

1 GENERAL INFORMATION

China Ting Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its principal office is 28th Floor, Futura Plaza, 111-113 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

The Company and its subsidiaries (together the “Group”) are engaged in the manufacturing and sale of garments on an OEM basis and retailing of branded fashion apparel.

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

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

These consolidated financial statements are presented in HK dollars (“HK\$”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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.

(a) *Amendments to published standards effective in 2006*

- Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on the Group’s financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2007, but it does not have any impact on the classification and valuation of the Group's financial instruments;
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;
- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation should not have significant impact on the Group's accounting policies as the Group has already assessed whether embedded derivatives should be separated using principles consistent with HK(IFRIC)-Int 9;
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HK(IFRIC)-Int 11, HKFRS 2 – Group and treasury share transfer (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

(c) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006).

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations (Continued)

- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

(a) Subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

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

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

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) Transactions and minority interests

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates

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

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

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

2.3 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 HK\$, which is the Company's presentation currency. The functional currency of the Company is US dollar ("USD").

(b) Transactions and balances

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

(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 recognised as a separate component of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

2.5 Property, plant and equipment

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

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

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

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

2.6 Investment properties

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties *(Continued)*

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

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

Changes in fair values are recognised in the income statement, as part of the other gains, net.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised 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.

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) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

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

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Inventories

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

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 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.

2.13 Trade payables

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

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Borrowing costs

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

2.16 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 substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits

(i) Pension obligations

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

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

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

(ii) Employee leave entitlements

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

(iii) Profit sharing and bonus plans

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits *(Continued)*

(iv) Share-based compensation

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

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.

2.18 Contingent liabilities

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

2.20 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 value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(a) Sales of goods – original equipment manufacturing (“OEM”)

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

(b) Sales of goods – retail

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

(c) Interest income

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

(d) Dividend income

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

(e) Rental income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Government grants

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

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.22 Leases (as the lessee for operating leases)

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

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

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

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

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

(b) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets except for bank fixed deposits. The Group's exposure to changes in interest rates is mainly attributable to its bank fixed deposits and borrowings. Bank fixed deposits and borrowings at variable rates expose the Group to cash flow interest-rate risk. The interest rates of the Group's bank fixed deposits and the rates and terms of repayment of the Group's borrowings are disclosed in Notes 15 and 18 respectively.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk

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

(d) Concentration risk

During the year ended 31 December 2006, the Group's sales to top 5 customers accounted for approximately 49.8% (2005: 59.8%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(e) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including due from associates, trade and other receivables, pledged bank deposits, terms deposits with initial term of over three months, cash and cash equivalents, and financial liabilities including trade and other payables, borrowings, due to associates are assumed to approximate their fair values due to their short maturities.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 18.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Sales of goods – original equipment manufacturing (“OEM”)

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(ii) Sales of goods – retail

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

(iii) Useful lives of machinery and equipment

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

(iv) Net realisable value of inventories

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

(v) Trade and other receivables

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(vi) Income taxes

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

(vii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Notes 10 and 11).

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(a) Turnover and other income

(i) Turnover

The Group is principally engaged in the manufacturing and sale of garments on an OEM basis and retailing of branded fashion apparel. Revenues recognised are HK\$1,920,068,000 for the year ended 31 December 2006 (2005: HK\$1,894,835,000).

(ii) Other income

	2006 HK\$'000	2005 HK\$'000
Rental income	732	664

5 **TURNOVER, OTHER INCOME AND SEGMENT INFORMATION** *(Continued)*

(b) Primary reporting segment – business segments

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

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, interest in associates, intangible assets, inventories, receivables and operating cash. They exclude items such as corporate assets, deferred income tax assets and tax recoverable.

Segment liabilities comprise operating liabilities. They exclude items such as current income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 6), leasehold land and land use rights (Note 8) and intangible assets (Note 11), including additions resulting from acquisitions through business combinations (Notes 6, 8, 11 and 31).

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2006

The segment results for the year ended 31 December 2006 are as follows:

	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	1,726,554	198,477	1,925,031
Elimination of inter-segment sales	(3,113)	(1,850)	(4,963)
Turnover	1,723,441	196,627	1,920,068
Other income	732	–	732
	1,724,173	196,627	1,920,800
Segment results	368,838	38,934	407,772
Unallocated gains			15,410
Operating profit			423,182
Finance income			35,909
Finance costs			(423)
Finance income, net			35,486
Share of profit of associates	6,823	–	6,823
Profit before income tax			465,491
Income tax expense			(54,690)
Profit for the year			410,801

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2006

Other segment items included in the income statement are as follows:

	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment (Note 6)	26,024	2,136	28,160
Amortisation of leasehold land and land use rights (Note 8)	970	31	1,001
Amortisation of intangible assets (Note 11)	–	3,122	3,122
Reversal of provision for impairment of receivables (Note 24)	(188)	(979)	(1,167)

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Corporate and others HK\$'000	Total HK\$'000
Assets	1,550,859	257,919	340,722	2,149,500
Associates	72,250	–	–	72,250
Total assets	1,623,109	257,919	340,722	2,221,750
Liabilities	225,665	118,009	35,292	378,966
Capital expenditure	297,925	1,095	–	299,020

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2005

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

	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	1,730,322	172,783	1,903,105
Elimination of inter-segment sales	(8,270)	–	(8,270)
Turnover	1,722,052	172,783	1,894,835
Other income	664	–	664
	1,722,716	172,783	1,895,499
Segment results	422,479	14,114	436,593
Unallocated gains			15,906
Operating profit			452,499
Finance income			10,249
Finance costs			(8,951)
Finance income, net			1,298
Share of profit of associates	9,023	–	9,023
Profit before income tax			462,820
Income tax expense			(72,715)
Profit for the year			390,105

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2005 *(Continued)*

Other segment items included in the income statement are as follows:

	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment (Note 6)	23,531	3,075	26,606
Amortisation of leasehold land and land use rights (Note 8)	1,061	–	1,061
Amortisation of intangible assets (Note 11)	–	3,381	3,381
Provision for impairment of receivables (Note 24)	1,203	1,866	3,069
Bad debts written off (Note 24)	78	–	78
Inventory write-down (Note 24)	55	17,047	17,102

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

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

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

(c) Secondary reporting segment – geographical segments

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

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting segment – geographical segments *(Continued)*

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

	2006	2005
	HK\$'000	HK\$'000
North America	1,476,517	1,547,703
European Union	90,958	84,427
The PRC (including Hong Kong)	331,603	214,419
Other countries	20,990	48,286
	1,920,068	1,894,835

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

	2006	2005
	HK\$'000	HK\$'000
The PRC		
– Mainland China	1,434,788	721,143
– Hong Kong	777,640	1,134,293
North America	9,322	542
	2,221,750	1,855,978

Notes to the Financial Statements

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting segment – geographical segments *(Continued)*

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

	2006	2005
	HK\$'000	HK\$'000
The PRC		
– Mainland China	297,266	121,177
– Hong Kong	405	1,390
North America	1,349	–
	299,020	122,567

Notes to the Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant & machinery HK\$'000	Vehicles HK\$'000	Furniture, fittings and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 January 2005							
Cost	182,777	6,292	83,545	18,325	25,575	4,423	320,937
Accumulated depreciation	(14,273)	(4,732)	(11,952)	(8,665)	(6,601)	-	(46,223)
Net book amount	168,504	1,560	71,593	9,660	18,974	4,423	274,714
Year ended 31 December 2005							
Opening net book amount	168,504	1,560	71,593	9,660	18,974	4,423	274,714
Exchange differences	3,588	(44)	1,777	163	329	425	6,238
Additions	9,203	1,295	22,963	5,175	4,807	61,099	104,542
Acquisition of subsidiaries	-	-	1,939	-	48	4,008	5,995
Transfers	22,026	-	11,831	342	305	(34,504)	-
Disposals	(10,929)	(238)	(6,446)	(125)	(168)	-	(17,906)
Deemed distribution	(84,625)	-	(4,815)	(1,971)	(5,222)	(12,561)	(109,194)
Depreciation	(8,884)	(601)	(9,934)	(2,987)	(4,200)	-	(26,606)
Closing net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783
At 31 December 2005							
Cost	108,939	6,118	108,763	20,479	24,341	22,890	291,530
Accumulated depreciation	(10,056)	(4,146)	(19,855)	(10,222)	(9,468)	-	(53,747)
Net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783
Year ended 31 December 2006							
Opening net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783
Exchange differences	5,746	50	4,318	372	773	1,509	12,768
Additions	12	2,353	16,893	1,366	10,038	55,930	86,592
Acquisition of subsidiaries (Note 31)	122,202	-	-	1,279	8,283	16,866	148,630
Transfers	1,962	-	38,637	-	981	(41,580)	-
Disposals	(3,676)	(606)	(607)	(18)	(197)	-	(5,104)
Depreciation	(7,312)	(832)	(11,643)	(2,826)	(5,547)	-	(28,160)
Closing net book amount	217,817	2,937	136,506	10,430	29,204	55,615	452,509
At 31 December 2006							
Cost	239,383	8,175	168,577	23,598	44,209	55,615	539,557
Accumulated depreciation	(21,566)	(5,238)	(32,071)	(13,168)	(15,005)	-	(87,048)
Net book amount	217,817	2,937	136,506	10,430	29,204	55,615	452,509

Notes to the Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of HK\$18,940,000 (2005: HK\$14,909,000) has been charged in cost of sales and HK\$9,220,000 (2005: HK\$11,697,000) in administrative expenses.

At 31 December 2005, certain bank borrowings were secured on buildings for the value of HK\$4,813,000 (Note 18) and had been fully repaid in 2006.

7 INVESTMENT PROPERTIES

	2006 HK\$'000	2005 HK\$'000
At beginning of year	4,940	4,310
Fair value gains (Note 21)	-	630
At end of year	4,940	4,940

In 2005, the investment properties were revalued at 30 September 2005 by independent professionally qualified valuer, CB Richard Ellis Limited. Valuations were based on current prices in an active market for these properties. The Directors consider the fair value of the investment properties as at 31 December 2005 and 2006 is approximately the same as this valuation.

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

Notes to the Financial Statements

8 LEASEHOLD LAND AND LAND USE RIGHTS

	2006 HK\$'000	2005 HK\$'000
At beginning of year	36,128	43,622
Exchange differences	2,018	713
Additions	16,102	16,611
Acquisition of subsidiaries (Note 31)	28,359	293
Disposals	(7,267)	(8,903)
Deemed distribution	-	(15,147)
Amortisation	(1,001)	(1,061)
At end of year	74,339	36,128

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

	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held on:		
- Leases of between 10 to 50 years	2,200	9,587
Outside Hong Kong, held on:		
- Leases of between 10 to 50 years	72,139	26,541
	74,339	36,128

At 31 December 2005, certain bank borrowings were secured on land for the carrying amount of HK\$9,587,000 (Note 18) and had been fully repaid in 2006.

Notes to the Financial Statements

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	The Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	478,054	478,054

The particulars of the Group's principal subsidiaries as at 31 December 2006 are set out as follows:

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
Indirectly held:				
China Ting Garment Mfg (Group) Limited	Hong Kong	Garment trading in Hong Kong	5,000,000 shares of HK\$1 each	100%
China Ting Textile & Knitwear (H.K.) Limited	Hong Kong	Knitwear trading in Hong Kong	10,000 shares of HK\$1 each	100%
Concept Creator Fashion Limited	Hong Kong	Garment trading in Hong Kong	200,000 shares of HK\$1 each	100%
Diny (Hangzhou) Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US\$630,000	100%
Finity Fashion (Shenzhen) Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	HK\$10,000,000	100%

Notes to the Financial Statements

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
Finity International Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US\$6,800,000	100%
Hangzhou China Ting Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$3,500,000	100%
Hangzhou Ding Jia Textile Company Limited	The PRC	Home textile and garment manufacturing in the PRC	US\$4,010,000	100%
Hangzhou Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	RMB13,000,000	100%
Hangzhou Fuding Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$2,000,000	100%
Hangzhou Fuxi Fashion Company Limited	The PRC	Garment retailing in the PRC	US\$200,000	100%

Notes to the Financial Statements

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Jiangsu Fuze Textile Company Limited	The PRC	Jacquard and velvet fabric weaving in the PRC	US\$2,625,000	52%
Shenzhen Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$560,000	100%
SkyLite Fashion (Hong Kong) Limited	Hong Kong	Garment trading in Hong Kong	10,000 shares of HK\$1 each	100%
Zhejiang China Ting Brand Management Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US\$1,200,000	100%
Zhejiang China Ting Jincheng Silk Company Limited	The PRC	Silk fabric weaving in the PRC	US\$1,950,000	100%
Zhejiang China Ting Knitwear Company Limited	The PRC	Knitwear manufacturing in the PRC	US\$3,500,000	100%
Zhejiang China Ting Textile Fashion Company Limited	The PRC	Textile fashion manufacturing and trading in the PRC	US\$20,000,000	100%

Notes to the Financial Statements

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
Zhejiang China Ting Textile Technology Company Limited	The PRC	Home textile weaving in the PRC	US\$10,000,000	100%
Zhejiang Concept Creator Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$2,000,000	100%
Zhejiang Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$2,000,000	100%
Zhejiang Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$2,500,000	100%
Zhejiang China Ting Group Company Limited	The PRC	Properties holding and garment trading in the PRC	RMB50,000,000	92%
Zhejiang Huali Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$936,300	100%
Zhejiang Huayue Silk Products Company Limited	The PRC	Spun silk fabric weaving in the PRC	US\$2,500,000	55%
Zhejiang Xinan Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US\$2,000,000	100%

Notes to the Financial Statements

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

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

10 INTEREST IN ASSOCIATES

	2006 HK\$'000	2005 HK\$'000
Share of net assets	51,246	41,861
Loan to an associate (Note)	3,325	–
Goodwill	17,679	17,679
	72,250	59,540

Note: The loan to an associate is unsecured, interest-free and not repayable within one year.

Movements of interest in associates are as follows:

	2006 HK\$'000	2005 HK\$'000
At beginning of year	59,540	45,117
Exchange differences	1,137	(4)
Acquisitions	–	9,360
Incorporation of an associate	1,425	–
Loan to an associate	3,325	–
Share of profit	6,823	9,023
Change of status from associates to subsidiaries upon acquisitions of additional interests	–	(3,956)
At end of year	72,250	59,540

Notes to the Financial Statements

10 INTEREST IN ASSOCIATES *(Continued)*

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

	2006	2005
	HK\$'000	HK\$'000
Total assets	171,561	146,109
Total liabilities	(35,371)	(37,769)
Revenues	112,722	122,226
Profit for the year	17,310	22,356

Impairment test for goodwill

Goodwill is allocated to the cash-generating units (CGUs) identified for Interfield Industrial Limited and its subsidiaries ("Interfield Group").

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Interfield Group
Gross margin (a)	40%
Growth rate (b)	0%
Discount rate (c)	11.5%

Notes to the Financial Statements

10 INTEREST IN ASSOCIATES *(Continued)*

Note:

- (a) Budgeted gross margin.
- (b) Weighted average growth rate used to extrapolate cash flows beyond the budget period.
- (c) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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

Name of companies	County/ place of incorporation/ establishment	Particular of issued/paid-in capital	Equity interest attributable to the Group	Principal activities
Hangzhou Huasheng Accessories Company Limited	The PRC	US\$250,000	25%	Accessories and plastic bags manufacturing
Interfield Industrial Limited	Hong Kong	23,400,000 shares of HK\$1 each	40%	Fabric printing and dyeing
Jiaxing Feiyue Knitwear Garment Limited	The PRC	US\$660,000	45.5%	Garment manufacturing
Lee Cooper China (HK) Limited	Hong Kong	300,000 shares of Euro 1 each	50%	Retailing

Notes to the Financial Statements

11 INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademark HK\$'000	Total HK\$'000
At 1 January 2005			
Cost	–	31,216	31,216
Accumulated amortisation	–	(1,561)	(1,561)
Net book amount	–	29,655	29,655
Year ended 31 December 2005			
Opening net book amount	–	29,655	29,655
Acquisition of subsidiaries	1,414	–	1,414
Amortisation	–	(3,381)	(3,381)
Closing net book amount	1,414	26,274	27,688
At 31 December 2005			
Cost	1,414	31,216	32,630
Accumulated amortisation	–	(4,942)	(4,942)
Net book amount	1,414	26,274	27,688
Year ended 31 December 2006			
Opening net book amount	1,414	26,274	27,688
Acquisition of subsidiaries (Note 31)	19,337	–	19,337
Amortisation	–	(3,122)	(3,122)
Closing net book amount	20,751	23,152	43,903
At 31 December 2006			
Cost	20,751	31,216	51,967
Accumulated amortisation	–	(8,064)	(8,064)
Net book amount	20,751	23,152	43,903

11 INTANGIBLE ASSETS *(Continued)*

The trademark represents the right to use the brand FINITY in the PRC and Hong Kong. Amortisation is charged to selling, marketing and distribution costs during the year.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

A segment-level summary of the goodwill allocation is presented below.

	2006
	HK\$'000
OEM garment sales	20,751

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the OEM garment business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	OEM garment sales
Gross margin (a)	35%
Growth rate (b)	3%
Discount rate (c)	11%

11 INTANGIBLE ASSETS *(Continued)*

Impairment tests for goodwill *(Continued)*

Note:

- (a) Budgeted gross margin.
- (b) Weighted average growth rate used to extrapolate cash flows beyond the budget period.
- (c) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

12 INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	103,589	83,290
Work in progress	112,598	94,545
Finished goods	155,644	63,939
	371,831	241,774
Less: inventory write-down	(23,634)	(23,634)
	348,197	218,140

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK\$810,867,000 (2005: HK\$816,261,000).

During the year, no provision for inventory write-down has been made (2005: HK\$17,102,000).

Notes to the Financial Statements

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade and bills receivables	307,632	235,479	-	-
Less: Provision for impairment of receivables	(2,527)	(4,555)	-	-
Trade and bills receivables – net	305,105	230,924	-	-
Other receivables, deposits and prepayments	70,391	62,643	7,840	15,759
	375,496	293,567	7,840	15,759

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

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	221,304	167,341
31 to 60 days	62,059	49,356
61 to 90 days	17,343	11,750
Over 90 days	6,926	7,032
	307,632	235,479

Notes to the Financial Statements

13 TRADE AND OTHER RECEIVABLES *(Continued)*

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	Group	
	2006 HK\$'000	2005 HK\$'000
HK\$	1,995	1,804
RMB	41,057	31,842
USD	240,027	194,350
Euro	24,553	7,483
	307,632	235,479

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of not more than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

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

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

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

The carrying amounts of trade and other receivables approximate their fair values.

Notes to the Financial Statements

13 TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2006, the reversal of provision for impairment of receivables amounted to HK\$1,167,000 (2005: provision of HK\$3,147,000). These have been included in administrative expenses in the income statement.

14 PLEDGED BANK DEPOSITS

Bank deposits of HK\$12,310,000 (2005: HK\$1,128,000) have been pledged for trade finance facilities made available to the Group.

The effective interest rate on pledged bank deposits was 1.8% per annum (2005: 1.71% per annum).

15 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	293,381	408,396	9,544	83,458
Short-term bank deposits	204,048	261,146	-	250,000
Cash and cash equivalents	497,429	669,542	9,544	333,458
Term deposits with initial term of over three months	327,829	300,000	313,897	300,000
Pledged bank deposits (Note 14)	12,310	1,128	-	-
	837,568	970,670	323,441	633,458

Notes to the Financial Statements

15 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/CASH AND CASH EQUIVALENTS *(Continued)*

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Denominated in:				
HK\$	323,093	635,565	320,441	633,458
RMB	260,824	73,296	-	-
USD	238,142	261,460	2,981	-
Euro	15,509	349	19	-
	837,568	970,670	323,441	633,458

- (i) The effective interest rate on short-term bank deposits and term deposits was 4.84% per annum (2005: 4.27% per annum); these deposits have a maturity ranging from 7 to 180 days.
- (ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

Notes to the Financial Statements

16 SHARE CAPITAL

Details of share capital of the Company as at 31 December 2006 are as follows:

	Note	Authorised ordinary shares Number of shares (in thousands)	Total HK\$'000
At date of incorporation on 31 May 2005	(i)	10,000	1,000
Increase in authorised share capital	(iii)	9,990,000	999,000
At 31 December 2005 and 31 December 2006		10,000,000	1,000,000

	Note	Issued and fully paid ordinary shares Number of shares (in thousands)	Total HK\$'000
At date of incorporation on 31 May 2005	(i)	–	–
Ordinary shares allotted and issued nil paid	(ii)	–	–
Issue of ordinary shares in respect of the Reorganisation	(iii)	100,000	10,000
New issue of shares	(iv)	500,000	50,000
Capitalisation of share premium account	(v)	1,390,000	139,000
At 31 December 2005		1,990,000	199,000
Issue of shares	(vi)	75,000	7,500
Exercise of share options		1,250	125
At 31 December 2006		2,066,250	206,625

16 SHARE CAPITAL *(Continued)*

Note:

- (i) The Company was incorporated on 31 May 2005 with an authorised share capital of HK\$1,000,000 divided into 10,000,000 shares of HK\$0.10 each ("Share"). On 17 June 2005, one Share was allotted and issued at nil paid to the initial subscriber of the Company which was subsequently transferred to Gainchoice Investment Limited ("Gainchoice") which is wholly owned by Longerview Investments Limited ("Longerview"). Longerview is owned by Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer ("Controlling Shareholders") on the same date.
- (ii) On 17 June 2005, 99 Shares were allotted and issued at nil paid to Gainchoice. On 27 July 2005, 100 Shares were transferred from Gainchoice to Longerview.
- (iii) Pursuant to a written resolution of the sole shareholder of the Company passed on 1 November 2005, the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$1,000,000,000 by the creation of additional 9,990,000,000 Shares. Pursuant to a share exchange deed on 18 November 2005, a total of 99,999,900 shares, credited as fully paid, were allotted and issued to Longerview and the 100 nil paid Shares held by Longerview were credited as fully paid, in consideration for the acquisition of the entire issued share capital of Witpower Investments Limited, Skyyear Holdings Limited, Joyocean Investments Limited, Manfame Investments Limited and Oceanroc Investments Limited pursuant to the Reorganisation.
- (iv) On 14 December 2005, the Company issued 500,000,000 ordinary shares of HK\$2.025 per share in connection with the Listing, and raised gross proceeds of approximately HK\$1,012,500,000. Subsequent to the issuance of 500,000,000 ordinary shares, the shares of the Company were listed on the Main Board of the HKSE on 15 December 2005.
- (v) On 14 December 2005, 1,390,000,000 Shares of the Company were allotted and issued, credited as fully paid at par value of HK\$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK\$139,000,000 from the share premium account.
- (vi) On 4 January 2006, the Company issued 75,000,000 ordinary shares of HK\$0.10 each at HK\$2.025 per share under an over-allotment arrangement in connection with the Listing and raised gross proceeds of approximately HK\$151,875,000.

Notes to the Financial Statements

16 SHARE CAPITAL *(Continued)*

Share options

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered into by the Company with an employee on 18 November 2005, the employee has been conditionally granted the option prior to 15 December 2005 to subscribe for up to 10,000,000 Shares. The option granted under the Pre-IPO Share Option Scheme may be exercised by the employee in part, during a period of eight years from 15 December 2005, representing no more than one-eighth of the total number of the option shares in each calendar year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2006		2005	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January/date of incorporation	0.10	10,000	-	-
Granted	-	-	0.10	10,000
Exercised	0.10	(1,250)	-	-
At 31 December	0.10	8,750	0.10	10,000

At 31 December 2005, all the options were not exercisable. Options exercised in 2006 resulted in 1,250,000 shares being issued at HK\$0.10 each. The related weighted average share price at the time of exercise was HK\$2.06 per share.

8,750,000 outstanding options at 31 December 2006 were not exercisable as at that date and will be exercisable at an exercise price of HK\$0.10 per share over the period up to 15 December 2013. They will be expired on 15 December 2013.

Notes to the Financial Statements

17 RESERVES

(a) Group

	Share premium	Capital reserve	Contributed surplus	Statutory reserves	Share based compensation reserve	Exchange reserves	Retained earnings	Total
	HK\$'000	HK\$'000 (Note (i))	HK\$'000 (Note (ii))	HK\$'000 (Note (iii))	HK\$'000 (Note (iv))	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Currency translation differences	-	-	-	-	-	36,480	-	36,480
Issue of shares	144,375	-	-	-	-	-	-	144,375
Profit for the year	-	-	-	-	-	-	408,539	408,539
Share issuance costs	(4,898)	-	-	-	-	-	-	(4,898)
Employee share option scheme:								
- value of employee services	-	-	-	-	1,902	-	-	1,902
- transfer to share premium	1,902	-	-	-	(1,902)	-	-	-
2005 final dividend paid	-	-	-	-	-	-	(94,990)	(94,990)
2006 interim dividend paid	-	-	-	-	-	-	(132,160)	(132,160)
Profit appropriation	-	-	-	17,724	-	-	(17,724)	-
At 31 December 2006	905,152	7,746	(4,624)	42,695	1,902	50,268	597,470	1,600,609
Representing:								
2006 final dividend proposed							90,915	
2006 special dividend proposed							53,723	
Others							452,832	
							<u>597,470</u>	

Notes to the Financial Statements

17 RESERVES (Continued)

(a) Group (Continued)

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

Notes to the Financial Statements

17 RESERVES (Continued)

(b) Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (ii))	Share based compensation reserve HK\$'000 (Note (iv))	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2006	763,773	468,054	1,902	95,038	1,328,767
Profit for the year	-	-	-	302,461	302,461
Issues of shares	144,375	-	-	-	144,375
Share issuance costs	(4,898)	-	-	-	(4,898)
Employee share option scheme:					
- value of employee services	-	-	1,902	-	1,902
- transfer to share premium	1,902	-	(1,902)	-	-
2005 final dividend paid	-	-	-	(94,990)	(94,990)
2006 interim dividend paid	-	-	-	(132,160)	(132,160)
At 31 December 2006	905,152	468,054	1,902	170,349	1,545,457
Representing:					
2006 final dividend proposed				90,915	
2006 special dividend proposed				53,723	
Others				25,711	
				<u>170,349</u>	

Notes to the Financial Statements

17 RESERVES (Continued)

(b) Company (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (ii))	Share based compensation reserve HK\$'000 (Note (iv))	Retained earnings HK\$'000	Total HK\$'000
At date of incorporation	-	-	-	-	-
Profit for the period	-	-	-	95,038	95,038
Effect of the Reorganisation	-	468,054	-	-	468,054
Employee share option scheme:					
- value of employee services	-	-	1,902	-	1,902
Issue of shares in connection					
with the Listing	962,500	-	-	-	962,500
Capitalisation of share					
premium account	(139,000)	-	-	-	(139,000)
Share issuance costs	(59,727)	-	-	-	(59,727)
At 31 December 2005	763,773	468,054	1,902	95,038	1,328,767
Representing:					
2005 final dividend proposed				94,990	
Others				48	
				<u>95,038</u>	

17 RESERVES *(Continued)*

Note:

(i) Capital reserve

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

(ii) Contributed surplus

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

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

(iii) Statutory reserves

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

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

(iv) Share based compensation reserve

Employee share option reserve represents value of employee services under the Group's Pre-IPO Share Option Scheme.

Notes to the Financial Statements

18 BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Non-current		
Bank borrowings	-	4,368
Current		
Bank borrowings	2,225	59,420
Total borrowings	2,225	63,788
Representing:		
- secured	-	38,806
- unsecured	2,225	24,982
Total borrowings	2,225	63,788

At 31 December 2006, the Group's bank borrowings were wholly repayable within five years as follows:

	2006 HK\$'000	2005 HK\$'000
Within 1 year	2,225	59,420
Between 1 and 2 years	-	1,143
Between 2 and 5 years	-	3,225
	2,225	63,788

At 31 December 2005, secured bank borrowings are secured by buildings and leasehold land and land use rights of the Group (Notes 6 and 8) (2006: Nil).

At 31 December 2005 and 2006, the trade finance facilities of the Group were secured by pledged bank deposits (Note 14).

Notes to the Financial Statements

18 BORROWINGS (Continued)

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

	2006	2005
	HK\$'000	HK\$'000
HK\$ at floating rates	231	12,865
RMB at fixed rates	1,994	50,923
Total borrowings	2,225	63,788

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

	2006	2005
HK\$	7.75%	5.49%
RMB	5.88%	5.34%

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

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

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

	2006	2005
	HK\$'000	HK\$'000
Carrying amounts	-	4,368
Fair value	-	3,861

The fair value as at 31 December 2005 was based on cash flow discounted using a rate based on the borrowing rates of 3.10% per annum for that year.

Notes to the Financial Statements

19 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:

	2006	2005
	HK\$'000	HK\$'000
Deferred income tax assets	(4,153)	(4,321)
Deferred income tax liabilities	19,752	779
	15,599	(3,542)

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

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

	2006	2005
	HK\$'000	HK\$'000
At beginning of year	(3,542)	(1,065)
Exchange differences	242	(38)
Acquisition of subsidiaries (Note 31)	18,924	-
Recognised in the income statement (Note 23)	(25)	(2,439)
At end of year	15,599	(3,542)

Notes to the Financial Statements

19 DEFERRED INCOME TAX *(Continued)*

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

	Accelerated tax depreciation HK\$'000	Revaluation of buildings and land use rights HK\$'000	Total HK\$'000
Deferred income tax liabilities			
At 1 January 2005	108	–	108
Recognised in the income statement	671	–	671
At 31 December 2005	779	–	779
Exchange differences	–	364	364
Acquisition of subsidiaries (Note 31)	–	18,924	18,924
Recognised in the income statement	–	(315)	(315)
At 31 December 2006	779	18,973	19,752

Notes to the Financial Statements

19 DEFERRED INCOME TAX (Continued)

	Accelerated tax depreciation HK\$'000	Provisions HK\$'000	Pre- operating expenses HK\$'000	Total HK\$'000
Deferred income tax assets				
At 1 January 2005	(35)	(791)	(347)	(1,173)
Exchange differences	-	(37)	(1)	(38)
Recognised in the income statement	(59)	(3,060)	9	(3,110)
At 31 December 2005	(94)	(3,888)	(339)	(4,321)
Exchange differences	-	(114)	(8)	(122)
Recognised in the income statement	-	76	214	290
At 31 December 2006	(94)	(3,926)	(133)	(4,153)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$3,014,000 (2005: HK\$2,308,000) in respect of losses amounting to HK\$11,785,000 (2005: HK\$20,793,000), that can be carried forward against future taxable income. The tax losses expire from 2008 to 2012 (2005: 2007 to 2009).

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade and bills payables	223,976	182,719	-	-
Other payables and accruals	113,827	103,486	2,276	28,778
	337,803	286,205	2,276	28,778

Notes to the Financial Statements

20 TRADE AND OTHER PAYABLES *(Continued)*

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

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	172,735	108,996
31 to 60 days	31,367	49,702
61 to 90 days	6,299	8,359
Over 90 days	13,575	15,662
	223,976	182,719

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

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	Group	
	2006 HK\$'000	2005 HK\$'000
HK\$	6,239	9,940
RMB	198,776	162,118
USD	14,903	10,661
Euro	4,058	-
	223,976	182,719

The carrying amounts of trade and other payables approximate their fair values.

Notes to the Financial Statements

21 OTHER GAINS, NET

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of property, plant and equipment and leasehold land and land use rights	9,617	6,489
Fair value gain on investment properties	-	630
Government grants	7,655	11,771
Exchange gains	527	272
Others	5,266	2,720
	23,065	21,882

22 FINANCE INCOME AND COSTS

	2006 HK\$'000	2005 HK\$'000
Finance income – Interest income on bank deposits	35,909	10,249
Finance costs – Interest on bank loans	(423)	(8,951)
Net finance income	35,486	1,298

23 INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current income tax		
– Hong Kong profits tax (Note (a))	28,803	50,623
– PRC enterprise income tax (Note (b))	30,823	24,531
Deferred income tax (Note 19)	(25)	(2,439)
Overprovision in prior years	(4,911)	-
	54,690	72,715

23 INCOME TAX EXPENSE *(Continued)*

(a) Hong Kong profits tax

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

(b) PRC enterprise income tax

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

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

Notes to the Financial Statements

23 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before income tax	465,491	462,820
Calculated at a taxation rate of 17.5% (2005: 17.5%)	81,461	80,994
Effect from different income tax rates in other jurisdictions	21,502	20,404
Effects of tax exemption	(36,832)	(29,912)
Income not subject to tax	(11,286)	(4,085)
Expenses not deductible for tax purposes	1,903	2,420
Utilisation of previously unrecognised tax losses	(275)	(244)
Overprovision in prior years	(4,911)	-
Tax losses for which no deferred income tax asset was recognised	2,479	2,826
Others	649	312
Income tax expense	54,690	72,715

Notes to the Financial Statements

24 EXPENSES BY NATURE

	2006 HK\$'000	2005 HK\$'000
Auditors' remuneration	4,052	4,131
Amortisation of leasehold land and land use rights (Note 8)	1,001	1,061
Amortisation of intangible assets (Note 11)	3,122	3,381
Depreciation of property, plant and equipment (Note 6)	28,160	26,606
Employee benefit expenses (including directors' emolument) (Note 25)	279,043	229,202
Changes in inventories of finished goods and work in progress	(109,758)	64,708
Raw materials and consumables used	920,625	751,553
Direct operating expenses arising from investment properties that generate rental income	84	81
Operating lease rental in respect of property, plant and equipment	14,911	6,307
Provision for inventory write-down (Note 12)	-	17,102
(Reversal of)/provision for impairment of receivables (Note 13)	(1,167)	3,069
Bad debts written off (Note 13)	-	78
Other expenses	380,610	357,603
Total cost of sales, selling, marketing and distribution costs and administrative expenses	1,520,683	1,464,882

Notes to the Financial Statements

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK\$'000	2005 HK\$'000
Salaries, wages and bonuses	257,640	207,585
Pension costs – defined contribution plans (Note)	12,032	10,974
Staff welfare	9,371	10,643
	279,043	229,202

Note:

Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 19% of employees' basic salary to the scheme to fund the retirement benefits of the employees.

The Group has also established a mandatory provident fund scheme ("MPF scheme") in Hong Kong. The assets of the MPF scheme are held in separate trustee-administrated funds. Both the Group and the employees are required to contribute 5% of the employee's relevant income up to a maximum of HK\$1,000 per employee per month.

Notes to the Financial Statements

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of each director of the Company for the year ended 31 December 2006 is set out below:

Name	Fees HK\$'000	Basic salaries, housing allowances, other allowances and benefits	Contributions to pension plans	Discretionary bonus	Total HK\$'000
		in kind HK\$'000	HK\$'000	HK\$'000	
Ting Man Yi	-	3,000	12	2,250	5,262
Ding Jianer	-	2,000	12	770	2,782
Ting Hung Yi	-	3,000	12	2,250	5,262
Wong Sin Yung	-	800	12	400	1,212
Cheung Ting Yin, Peter (i)	-	515	5	417	937
Cheng Chi Pang	300	-	-	-	300
Wong Chi Keung	200	-	-	-	200
Leung Man Kit	200	-	-	-	200
	700	9,315	53	6,087	16,155

Note:

(i) Appointed on 3 August 2006

Notes to the Financial Statements

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

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

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

Name	Basic salaries, housing allowances, other allowances Contributions and benefits to pension Discretionary				Total
	Fees	in kind	plans	bonus	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ting Man Yi	-	1,707	12	2,880	4,599
Ding Jianer	-	691	12	940	1,643
Ting Hung Yi	-	1,618	12	2,880	4,510
Wong Sin Yung	-	565	12	500	1,077
Cheng Chi Pang	36	-	-	-	36
Wong Chi Keung	24	-	-	-	24
Leung Man Kit	24	-	-	-	24
	84	4,581	48	7,200	11,913

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) directors of the Company whose emoluments are reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining one (2005: two) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind (Note)	3,017	4,177
Contributions to pension plans	12	24
Discretionary bonuses	1,300	3,100
	4,329	7,301

Note: Other benefits in kind include share option value.

The emoluments fell within the following bands:

	2006	2005
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	1

None of the highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

26 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$302,461,000 (2005: HK\$95,038,000).

Notes to the Financial Statements

27 EARNINGS PER SHARE

(a) Basic

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.

	2006	2005
Profit attributable to equity holders of the Company (HK\$'000)	408,539	380,997
Weighted average number of ordinary shares in issue (thousands)	2,064,541	1,514,658
Basic earnings per share (HK cents per share)	19.79	25.15

(b) Diluted

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

Notes to the Financial Statements

27 EARNINGS PER SHARE *(Continued)*

(b) Diluted *(Continued)*

	2006	2005
Profit attributable to equity holders of the Company (HK\$'000)	408,539	380,997
Weighted average number of ordinary shares in issue (thousands)	2,064,541	1,514,658
Adjustments for share options (thousands)	9,359	1,147
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,073,900	1,515,805
Diluted earnings per share (HK cents per share)	19.70	25.13

28 DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim		
Interim dividend, paid, of HK5.4 cents per ordinary share (Note (i))	111,510	256,270
Special dividend, paid, of HK1.0 cent per ordinary share	20,650	-
Final		
Proposed final dividend of HK4.4 cents (2005: HK4.6 cents) per ordinary share (Note (ii))	90,915	94,990
Proposed special dividend of HK2.6 cents (2005: Nil) per ordinary share (Note (ii))	53,723	-
	276,798	351,260

28 DIVIDENDS *(Continued)*

Note:

(i) Interim dividend

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

(ii) Proposed final dividend

At a meeting held on 28 March 2007, the directors proposed a special dividend of HK2.6 cents per ordinary share in addition to a final dividend of HK4.4 cents per ordinary share. The proposed dividends are not reflected as a dividend payable in the financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

Notes to the Financial Statements

29 CASH GENERATED FROM OPERATIONS

	2006 HK\$'000	2005 HK\$'000
Operating profit	423,182	452,499
Adjustments for:		
– Depreciation of property, plant and equipment	28,160	26,606
– Amortisation of leasehold land and land use rights	1,001	1,061
– Amortisation of intangible assets	3,122	3,381
– Gain on disposal of property, plant and equipment and leasehold land and land use rights (see below)	(9,617)	(6,489)
– Fair value gain on investment properties	–	(630)
– Amortisation of share option scheme	1,902	1,902
Changes in working capital:		
– Inventories	(122,569)	(30,242)
– Trade and other receivables	(59,669)	(49,981)
– Due from/to related companies	–	156,527
– Due from/to directors	–	(116,994)
– Due from/to associates	(3,622)	10,684
– Trade and other payables	50,949	22,146
Cash generated from operations	312,839	470,470

Notes to the Financial Statements

29 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2006 HK\$'000	2005 HK\$'000
Net book amount of:		
Property, plant and equipment (Note 6)	5,104	17,906
Leasehold land and land use rights (Note 8)	7,267	8,903
	12,371	26,809
Gain on disposal of property, plant and equipment and leasehold land and land use rights (Note 21)	9,617	6,489
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	21,988	33,298

30 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006 HK\$'000	2005 HK\$'000
Property, plant and machinery Contracted but not provided for	2,183	10,547
Investment in an associate, Lee Cooper China (HK) Limited	10,220	–
	12,403	10,547

Notes to the Financial Statements

30 COMMITMENTS *(Continued)*

(b) Operating lease commitments

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

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

	2006 HK\$'000	2005 HK\$'000
Land and buildings		
– Not later than 1 year	3,259	6,246
– Later than 1 year and not later than 5 years	–	4,465
	3,259	10,711
Plant and equipment		
– Not later than 1 year	169	132
– Later than 1 year and not later than 5 years	381	44
	550	176
	3,809	10,887

31 BUSINESS COMBINATIONS

On 23 October 2006, the Group acquired 92% of the share capital of Zhejiang China Ting Group Company Limited ("Zhejiang China Ting") from Mr. DING Xinger, an elder brother of the Controlling Shareholders, and certain third parties. Zhejiang China Ting and its subsidiary are engaged in properties holding. The acquired business contributed turnover of HK\$218,000 and net loss of HK\$867,000 to the Group for the period from 24 October 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, the turnover and net loss contributed by the acquired business would have been HK\$874,000 and HK\$6,728,000 respectively and the Group would have saved rental expenses by HK\$10,507,000.

Details of net assets acquired and goodwill are as follows:

	HK\$'000
Purchase consideration – Cash paid	172,368
Fair value of net assets acquired – shown as below	(153,031)
Goodwill (Note 11)	19,337

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Zhejiang China Ting.

Notes to the Financial Statements

31 BUSINESS COMBINATIONS *(Continued)*

The separately identifiable assets and liabilities as of 23 October 2006 arising from the acquisition are as follows:

	Fair value HK\$'000	Acquiree's carrying amount HK\$'000
Property, plant and equipment (Note 6)	148,630	107,499
Leasehold land and land use rights (Note 8)	28,359	13,056
Other receivables, deposits and prepayments	14,507	14,507
Cash and cash equivalents	4,542	4,542
Other payables and accruals	(7,394)	(7,394)
Current income tax liabilities	(2,792)	(2,792)
Deferred income tax liabilities (Note 19)	(18,924)	-
Net assets	166,928	
Minority interests	(13,897)	
Net assets acquired	153,031	
		HK\$'000
Purchase consideration settled in cash		172,368
Cash and cash equivalents in subsidiaries acquired		(4,542)
Cash outflow on acquisition		167,826

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Longerview which owns 72.11% of the Company's shares. The remaining 27.89% of the shares are widely held.

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	Relationship with the Group
Hangzhou Huasheng Accessories Company Limited (“Huasheng Accessories”)	An associate company
Interfield Industrial Limited (“Interfield”)	An associate company

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

Notes to the Financial Statements

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with related parties:

Apart from disclosed elsewhere, the Group entered into the following transactions with related parties during the year. In the opinion of the Directors, these transactions were conducted in the ordinary and usual course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and these related parties.

	2006 HK\$'000	2005 HK\$'000
Purchases of accessories from Huasheng Accessories	9,896	7,525
Subcontracting charges paid to Interfield	29,207	18,904
Sales of property, plant and equipment and leasehold land to Ting Man Yi	-	19,900

(b) Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term employee benefits	21,094	18,663
Post-employment benefits	96	96
Share-based payments	1,902	1,902
	23,092	20,661

Notes to the Financial Statements

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Year-end balances

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Receivables from related parties				
– associates	3,107	1,104	–	–
– subsidiaries	–	–	945,098	429,274
	3,107	1,104	945,098	429,274
Payables to related parties				
– associates	5,922	7,541	–	–

Note:

All amounts are unsecured, interest-free and repayable on demand, except for the amount due from an associate of HK\$4,984,000 (2005: Nil) which bears interest at 4.8%.

The carrying amounts of receivables/payables from/to related parties approximate their fair values.

33 EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.