967**	863
Professional and technological support service fees to a related company	**2,068**	1,526
Repair and maintenance expenses charged by a related company	**182**	296
Subcontracting fees charged by jointly controlled entities	**1,592**	1,700
Administrative and support service charged by related companies	**5,320**	9,236
Recharge of material costs and other expenses to		
– related companies	**528**	390
– an associated company and jointly controlled entities	**5,738**	3,048
	6,266	3,438

The above related party transactions were carried out in accordance with the terms mutually agreed by the respective parties.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	2005 US$'000	2004 US$'000
Basic salaries and allowances	**3,049**	2,759
Bonuses	**1,114**	298
Pension scheme contributions	**26**	12
	4,189	3,069

(c) On 3 September 2005, CTSI Holdings Limited, a wholly owned subsidiary of the Group, disposed of its 45% interest in Mariana Express Lines, Ltd., an associated company to Luen Thai Direct Investment Limited, a company beneficially owned by Tan's Family at approximately US$661,000. Such disposal resulted a disposal gain of approximately US$98,000.

(d) Bank facilities

As at 31 December 2005, certain bank facilities of certain subsidiaries of the Group were secured by the following:

(i) Personal guarantees to the extent of US$8,000,000 given by certain directors of the subsidiaries of the Group; and

(ii) Corporate guarantees given by Tien-Hu Enterprises Limited, a company beneficially owned by certain directors of certain subsidiaries of the Group.

(e) **Amount due from/(to) related companies, jointly controlled entities and associated companies**

As at 31 December 2005, the outstanding balances with the related companies, associated companies and jointly controlled entities are unsecured, interest-free and repayable on demand.

34 CONTINGENT LIABILITIES AND LITIGATIONS

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the financial statements.

35 EVENTS AFTER THE BALANCE SHEET DATE

On 10 March 2006, the Group entered into a sale and purchase agreement in respect of the acquisition of 50% equity interest in On Time International Limited ("On Time"), a company incorporated in the BVI and is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. The cash consideration is based on the audited consolidated results of On Time for the three years ending on 31 December 2008 and is subject to a minimum of US$19,250,000 and a maximum of US$33,000,000. The acquisition was completed on 3 April 2006.