NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 July 2006. Its ultimate holding company and immediate holding company are Charm Hero Investments Limited ("Charm Hero") and Mensun Ltd., companies incorporated in the British Virgin Islands ("BVI") which are beneficially owned by Mr. Ngok Yan Yu and his family. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

Under a group reorganisation scheme ("Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 13 June 2006. Details of the Group Reorganisation were set out in the prospectus issued by the Company ("Prospectus") dated 30 June 2006.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) One subscriber share of the Company was allotted and issued at nil paid to Mr. Ngok Yan Yu, as the initial shareholder of the Company; and

(b) On 13 June 2006, the shareholders of Full Prosper Holdings Limited ("Full Prosper"), which was former holding company of the Company's subsidiaries before the Group Reorganisation, transferred to the Company an aggregate of 903 shares of US$1 each in Full Prosper, being the entire issued share capital of Full Prosper, in consideration and in exchange for 39,999,999 shares of HK$0.10 each of the Company.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as if the group structure under the Group Reorganisation had been in existence throughout the two years ended 31 December 2006 and 2005.

The principal activities of the Group are the manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int 8	Scope of HKFRS 2[4]
HK(IFRIC) – Int 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Royalty fee income is recognised when the rights to receive payment are established.

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

Delivery charge and management fee income are recognised when services are rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum.

Buildings	4.5%
Leasehold improvement	18% to $33\frac{1}{3}$% or over the lease terms, whichever is shorter
Plant and machinery	9% to 20%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	20%

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining consolidated balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to the consolidated income statements on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Borrowing costs

All borrowing costs are recognised in consolidated income statement in the year in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated income statement in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the year except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in consolidated income statement in the year in which the foreign operation is disposed of.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from a minority shareholder, related companies and jointly controlled entities, loans to jointly controlled entities, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale debt investments is reversed in the consolidated income statement in subsequent periods if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity *(continued)*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to shareholders of jointly controlled entities and jointly controlled entities, loans from shareholders of jointly controlled entities and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment loss *(continued)*

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

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

4. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, bank balances, pledged bank deposits, amounts due from a minority shareholder, jointly controlled entities and related companies, loans to jointly controlled entities, trade and other payables, amounts due to shareholders of jointly controlled entities and jointly controlled entities, loans from shareholders of jointly controlled entities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have minimal foreign currency sales, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 29 for details of these borrowings). It is the Group's policy to keep majority of its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group mitigates the cash flow interest rate risk through the monitoring of interest rate gap between the bank borrowings and financing facilities and revises financing rate if necessary.

Price risk

The Group's available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolios of investments with different risk profiles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

4. FINANCIAL INSTRUMENTS *(continued)*

(a) Financial risk management objectives and policies *(continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and financial guarantee issued arising from the grant of guarantee to a jointly controlled entity as disclosed in note 38 as at the balance sheet date. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and loan advanced at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

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

Bank balances and pledged bank deposits are placed in various authorised institutions and directors of the Company consider the credit risk for such is minimal.

Liquidity risks

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and bank borrowings facilities deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of available-for-sale investments are determined with reference to market prices quoted by banks; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

4. FINANCIAL INSTRUMENTS *(continued)*

(b) Fair value *(continued)*

The directors of the Company consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates to their corresponding carrying amount.

5. REVENUE

	2006 HK$'000	2005 HK$'000
Sales of apparel and accessories	**551,924**	411,777
Distribution and retailing of apparel and footwear	**59,406**	15,762
Royalty fee income	**359**	242
	611,689	427,781

6. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

For management purposes, the Group is currently organised into two operating divisions – manufacture and sales of apparel and accessories and distribution and retailing of apparel and footwear. These divisions are the basis on which the Group reports its primary segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Segment information about these business is presented below:

Year ended 31 December 2006

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	551,924	59,406	359	–	611,689
Inter-segment sales	6,328	1,084	–	(7,412)	–
Total	558,252	60,490	359	(7,412)	611,689
Inter-segment sales are charged at prevailing market rates					
RESULT					
Segment result	121,445	91	61	–	121,597
Unallocated income					3,477
Unallocated corporate expense					(11,029)
Finance costs					(23,256)
Profit before tax					90,789
Income tax expense					(13,296)
Profit for the year					77,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2006 (continued)

BALANCE SHEET

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	539,854	50,521	–	590,375
Unallocated corporate assets				264,432
				854,807
LIABILITIES				
Segment liabilities	(73,453)	(13,974)	(6)	(87,433)
Unallocated corporate liabilities				(422,163)
				(509,596)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2006 (continued)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
Capital additions	53,867	7,696	–	61,563
Amortisation of prepaid lease payments	623	–	–	623
Depreciation	8,073	2,166	–	10,239
Loss on disposal of property, plant and equipment	580	116	–	696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2005

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	411,777	15,762	242	–	427,781
Inter-segment sales	5,351	–	–	(5,351)	–
Total	417,128	15,762	242	(5,351)	427,781
Inter-segment sales are charged at prevailing market rates					
RESULT					
Segment result	79,683	(4,295)	20	–	75,408
Unallocated income					633
Unallocated corporate expense					(29)
Finance costs					(12,423)
Profit before tax					63,589
Income tax expense					(5,115)
Profit for the year					58,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2005 (continued)

BALANCE SHEET

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	356,771	15,013	4	371,788
Unallocated corporate assets				113,644
				485,432
LIABILITIES				
Segment liabilities	(67,789)	(9,379)	(35)	(77,203)
Unallocated corporate liabilities				(259,275)
				(336,478)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2005 (continued)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
Capital additions	74,407	2,577	–	76,984
Amortisation of prepaid lease payments	601	–	–	601
Depreciation	5,151	1,027	–	6,178
Loss on disposal of property, plant and equipment	19	–	–	19
Allowance on loan to a jointly controlled entity	–	676	–	676

Geographical segments

The analysis of the Group's revenue by geographical market for the year is as follows:

	2006 HK$'000	2005 HK$'000
Europe	**476,284**	374,675
The PRC	**86,363**	23,948
Others	**49,042**	29,158
	611,689	427,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Geographical segments *(continued)*

	Carrying amount of segment assets		Addition to property, plant and equipment	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
The PRC	**416,110**	259,006	**52,241**	71,830
Hong Kong	**127,743**	101,455	**9,308**	4,664
Europe	**785**	746	**1**	–
Macau	**45,737**	10,581	**13**	490
	590,375	371,788	**61,563**	76,984

7. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Bank interest income	**3,298**	550
Interest income from a jointly controlled entity	**179**	83
Total interest income	**3,477**	633
Delivery charge received from customers and suppliers	**462**	540
Management fee income from a jointly controlled entity	**180**	192
Sundry income	**1,435**	1,416
	5,554	2,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

8. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five year	**22,535**	12,175
– over five years	**387**	83
Obligations under finance leases	**155**	61
Loan from shareholder of a jointly controlled entity	**179**	104
	23,256	12,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

9. PROFIT BEFORE TAX

	2006 HK$'000	2005 HK$'000
Profit before tax has been arrived at after charging:		
Allowance on loan to a jointly controlled entity	–	676
Auditors' remuneration	1,125	725
Cost of inventories recognised as an expense	391,801	285,672
Depreciation of property, plant and equipment	10,239	6,178
Amortisation of prepaid lease payments	623	601
Loss on disposal of property, plant and equipment	696	19
Exchange loss	2,542	2,554
Staff costs		
– directors' remuneration (Note 11)	8,967	5,106
– other staff costs	35,585	27,420
– retirement benefit scheme contribution excluding directors	3,026	2,672
	47,578	35,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

10. INCOME TAX EXPENSE

	2006	2005
	HK$'000	HK$'000
Current tax:		
Hong Kong	**11**	2,330
Other jurisdictions	**13,345**	2,510
	13,356	4,840
Under(over)provision in prior years:		
Hong Kong	**282**	(7)
Other jurisdictions	**(6)**	–
	276	(7)
Deferred tax (Note 30):		
Current year	**(336)**	282
	13,296	5,115

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the years ended 31 December 2006 and 2005, respectively. Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries were exempted from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit-making year, followed by a 50% reduction for next three years and will be expired ranging from year 2007 to 2011. Accordingly, tax provision for these subsidiaries have been provided for after taking into account of these tax exemption during the years ended 31 December 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

10. INCOME TAX EXPENSE *(continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006	2005
	HK$'000	HK$'000
Profit before tax	**90,789**	63,589
Tax at the domestic income tax rate of 24% (2005: 17.5%)	**21,790**	11,128
Tax effect of expenses not deductible for tax purpose	**1,325**	450
Tax effect of incomes not taxable for tax purpose	**(295)**	(320)
Tax effect on tax concession	**(15,857)**	(8,343)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,033)**	1,093
Tax effect of tax losses not recognised	**7,026**	1,111
Tax effect of other deductible temporary differences not recognised	**64**	–
Net under(over)provision in prior years	**276**	(7)
Others	**–**	3
Income tax expense for the year	**13,296**	5,115

Note: The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used and the change of the domestic income tax rate is as a result of the expanded operations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

11. DIRECTORS' EMOLUMENTS

	Ngok Yan Yu HK$'000	Tang Chui Yi, Janny HK$'000	Wong Ming Yeung HK$'000	Marcello Appella HK$'000	Antonio Piva HK$'000	Lam Hon Keung, Keith HK$'000	Je Kin Ming HK$'000	Lo Ming Chi, Charles HK$'000	Pao Ping Wing HK$'000	Kwan Hung Sang, Francis HK$'000	Total 2006 HK$'000
2006											
Fee	34	28	–	434	–	195	195	130	130	130	1,276
Other emoluments											
Salaries and other benefits	1,518	2,665	751	–	1,343	–	–	–	–	–	6,277
Contribution to retirement benefit schemes	12	12	12	235	–	–	–	–	–	–	271
Bonus (Note)	–	200	53	275	–	–	–	–	–	–	528
Share-based compensation	142	113	72	72	72	72	72	–	–	–	615
Total emoluments	1,706	3,018	888	1,016	1,415	267	267	130	130	130	8,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

11. DIRECTORS' EMOLUMENTS *(continued)*

	Ngok Yan Yu HK$'000	Tang Chui Yi, Janny HK$'000	Wong Ming Yeung HK$'000	Marcello Appella HK$'000	Antonio Piva HK$'000	Lam Hon Keung, Keith HK$'000	Je Kin Ming HK$'000	Lo Ming Chi, Charles HK$'000	Pao Ping Wing HK$'000	Kwan Hung Sang, Francis HK$'000	Total 2006 HK$'000
2005											
Fee	–	–	–	–	–	–	–	–	–	–	–
Other emoluments											
Salaries and other benefits	1,200	1,800	507	540	855	–	–	–	–	–	4,902
Contribution to retirement benefit schemes	12	12	12	168	–	–	–	–	–	–	204
Total emoluments	1,212	1,812	519	708	855	–	–	–	–	–	5,106

Note: The bonus paid to directors is determined on discretionary basis.

No director waived or agreed to waive any emoluments in the years ended 31 December 2006 and 2005. No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, 4,300,000 share options (2005: Nil) were granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

12. EMPLOYEES' EMOLUMENTS

Of the five highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in note 11 above. The emolument of the remaining one individual for the year ended 31 December 2006 (2005: one) is as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**1,119**	548
Retirement benefits scheme contributions	**118**	–
	1,237	548

13. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Dividend recognised as distribution during the year:		
Interim – HK3 cents per share (2005: nil)	**7,586**	–

The final dividend of HK7 cents (2005: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on profit attributable to equity holders of the parent of approximately HK$78,128,000 (2005: HK$58,194,000) and the weighted average number of shares as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

14. EARNINGS PER SHARE *(continued)*

Number of shares

	2006 **HK$'000** (Note a)	2005 HK$'000 (Note b)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**214,058**	180,000
Effect of dilutive potential ordinary shares for share options	**168**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**214,226**	180,000

Note:

(a) The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the exercise price of those options is higher than the average market price shares for year 2006.

(b) The calculation of basic and diluted earnings per share for year 2005 is assuming that 180,000,000 shares of the Company had been in issue throughout year 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2005	21,629	16,494	900	8,002	3,703	3,036	53,764
Exchange realignment	496	237	6	150	39	28	956
Additions	8,893	53,325	1,302	5,826	3,982	3,656	76,984
Transfer	49,995	(49,995)	–	–	–	–	–
Disposals	–	–	(109)	(571)	(106)	(101)	(887)
At 31 December 2005	81,013	20,061	2,099	13,407	7,618	6,619	130,817
Exchange realignment	3,240	802	9	533	187	103	4,874
Additions	18,051	17,240	5,324	4,714	15,276	958	61,563
Transfer	38,103	(38,103)	–	–	–	–	–
Disposals	–	–	(1,525)	–	(1,162)	(1,665)	(4,352)
At 31 December 2006	140,407	–	5,907	18,654	21,919	6,015	192,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings	Construction in progress	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
DEPRECIATION							
At 1 January 2005	579	–	90	716	1,138	599	3,122
Exchange realignment	10	–	–	10	9	7	36
Provided for the year	2,498	–	950	863	1,024	843	6,178
Eliminated on disposals	–	–	–	(152)	(18)	(61)	(231)
At 31 December 2005	3,087	–	1,040	1,437	2,153	1,388	9,105
Exchange realignment	61	–	2	27	25	14	129
Provided for the year	3,639	–	1,753	1,212	2,404	1,231	10,239
Eliminated on disposals	–	–	(1,039)	–	(225)	(413)	(1,677)
At 31 December 2006	6,787	–	1,756	2,676	4,357	2,220	17,796
CARRYING VALUES							
At 31 December 2006	133,620	–	4,151	15,978	17,562	3,795	175,106
At 31 December 2005	77,926	20,061	1,059	11,970	5,465	5,231	121,712

The Group's buildings are situated in the PRC.

The carrying values of motor vehicles include an amount of approximately HK$810,000 (2005: HK$2,458,000) in respect of assets held under finance leases. Also, the carrying values of furniture, fixtures and equipment include an amount of approximately HK$127,000 (2005: HK$92,400) in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

16. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**60,637**	29,555
Analysed for reporting purposes as:		
Current asset	**1,246**	611
Non-current asset	**59,391**	28,944
	60,637	29,555

The amounts represents land use rights located in the PRC and is released to consolidated income statement over the term of the relevant rights of 50 years.

As at 31 December 2006, the Group is in the progress to obtain land use right certificates amounting to approximately HK$30,536,000 (2005: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2006, the Group had interests in the following principal jointly controlled entities:

Name of entity	Place of incorporation/ operation	Class of shares held	Proportion of nominal values of issued share indirectly capital held by the Group	Principal activity
Lotto China Limited	Hong Kong/PRC	Ordinary	35%	Sourcing, distribution of apparel and footwear
STF (China) Limited	Hong Kong/PRC	Ordinary	35%	Sourcing, distribution of apparel and footwear
M. T. T. Limited	Hong Kong/PRC	Ordinary	50%	Not yet commence business

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities accounted for by the Group using proportionate consolidation are set out below:

	2006	2005
	HK$'000	HK$'000
Current assets	**45,138**	9,400
Non-current assets	**9,155**	4,318
Current liabilities	**51,498**	9,440
Non-current liabilities	**5,167**	4,500
Income	**21,282**	7,480
Expenses	**(30,207)**	(12,196)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

18. LOANS TO A JOINTLY CONTROLLED ENTITY/LOANS TO JOINTLY CONTROLLED ENTITIES

Loan to a jointly controlled entity include amount of approximately HK$5,168,000 (2005: HK$1,574,000) which is unsecured, interest bearing at 5% per annum and not repayable within twelve months from the balance sheet date.

Loans to jointly controlled entities include an amount of HK$1,573,000 (2005: Nil) which is unsecured, interest bearing at 5% per annum and repayable in year ending 31 December 2007. The remaining current balances are unsecured, non-interest bearing and repayable within one year.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	HK$'000
Funds – unlisted debt securities	**7,384**	4,799
Analysed for reporting purpose as:		
Current asset	**1,960**	–
Non-current asset	**5,424**	4,799
	7,384	4,799

The Funds represents HSBC 107 Capital Guaranteed Asia Fund, Hang Seng 100% and 108% Capital Guaranteed HK Equity Fund (2005: HSBC 107 Capital Guaranteed Asia Fund and Hang Seng 100% Capital Guaranteed HK Equity Fund). The Funds are with guaranteed full repayment of investment cost plus the contractual interest rates. The potential return of the investments linked to the performance of certain equity index in Hong Kong and Asia, which is considered as an embedded derivative that is not closely related to the host contract. The effective interest rate is 2% per annum (2005: 2%). As at 31 December 2006, the fair value of the embedded derivative is negligible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**42,524**	30,192
Work in progress	**54,537**	34,574
Finished goods	**10,254**	4,421
	107,315	69,187

21. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

	2006	2005
	HK$'000	HK$'000
0 – 90 days	**178,755**	86,852
91 – 180 days	**6,700**	4,873
181 – 360 days	**619**	1,724
Over 360 days	**1,858**	–
	187,932	93,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

22. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount due from a minority shareholder represents trade receivable from Morgan S.A., which is unsecured, interest free and the Group allows a credit period of 90 days for sales made to this minority shareholder.

The following is an aged analysis of the amount due from a minority shareholder at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 – 90 days	**1,235**	9,608
91 – 180 days	**26**	976
181 – 360 days	**39**	–
	1,300	10,584

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

23. AMOUNTS DUE FROM RELATED COMPANIES

Name of related company	**2006 HK$'000**	2005 HK$'000	**Maximum amount outstanding during the year** HK$'000
J&B Assets Management Limited	–	18,290	18,290
J&B Holdings Limited	–	3,549	3,549
Pride Award Investment Limited	–	6	6
	–	21,845	

Mr. Ngok Yan Yu, a director of the Company, has beneficial interests in these companies.

The above amounts represented advances made to the related companies and were unsecured, interest free and settled during the year.

24. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES AND SHAREHOLDERS OF JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest free and repayable on demand.

25. PLEDGED BANK DEPOSITS/BANK DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS/BANK BALANCES AND CASH

Pledged bank deposits are used to secure the Group's banking facilities. The pledged deposits carry average fixed interest rate of 3.1% (2005: 3%) for the year ended 31 December 2006. The bank balances carry interest at market rates which range from 2% to 4% (2005: 2% to 4%).

The Group has bank balances and deposits of approximately HK$165,154,000 (2005: HK$46,129,000) where the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

26. TRADE PAYABLES

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

	2006	2005
	HK$'000	HK$'000
0 – 90 days	**54,924**	37,838
91 – 180 days	**2,535**	3,181
181 – 360 days	**731**	2,012
Over 360 days	**441**	130
	58,631	43,161

27. LOANS FROM SHAREHOLDERS OF JOINTLY CONTROLLED ENTITIES

Loans from shareholders of jointly controlled entities include an amount of approximately HK$5,168,000 (2005: HK$2,250,000) which is unsecured, interest bearing at 5% per annum and not repayable with twelve months from the balance sheet date.

Loans from shareholders of jointly controlled entities include an amount of HK$2,250,000 (2005: Nil) which is unsecured, interest bearing at 5% and repayable within one year. The remaining are unsecured, non-interest bearing and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance lease:				
Within one year	**368**	671	**328**	586
More than one year, but not exceeding two years	**368**	671	**328**	586
More than two years, but not exceeding three years	**211**	671	**187**	586
More than three years, but not exceeding four years	**81**	513	**75**	446
More than four years, but not exceeding five years	**6**	175	**6**	151
	1,034	2,701	**924**	2,355
Less: future finance charges	**(110)**	(346)	**–**	–
Present value of lease obligations	**924**	2,355	**924**	2,355
Less: Amounts due for settlement within one year shown under current liabilities			**(328)**	(586)
Amounts due for settlement after one year			**596**	1,769

It is the Group's policy to lease certain of its motor vehicles and furniture, fixtures and equipment under finance leases. The average lease term is 5 years. For the years ended 31 December 2006, the average effective borrowing rates were 3.2% (2005: 3.1%). Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

28. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

29. BANK BORROWINGS

	2006 **HK$'000**	2005 HK$'000
Bank borrowings	**392,581**	237,303
Bank overdrafts	**76**	9,288
	392,657	246,591
Analysed as:		
Secured	**333,777**	242,085
Unsecured	**58,880**	4,506
	392,657	246,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29. BANK BORROWINGS *(continued)*

	2006	2005
	HK$'000	HK$'000
Bank borrowings other than bank overdrafts are repayable as follows:		
Within one year	**287,871**	191,059
More than one year, but not exceeding two years	**99,522**	38,854
More than two years, but not exceeding three years	**2,422**	2,355
More than three years, but not exceeding four years	**1,215**	2,397
More than four years, but not exceeding five years	**852**	1,183
More than five years	**699**	1,455
	392,581	237,303
Less: Amounts due within one year shown under current liabilities	**(287,871)**	(191,059)
	104,710	46,244

The Group has variable-rate borrowing which carries interest at HIBOR. Interest is repriced every year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29. BANK BORROWINGS *(continued)*

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2006	2005
	HK$'000	HK$'000
Fixed-rate borrowings:		
Within one year	**–**	8,234
More than one year, but not exceeding two years	**20,000**	37,174
More than two years, but not exceeding three years	**–**	675
More than three years, but not exceeding four years	**–**	717
More than four years, but not exceeding five years	**–**	763
More than five years	**–**	1,455
	20,000	49,018

	2006	2005
	HK$'000	HK$'000
The average interest rate for the year is analysed as follows:		
Bank borrowings		
– Fixed	**5.4%**	5.4%
– Float	**7.1%**	6.3%

The bank borrowings are secured by the assets of the Group as disclosed in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

30. DEFERRED TAXATION

The following are the deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2005	(54)	–	(54)
Charge to consolidated income statement (Note 10)	(282)	–	(282)
At 31 December 2005	(336)	–	(336)
(Charge) credit to income statement (Note 10)	(669)	1,005	336
At 31 December 2006	(1,005)	1,005	–

The Group has unused tax loss of approximately HK$39,600,000 (2005: HK$6,139,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$4,188,000 (2005: Nil). No deferred tax asset has been recognised in respect of the remaining tax loss of HK$35,412,000 (2005: HK$6,139,000) due to the unpredictability of future profit streams of the relevant subsidiaries. Included in unrecognised tax losses is loss of HK$5,439,000 (2005: Nil) that will expire in 2011 and all other tax losses may be carried forward indefinitely.

In addition, the Group has deductible temporary difference of approximately HK$966,000 (2005: HK$695,000). No deferred tax asset has been recognised in relation to such deducible temporary difference as, in the opinion of the directors, it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

31. SHARE CAPITAL

	Number of share	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
On incorporation and at 31 December 2005	1,000,000	100
Increase on 13 June 2006	1,999,000,000	199,900
At 31 December 2006	2,000,000,000	200,000
Issued and fully paid:		
Allotted and issued nil paid on 7 June 2004 and at 31 December 2005	1	–
Issue of shares upon Group Reorganisation	39,999,999	4,000
Issue of shares upon the placing and public offer	70,080,000	7,008
Issue of shares on capitalisation of share premium account	140,000,000	14,000
Exercise of share options	2,800,000	280
At 31 December 2006	252,880,000	25,288

The following changes in the share capital of the Company took place during the period from 27 May 2004 (date of incorporation) to 31 December 2005 and 2006:

(a) The Company was incorporated on 27 May 2004 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 7 June 2004, 1 share was allotted and issued at nil paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

31. SHARE CAPITAL *(continued)*

(b) Pursuant to a resolution passed on 13 June 2006, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of an additional 1,999,000,000 shares. The new shares rank pari passu in all respects with the existing shares.

On the same date, as consideration for the acquisition of the entire issued share capital of Full Prosper, the Company issued an aggregate of 39,999,999 shares of HK$0.1 each, credited as fully paid under the Group Reorganisation.

(c) 140,000,000 shares of HK$0.10 each in the Company were allotted and issued as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 14 June 2006 in proportion to their respective shareholdings by the capitalisation of an amount of HK$14,000,000 from the amount standing to the credit of the share premium account of the Company.

(d) On 12 July 2006, 70,080,000 new ordinary shares of the Company of HK$0.10 each were issued at HK$1.70 per share for cash through an initial public offering by way of placing and public offer.

(e) During the year ended 31 December 2006, 2,800,000 new ordinary shares of the Company of HK$0.10 each were issued at an exercise price of HK$1.88 per share upon the exercise of share options.

For the presentation of consolidated balance sheet as at 31 December 2005, the share capital represented the issued share capital of Full Prosper.

32. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$59,000 (2005: HK$1,729,000).

Property, plant and equipment with carrying values of approximately HK$888,000 were disposed of to a jointly controlled entity at the same amount and were settled through balance due with a jointly controlled entity during the year ended 31 December 2006 (2005: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

33. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	2006	2005
	HK$'000	HK$'000
Bank deposits	**57,462**	32,568
Available-for-sale securities	**7,384**	4,799
Property, plant and equipment	**131,162**	81,939
Prepaid lease payments	**30,113**	29,555
	226,121	148,861

During the year ended 31 December 2005, Full Prosper issued certain of its shares ("Shares") to a shareholder ("Shareholder") in which Mr. Ngok Yan Yu, a director of the Company, agreed to acquire those shares from the Shareholder ("Obligation") at a premium above the consideration payable by the Shareholder should the Group's shares be not listed to the Stock Exchange by 31 July 2006 or the date agreed by both parties. In addition, the Group pledged its equity interest in Hembly Garment Manufacturing Limited to secure the Obligation of the director.

The Obligation was released upon the listing of the Company's share in July 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

34. OPERATING LEASE COMMITMENT

	2006	2005
	HK$'000	HK$'000
Minimum lease payments made under operating leases during the year	**12,192**	5,232

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rental premises which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**5,127**	2,257
In the second to third years	**4,135**	659
	9,262	2,916

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Leases are negotiated for terms ranged from one to three years.

35. CAPITAL COMMITMENT

	2006	2005
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**643**	11,665

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36. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group monthly contributes at the lower of HK$1,000 or 5% of the relevant payroll costs to the MPF Scheme.

The employees of the subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The relevant subsidiaries are required to make contributions to the state-managed retirement benefits schemes in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The only obligation of the Group costs respect to the retirement benefit schemes is to make the specified contributions.

The Group also operates various defined contribution retirement benefits schemes (the "Schemes") for those employees other than in Hong Kong and the PRC. Contributions are made based on the percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Schemes. The assets of the Schemes are held separately from those of the Group in various independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the Schemes.

During the year, the pension scheme contributions made by the Group were approximately HK$3,297,000 (2005: HK$2,876,000).

37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution of the shareholders of the Company and will expire on 14 June 2016. The purpose of the Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to those persons to continue to contribute to the Group's long term success and prosperity. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for share in the Company. The Scheme became effective on 13 July 2006 (being the date of listing of the shares of the Company on the Stock Exchange).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

37. SHARE OPTION SCHEME *(continued)*

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 5,300,000 (2005: Nil), representing 2.1% (2005: Nil) of the shares of the Company in issue at that date. The maximum number of share which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. In addition, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 13 July 2006, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days after the date of grant, upon payment of HK$1.0 per option. Options may be exercised at any time during the period as determined by the directors of the Company but may not be exercised after the expiry of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	Number of options	Vesting period	Exercise period	Exercise Price
13.7.2006	3,800,000	Nil	13.7.2006 to 12.7.2009	HK$1.88
14.9.2006	860,000	Nil	14.9.2006 to 13.9.2009	HK$2.60
	1,290,000	14.9.2006 to 13.9.2007	14.9.2007 to 13.9.2009	HK$2.60
	2,150,000	14.9.2006 to 13.9.2008	14.9.2008 to 13.9.2009	HK$2.60

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FOR THE YEAR ENDED 31 DECEMBER 2006

37. SHARE OPTION SCHEME *(continued)*

The following table discloses movements of the Company's share options held by employees and directors during the year:

Share options grant date	Granted during year	Exercised during year	Outstanding at 31.12.2006
13.7.2006	3,800,000	(2,800,000)	1,000,000
14.9.2006	4,300,000	–	4,300,000
	8,100,000	(2,800,000)	5,300,000
Exercisable at the end of the year			1,860,000
Weighted average exercise price	HK$2.26	HK$1.88	HK$2.46

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise and the date immediately before the date of exercise is HK$2.39 (2005: nil).

During the year ended 31 December 2006, options were granted on 13 July 2006 and 14 September 2006 where the share prices of the Company's share at the date immediately before the date of grant were HK$1.88 and HK$2.60, respectively. The estimated fair values of the options granted on those dates are approximately HK$1,273,000 and HK$2,289,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

37. SHARE OPTION SCHEME *(continued)*

These fair values were calculated using The Black-Scholes option pricing model. The inputs into the model were as follows:

	Share options grant date	
	13.7.2006	**14.9.2006**
Share price at date of grant	HK$1.88	HK$2.50
Exercise price	HK$1.88	HK$2.60
Expected volatility (Note)	45%	45%
Expected life	Nil	1.5 and 2.5 years
Risk-free rate	4.42%	3.75% to 3.82%
Expected dividend yield	3.0%	3.0%

Note: Expected volatility was determined by using the volatility of share price for other companies, with shares listed on the Stock Exchange, in the same industry.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$1,889,000 for the year ended 31 December 2006 (2005: nil) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Name of related party	Nature of transactions	2006 HK$'000	2005 HK$'000
Morgan S.A. +	Sales of finished goods	38,222	40,316
Long Wise (Holdings) Limited +	Service fee	281	201
STF (China) Limited	Sales of finished goods	–	1,149
	Sales of property, plant and equipment	–	2,094
	Interest income received	179	83
	Management fee income received	180	192
Lotto (Nanjing) Garment Co. Ltd	Sales of finished goods	4,105	–
	Transfer of property, plant and equipment	888	–
Lotto China Limited	Sales of finished goods	155	–

\+ The company is a minority shareholder of the Company's subsidiaries.

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FOR THE YEAR ENDED 31 DECEMBER 2006

38. RELATED PARTY TRANSACTIONS *(continued)*

Stonefly S.P.A., a shareholder of a jointly controlled entity, STF China Limited ("STF China"), acts as a joint guarantor with a subsidiary of the Company, Hembly Garment Manufacturing Limited, for bank borrowings of approximately HK$18,000,000 (2005: HK$18,000,000) granted to STF China. As at 31 December 2006, the amount of such utilised by STF China was approximately HK$10,424,000 (2005: HK$9,012,000).

During the year ended 31 December 2005, J&B Holdings Ltd, a related company, acted as guarantor for bank borrowings of approximately HK$166,218,000 granted to the Group. The amount of such utilised by the Group was approximately HK$141,788,000 as at 31 December 2005. The guarantee was released in 2006.

During the year ended 31 December 2005, J&B Assets Management Limited, a related company, acted as guarantor for bank borrowings of approximately HK$28,039,000 granted to the Group. This related company also pledged certain of its buildings for bank borrowing granted to the Group as at 31 December 2005. The amount of such utilised by the Group was approximately HK$21,970,000 as at 31 December 2005. The related pledge of assets was released in 2006.

Pursuant to certain master licence agreements, Morgan S.A. granted to the Group an exclusive license, with the right to grant sub-license, to manufacture and sale certain Morgan S.A. licensed products, subject to payment of royalty fee, which is calculated based on the number of licensed products manufactured, for a period of five years starting from year 2004 with an option to renew further five years. No royalty fee has been paid by the Group in respect of these master license agreements during the years ended 31 December 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

39. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management during the year was as follows:

	2006	2005
	HK$'000	HK$'000
Short-term benefits	**8,081**	4,902
Other long-term benefits	**271**	204
Share-based payments	**615**	–
	8,967	5,106

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

40. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital indirectly held by the Company	Principal activities
Hembly Garment Manufacturing Limited	Hong Kong	Ordinary shares HK$3,000,000	100%	Investment holding and sale of garments
Hembly (Nanjing) Garment Co., Ltd. 恒寶利(南京)服裝有限公司 (Note)	The PRC	Registered capital US$3,000,000	100%	Garment manufacturing
Hembly (Nanjing) Garment Manufacturing Co., Ltd. 亨百利(南京)制衣有限公司 (Note)	The PRC	Registered capital US$2,100,000	100%	Property holding
Macao Commercial Offshore Limited 恆寶利製衣澳門離岸商業服務有限公司	Macau	Quota capital MOP100,000	100%	Sale of garments
M.D.T. Sourcing (China) Limited	Hong Kong	Ordinary shares HK$780,000	51%	Sale of garments
M.D.T. (Nanjing) Garment Manufacturing Company Limited 摩根(南京)制衣有限公司 (Note)	The PRC	Registered capital US$500,000	51%	Garment manufacturing and trading

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

40. PRINCIPAL SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital indirectly held by the Company	Principal activities
Scienward (Nanjing) Garment Co., Ltd. 欣隆(南京)服裝有限公司 (Note)	The PRC	Registered capital US$150,000	70%	Garment manufacturing and sourcing of garment
Scienward International Holdings Limited	Hong Kong	Ordinary shares HK$1,000,000	70%	Wholesale of garment
Hembly Yangzhou Garment Co., Ltd. 寶利(揚州)制衣有限公司 (Note)	The PRC	Registered capital US$10,000,000	100%	Garment manufacturing and trading

Note: These companies are wholly foreign owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of exercise length.

None of the subsidiaries had issued any debt securities at the end of the year.

41. POST BALANCE SHEET EVENT

Subsequent to 31 December 2006, the Group has obtained a syndicated loan in the amount of HK$200 million. The loan is for a 3 years transferrable term loan facility, bears interest at HIBOR plus 1.55% per annum and is repayable by the following 2 tranches, namely : (i) tranche 1 in the amount of HK$133.33 million repayable by 9 equal quarterly installments commencing 12 months from the date of the loan; and (ii) tranche 2 in the amount of HK$66.67 million being repayable and re-borrowable on a revolving basis during the period between the date of the loan and one month prior to the loan's maturity, subject to non-occurrence of events of default and/or potential default of the loan, with all outstanding principal to be repaid in one lump sum at the loan's maturity. The proceeds will be used to finance general working capital and capital expenditure of the Group.