1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability on 26 January 2005 under the Companies Law of the Cayman Islands and acts as an investment holding company.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" of the annual report. Its ultimate holding company is Federal Trust Company Limited, a company which is incorporated in the British Virgin Islands.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group on 7 June 2005. Details of the Group Reorganisation are more fully explained in Appendix V to the prospectus of the Company dated 21 March 2006 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for each of the two years ended 31 December 2005 have been prepared using the principles of merger accounting. The consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for each of the two years ended 31 December 2005 have been prepared on the basis as if the current group structure had been in existence throughout the periods. The consolidated balance sheet of the Group as at 31 December 2004 and 31 December 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

The Group's financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

2. EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") (hereinafter collectively referred to as "new HKFRS") which are effective for accounting periods beginning on or after 1 January, 2005. For the purposes of preparing and presenting financial statements, the Group has early adopted all these new and revised HKFRSs in 2004.

The HKICPA has issued the following Standards and Interpretations ("INT") that are not yet effective for the financial periods reported. The Group has considered the following Standards and INT but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[1]
HKAS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste, electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed while service revenue is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised. It is not depreciated until completion of construction. Costs of completed construction works are transferred to appropriate category of property, plant and equipment.

For the leasehold land and building where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and building, the cost of leasehold land and building is depreciated and amortised over 50 years on a straight line basis.

The cost of buildings in the PRC is depreciated over 30 years using the straight line method.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases or 5 years, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	10%
Motor vehicles	10% – 20%
Plant and machinery	10%

Land use rights

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the period of the right using the straight line method.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets excluding goodwill (Continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables/amounts due from directors

Trade and other receivables and amounts due from directors are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Bank borrowings/other short-term loans/mortgage loan

Interest-bearing bank loans and overdrafts, and other short-term loans, and mortgage loan are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if all of the following conditions are met:

– an asset is created that can be identified;

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's operation is regarded as a single segment, being an enterprise engaged in the processing, printing and sales of fabrics in the Mainland China (the "PRC") as well as trading of fabrics in Hong Kong.

Geographical segments

Analysis of the Group's turnover and results and the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical area in which the assets are located has not been presented as the Group's operations are mostly situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments were presented.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, management had made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 3 describes that inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisation value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group does not have a general allowance policy on inventory based on aged given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as substantial working capital is devoted to inventories. Procedurewise, the sales and marketing managers review the inventory aged listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements.

Trade receivables

Note 3 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimate, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the processing, printing and sale of fabrics industry as a whole.

6. TURNOVER

Turnover represents the net amounts received or receivable from third parties and is summarised as follows:

	2005 RMB'000	2004 RMB'000
Sales of goods	**544,530**	404,116
Subcontracting services	**55,386**	48,749
	599,916	452,865

7. PROFIT FROM OPERATIONS

	2005 RMB'000	2004 RMB'000
Profit from operations has been arrived at after charging:		
Directors' remuneration	**897**	392
Other staff's retirement benefits scheme contributions	**475**	326
Other staff costs	**19,613**	14,463
	20,985	15,181
Less: Staff costs included in research and development costs	**(586)**	(406)
	20,399	14,775
Depreciation and amortisation	**18,471**	12,875
Less: Depreciation and amortisation included in research and development costs	**(125)**	(66)
	18,346	12,809
Auditors' remuneration	**832**	600
Operating lease rentals in respect of land use rights	**279**	103
Research and development costs	**2,901**	1,998
and after crediting:		
Interest income	**90**	16

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors are as follows:

	2005		2004	
		Salaries and other benefits		Salaries and other benefits
	Fees		Fees	
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Sze Siu Hung ("Mr. Sze")	–	135	–	60
Mr. Qiu Fengshou	–	203	–	36
Madam Cai Peilei	–	137	–	–
Mr. Sze Chin Pang	–	422	–	296
	–	897	–	392

The five highest paid individuals included two and three directors for the year ended 31 December 2005 and 31 December 2004 respectively, details of whose emoluments are set out above. The emoluments of the remaining three and two highest paid individuals for the year ended 31 December 2005 and 31 December 2004 respectively are as follows:

	2005	2004
	RMB'000	RMB'000
Employees		
- basic salaries and allowances	807	272
- retirement benefits scheme contributions	25	–
	832	272

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments for the year.

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank borrowings		
– wholly repayable within five years	**(6,088)**	(3,201)
– not wholly repayable within five years	**(185)**	(110)
	(6,273)	(3,311)

10. TAXATION

	2005 RMB'000	2004 RMB'000
The charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	**(3,825)**	(2,588)
Deferred taxation	**(165)**	(11)
	(3,990)	(2,599)

Pursuant to the relevant laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

All the tax benefits granted to Xuesheng (Shishi) Printing & Knitting Industry Co. Ltd. ("Xuesheng") have been enjoyed and Xuesheng's income tax is calculated at the rate of 27% during the year 2005 and 2004. Xiefeng (Fujian) Printing Dyeing Co. Ltd. ("Xiefeng") is entitled to a 50% relief from PRC income tax during the year ended 31 December 2004 as its third profit-making year commenced on 1 January 2002. Shasing Shapheng Dyeing Co. Ltd. ("Shasing") was established in 2003 and has commenced its first profit-making year of operation in 2004.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong had no assessable profit for the year.

10. TAXATION (Continued)

The charge for the year is reconciled to the profit before taxation as follows:

	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**114,503**		76,789	
Tax at the applicable income tax rate	**(30,916)**	**(27.0)**	(20,733)	(27.0)
Tax effect of expenses not deductible for tax purposes	**(2,226)**	**(1.9)**	(1,009)	(1.3)
Effect of tax exemption granted to PRC subsidiaries	**30,445**	**26.6**	20,549	26.8
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(978)**	**(0.9)**	(445)	(0.6)
Tax effect of tax losses not recognised	**(272)**	**(0.2)**	(516)	(0.7)
Others	**(43)**	**(0.1)**	(445)	(0.6)
Tax charge and effective tax rate for the year	**(3,990)**	**(3.5)**	(2,599)	(3.4)

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to equity holders of the Company and on the 660,000,000 shares in issue during the year on the assumption that the Group Reorganisation has been effective on 1 January 2004.

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2004	14,769	714	250	77,662	60,722	154,117
Additions	14,712	1,397	338	33,455	65,946	115,848
Transfers	94,670	–	–	20,352	(115,022)	–
At 31 December 2004	124,151	2,111	588	131,469	11,646	269,965
Currency realignment	(174)	(19)	–	–	–	(193)
Additions	9,321	124	–	31,098	–	40,543
Transfers	–	–	–	11,646	(11,646)	–
At 31 December 2005	**133,298**	**2,216**	**588**	**174,213**	**–**	**310,315**
DEPRECIATION						
At 1 January 2004	2,542	146	218	39,300	–	42,206
Provided for the year	2,514	237	108	10,016	–	12,875
At 31 December 2004	5,056	383	326	49,316	–	55,081
Currency realignment	(2)	(3)	–	–	–	(5)
Provided for the year	4,315	328	95	13,733	–	18,471
At 31 December 2005	**9,369**	**708**	**421**	**63,049**	**–**	**73,547**
CARRYING VALUES						
At 31 December 2005	**123,929**	**1,508**	**167**	**111,164**	**–**	**236,768**
At 31 December 2004	119,095	1,728	262	82,153	11,646	214,884

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2005 RMB'000	2004 RMB'000
The net book value of the Group's land and building comprises:		
Properties held under medium-term leases in		
– Hong Kong	**8,746**	9,100
– the PRC	**115,183**	109,995
	123,929	119,095

The Group has pledged its buildings and plant and machinery with an aggregate net book value of RMB25,985,000 (2004: RMB29,476,000) to certain banks to secure the credit facilities granted to the Group.

No interest was capitalised under construction in progress.

13. LAND USE RIGHTS

	2005 RMB'000	2004 RMB'000
CARRYING VALUE		
At the beginning of the year	**6,649**	4,198
Additions during the year	**2,949**	2,554
Released to income statement during the year	**(279)**	(103)
At the end of the year	**9,319**	6,649

The amount represents the prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

The Group has pledged its land use rights with an aggregate carrying value of RMB9,319,000 (2004: RMB1,566,000) to certain banks to secure the credit facilities granted to the Group.

14. DEFERRED TAXATION

The following is the deferred tax asset recognised by the Group and movements thereon during the year.

	Difference in depreciation RMB'000
At 1 January 2004	2,734
Charge to income statement for the year	(11)
At 31 December 2004	2,723
Charged to income statement for the year	(165)
At 31 December 2005	**2,558**

At 31 December 2005, the Group has unutilised tax loss of RMB4,503,000 (2004: RMB2,949,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of the respective subsidiary. The loss may be carried forward indefinitely.

15. INVENTORIES

	2005 **RMB'000**	2004 RMB'000
Raw materials	**113,418**	58,055
Finished goods	**37,818**	27,907
	151,236	85,962

16. OTHER FINANCIAL ASSETS

Trade and other receivables

	2005 RMB'000	2004 RMB'000
Trade receivables	**74,977**	11,647
Deposits paid to suppliers	**61,201**	38,250
Other receivables	**3,344**	3,847
	139,522	53,744

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 60 days to 90 days of issuance, except for certain well established customers for which the credit terms are up to 180 days. The directors consider that the carrying amount of trade and other receivables approximates its fair value.

The following is an aged analysis of trade receivables at the balance sheet date:

	2005 RMB'000	2004 RMB'000
Age		
0 to 90 days	**70,398**	7,196
91 to 180 days	**4,579**	896
181 to 270 days	**–**	2,995
271 to 365 days	**–**	497
Over 365 days	**–**	63
	74,977	11,647

Pledged bank deposits and bank balances and cash

Pledged bank deposits and bank balances and cash comprise cash held by the Group and bank deposits. The bank deposits carry at the prevailing market interest rate of approximately 3.7% (2004: 3.5%) per annum. The directors consider that the fair value of the bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

17. AMOUNTS DUE FROM DIRECTORS

Details of the amounts due from directors are as follows:

Name of director	Balance at 31.12.2005 RMB'000	Balance at 1.1.2005 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Sze	–	3,750	3,750
Mr. Qiu Fengshou	–	6,580	6,580
	–	10,330	

The amounts were unsecured, interest-free, repayable on demand and were fully settled in June 2005. The directors consider the carrying amount of amounts due from directors approximates its fair value.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

Certain pledged bank deposits and bank balances and cash of RMB21,405,000 and RMB24,723,000 at 31 December 2005 and 31 December 2004 respectively were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The directors consider the amounts of pledged bank deposits and bank balances and cash approximate their fair values.

The Group's objective is to maintain a balance between continuity of funding and flexibility through raising bank borrowings. In the opinion of the directors, most of the borrowings that mature within one year are able to revolve and the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's principal financial assets are trade and other receivables, amounts due from directors and bank balances and cash, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short-term in nature. Interest bearing financial liabilities are mainly bank borrowings with fixed interest rates. Therefore, the Group is exposed to fair value interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider negotiating with banks to adjust the borrowing interest rate when significant interest rate exposure is anticipated.

19. TRADE AND OTHER PAYABLES

	2005	2004
	RMB'000	RMB'000
Trade payables	**53,433**	34,174
Bills payables	**12,600**	9,407
	66,033	43,581
Customers' deposits	**5,042**	28,838
Payables for acquisition of property, plant and equipment	**1,945**	8,309
Other payables	**10,727**	6,218
	83,747	86,946

19. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade and bills payables at the balance sheet date:

	2005	2004
	RMB'000	RMB'000
Age		
0 to 90 days	**53,053**	36,106
91 to 180 days	**10,795**	4,595
181 to 270 days	**2,185**	1,183
271 to 365 days	**–**	1,078
Over 365 days	**–**	619
	66,033	43,581

At 31 December 2005, included in the above bills payable were bills payable of RMB520,000 (2004: RMB1,207,000) which were secured by properties of certain directors of the Company, Mr. Sze and Sze Chin Pang and unlimited guarantees given by these two directors.

The directors consider the carrying amount of trade and other payables approximates its fair value.

20. AMOUNT DUE TO A DIRECTOR

The amount due to a director Mr. Sze was unsecured, interest-free and repayable on demand. Out of the balance of RMB92,325,000 at 31 December 2004, RMB70,000,000 was capitalised in June 2005 for the issue of 1,000 shares of US$1 each in Widerlink Group Limited ("Widerlink") while the remaining balance was settled in June 2005.

The directors consider the carrying amount of amount due to a director approximates its fair value.

21. MORTGAGE LOAN

	2005 RMB'000	2004 RMB'000
The mortgage loan is repayable as follows:		
Within one year	**771**	568
Between one to two years	**544**	582
Between two to five years	**1,865**	1,833
After five years	**1,995**	2,832
	5,175	5,815
Less: Amount due within one year shown under current liabilities	**771**	568
Amount due after one year	**4,404**	5,247

The mortgage loan at 31 December 2005 and 31 December 2004 carries interest at 5.15% and 2.4% per annum respectively. The mortgage loan was denominated in Hong Kong dollars. The directors consider that the carrying amount of mortgage loan approximates its fair value.

22. OTHER SHORT-TERM LOANS

Other short-term loans are unsecured, interest-free and are repayable on demand. The directors consider the amount of other loans approximates its fair value.

23. SHORT-TERM BANK LOANS

	2005 RMB'000	2004 RMB'000
Short-term bank loans		
– secured	**70,600**	27,200
– unsecured	**52,692**	34,859
	123,292	62,059

23. SHORT-TERM BANK LOANS (Continued)

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	RMB	HK$	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2005	**123,100**	**192**	**123,292**
At 31 December 2004	58,700	3,359	62,059

The short-term bank loans at 31 December 2005 and 31 December 2004 carry interests at rates ranging from 4.65% to 7.25% and from 5.31% to 7.25% respectively.

At 31 December 2005, the Group had unutilised bank credit facilities of RMB16,568,000 (2004: RMB4,971,000).

At 31 December 2005, included in above short-term bank loans were bank loans of RMB3,074,000 (2004: RMB192,000) which were secured by guarantees of HK$5,000,000 given by certain directors of the Company Messrs. Sze and Sze Chin Pang. These securities and guarantees will be released following the listing of shares of the Company on the Stock Exchange and will be replaced by guarantees to be provided by the Company.

The directors consider the carrying amount of short-term bank loans approximates its fair value.

24. PAID-IN CAPITAL

	Authorised	Issued and fully paid
	HK$'000	HK$'000
Ordinary shares of HK$0.10 each		
– on incorporation	380	–
– increase in authorised share capital	99,620	–
– issue pursuant to the Group Reorganisation	–	3
– balance at 31 December 2005	100,000	3

	RMB'000
Shown in the balance sheet at	
– 31 December 2005 as	3
– 31 December 2004 as	25

The Company was incorporated on 26 January 2005 with an authorised share capital of HK$380,000 of HK$0.10 each. Pursuant to the written resolutions passed by the Company's shareholders on 7 June 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of additional 996,200,000 shares of HK$0.10 each. On the same date, 30,000 shares of HK$0.10 each was issued in exchange for the shares of Widerlink pursuant to the Group Reorganisation.

The balance of paid-in capital at 31 December 2004 represented the aggregate paid-in capital of Widerlink which was the former holding company of the Group prior to the Group Reorganisation.

25. MAJOR NON-CASH TRANSACTIONS

In June 2005, pursuant to an agreement entered into between the Group and Mr. Sze, 1,000 shares of Widerlink of US$1 each were allotted and issued to Mr. Sze for the capitalisation of an amount of RMB70,000,000 due to Mr. Sze by the Group.

26. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**25,807**	30,562

27. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate the Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

28. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2005:

(a) On 7 June, 2005 and 15 March, 2006, shareholders' resolutions were passed to approve the matters set out in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 7 June, 2005 and 15 March 2006" in Appendix V to the Prospectus of the Company.

(b) According to the written shareholders' resolution of the Company dated 15 March, 2006, conditional on the share premium account of the Company being credited as a result of the placing and public offer of the shares of the Company, the directors were authorised to capitalise HK$65,997,000 (approximately RMB68,637,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 659,970,000 shares for allotment and issued to the holder whose name appeared on the register of members of the Company at the close of business on 15 March, 2006 in proportion to their then shareholding in the Company.

(c) On 30 March, 2006, by means of placing and public offer, the Company issued a total of 140,000,000 new ordinary shares of HK$0.1 each at HK$1.16 per share and the Company's shares were listed on the Main Board of the Stock Exchange.

29. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2005 are as follows:

Name of subsidiary	Place of Incorporation/ establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activity
Co-Prosperity Limited	Hong Kong	Ordinary shares – HK$1,000	Investment holding
Co-Prosperity (Hong Kong) Limited	Hong Kong	Ordinary shares – HK$2	Trading of fabrics
Top Vast Holdings Limited	Hong Kong	Ordinary shares – HK$3,000	Investment holding
Widerlink*	British Virgin Islands/ Hong Kong	Shares – US$4,000	Investment holding
福建協盛協豐印染有限公司 (Shasing Shapheng Dyeing Co. Ltd.)	PRC for a term of 50 years commencing 20 June 2003 as a wholly-owned foreign investment enterprise	Registered capital – HK$50,000,000	Processing, printing and sales of fabrics
協豐(福建)印染實業有限公司 (Xiefeng (Fujian) Printing & Dyeing Co., Ltd)	PRC for a term of 50 years commencing 26 May 1999 as a wholly-owned foreign investment enterprise	Registered capital – US$3,000,000	Processing, printing and sales of fabrics
協盛(石獅市)染織實業有限公司 (Xuesheng (Shishi) Printing & Knitting Industry Co., Ltd)	PRC for a term of 50 years commencing 16 September 1993 as a wholly-owned foreign investment enterprise	Registered capital – US$5,000,000	Processing, printing and sales of fabrics

* Directly held by the Company.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.