1. GENERAL INFORMATION

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its head office and principal place of business is 5/F., 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together, the "Group") are (i) garment manufacturing and trading, and (ii) branded product distribution and trading.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

These consolidated financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated. These consolidated financial statements for the year ended 31 December 2006 have been approved for issue by the Board of Directors on 2 April 2007.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements comprise the consolidated and Company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities being stated at fair value through profit or loss and the revaluation of the freehold land and buildings.

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

The adoption of revised HKFRSs

In 2006, the Group adopted the revised HKFRSs below, which are effective for accounting periods beginning on or after 1 January 2006 and relevant to its operations. The impacts on the Group's accounting policies are set out below. The 2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts

HKAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not opt for the alternative approach for the recognition of actuarial gains and losses and does not participate in any multi-employers plans. The adoption of this amendment has no financial effect on the Group and only impact the format and extent of disclosures presented in the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

HKAS 21 (Amendment) requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the financial statements. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. This amendment changes the net investment definition to include loans between fellow subsidiaries. It permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation and to recognise the foreign exchange volatility on such loans funding foreign operations in the translation reserve in the consolidated financial statements.

The effect of adoption of HKAS 21 (Amendment) on the consolidated income statement is as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in general and administrative expenses	**15,508**	8,040
Increase in profit attributable to equity holders of the Company	**15,508**	8,040
Increase in basic earnings per share attributable to equity holders of the Company	**HK$0.06**	HK$0.03

The effect of adoption of HKAS 21 (Amendment) on the consolidated balance sheet is as follows:

	2006	2005
	HK$'000	HK$'000
Decrease in translation reserve	**23,548**	8,040
Increase in retained earnings	**23,548**	8,040

HKAS 39 and HKFRS 4 (Amendments) require 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 (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. There is no financial guarantee contract issued at group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company regards such guarantees as insurance contracts and does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at each reporting date and recognise any deficiency in the liabilities in the income statement.

Standards, interpretations and amendments to published standards that are effective for accounting periods beginning on or after 1 March 2006

The following HK(IFRIC)-Interpretations, HKFRSs and amendment to HKAS have been published but are not yet effective for the accounting period beginning on 1 January 2006 and have not been early adopted:

- HK(IFRIC)-Interpretation 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies, effective for accounting periods beginning on or after 1 March 2006. The management of the Group considers the interpretation is not relevant for the Group's operations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

- HK(IFRIC)-Interpretation 8, Scope of HKFRS 2, effective for accounting periods beginning on or after 1 May 2006. HK(IFRIC)-Interpretation 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 instrument issued — to establish whether or not they fall with the scope of HKFRS 2. The Group will apply HK(IFRIC)-Interpretation 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Interpretation 9, Reassessment of Embedded Derivatives, effective for accounting periods beginning on or after 1 June 2006. The management of the Group considers the interpretation is not relevant for the Group's operations.

- HK(IFRIC)-Interpretation 10, Interim Financial reporting and Impairment, effective for accounting periods beginning on or after 1 November 2006. HK(IFRIC)-Interpretation 10 prohibits the impairment loss 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)-Interpretation 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Interpretation 11, HKFRS 2 — Group and Treasury Share Transactions, effective for accounting periods beginning on or after 1 March 2007. The management of the Group considers the interpretation is not relevant for the Group's operations.

- HK(IFRIC)-Interpretation 12, Service Concession Arrangements, effective for accounting periods beginning on or after 1 January 2008. The management of the Group considers the interpretation is not relevant for the Group's operations.

- HKFRS 7, Financial instruments: Disclosures, and the complementary amendment to HKAS 1 (Amendment), Presentation of Financial Statements — Capital Disclosures, effective for accounting periods beginning on or after 1 January 2007. The Group assesses the impact of HKFRS 7 and HKAS 1 (Amendment) and concludes that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures. The Group will apply HKFRS 7 and HKAS 1 (Amendment) from 1 January 2007.

- HKFRS 8, Operating Segments, effective for accounting periods beginning on or after 1 January 2009. HKFRS 8 supersedes HKAS 14, Segment Reporting, which requires segments to be identified and reported on risk and return analysis for external reporting purposes. HKFRS 8 requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by the management of the Group. The Group will apply HKFRS 8 from 1 January 2009. The management of the Group has made a preliminary assessment and considers that the adoption of HKFRS 8 may result in new and additional segment disclosure.

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

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

- HKAS 39 (Amendment), The Fair Value Option;

- HKFRS 6, Exploration for and Evaluation of Mineral Resources;

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

(b) Group accounting

(i) *Consolidation*
The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(ii) *Subsidiaries*
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. 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 (Note 2(d)). 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 transactions provide 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 accumulated impairment losses (Note 2(s)). The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

(i) *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 Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

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

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:

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

— 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

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, 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.

(d) 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 subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. 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.

Excess of the fair value of the Group's share of net identifiable assets of the acquired subsidiaries at the date of acquisition over the cost of an acquisition is recognised immediately in the consolidated income statement at the date of acquisition.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Freehold land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical costs include expenditures 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 expensed in the income statement during the period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to the assets revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the assets revaluation reserve directly in equity; all other decreases are expensed in the income statement.

Property, plant and equipment are depreciated on a straight-line basis to allocate their cost or revalued amounts less accumulated impairment losses to their residual values over their estimated useful lives. The principal depreciation rates are as follows:

Buildings	2%–10%
Plant and machinery	10%–20%
Leasehold improvements, furniture, fixtures and equipment	4%–33%
Motor vehicles	14%–20%

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 (Note 2(s)).

Gains and losses on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Upon disposal, any revaluation reserve balance remaining attributable to freehold land and buildings is transferred to retained earnings and is shown as a movement in reserves.

(f) Investment properties

Investment properties are properties which are not occupied by the companies in the Group and are held by the Group to earn rental income. The building component of the leasehold investment properties is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The land component is accounted for as lease premium for leasehold land.

Depreciation of the building component is calculated using straight-line method to allocate cost over their estimated useful lives of 10 to 50 years.

(g) Leasehold land and land use rights

Lease premium for land are up-front payments to acquire long-term interests in lessee-occupied properties. The premium is stated at cost and are amortised on a straight-line basis over the period of the leases and land use rights in the income statement or where there is impairment, the impairment is expensed immediately in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Intangible assets — License rights/License fees payable

License rights on branded products are stated at cost less accumulated amortisation and accumulated impairment losses, if any. They are initially measured as the fair value of the consideration given to acquire the license at the time of the inception. The consideration given is determined based on the capitalisation of the minimum license fees payments in accordance with the license agreements. License rights are amortised over the license period on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group.

License fees payable in respect of the inception of the license rights are initially recognised at fair value of the consideration given to acquire the license at the time of the inception, which represent present values of contractual minimum payments that can be reliably estimated at the time of the inception. It is subsequently stated at amortised cost using the effective interest method.

Interest is accrued on license fees payable and charged to interest expense. Changes in estimates of the expected cash flows are recognised as other gains/losses in the income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method or the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour and direct production overheads. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

(j) Accounts receivable and bills receivable

Accounts receivable and bills receivable 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 accounts receivable and bills receivable is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Significant financial difficulties of the debtors, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The 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 within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses.

(k) Accounts payable and bills payable

Accounts payable and bills payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) 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.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employee benefits

(i) *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 leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits*
The Group maintains a number of defined benefit and defined contribution plans in the countries in which it operates, the assets of which are generally held in separate trustees-administered funds. The retirement plans are generally funded by payments from employees and by the Group and, where applicable, taking account of the recommendations of qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are expensed in the income statement as incurred and are reduced by contributions forfeited with respect to employees who leave the scheme prior to vesting fully in the contributions.

For defined benefit plans, retirement benefit costs are assessed using the projected unit credit method. The cost of providing retirement benefit plans is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The retirement benefit obligation is measured as the present value of the estimated future cash outflows discounted by using interest rates of government securities or high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognised over the average remaining service live of employees to the extent of the amount in excess of 10% of the greater of the present value of the retirement benefit obligation and the fair value of plan assets. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(n) 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 financial statements. 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 deferred income tax liability is settled.

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

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

(o) 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 liabilities for at least 12 months after the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Borrowing costs

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

(q) Revenue recognition

Revenue comprises the fair value for the sale of goods and commission income 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.

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.

Commission income is recognised when services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Operating leases (as the lessee)

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

(s) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life 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 amounts 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.

(t) 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.

(u) 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 different from those of other business segments. A geographical segment engaged in providing products or services with a particular economic environment that are subject to risks and returns different from those segments operating in other economic environments.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Segment reporting (Continued)

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, inventories, receivables and operating cash and exclude mainly land and buildings not in use, investment properties and corporate cash. Segment liabilities comprise operating liabilities and exclude items such as income tax and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and leasehold land and land use rights, including additions resulting from acquisitions through business combinations.

In respect of geographical segment reporting, sales are based on the countries/places in which the customers are located, and segment assets and capital expenditure are where the assets are located.

(v) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with bank, other short-term deposits within original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(w) Contingent liabilities and contingent assets

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 an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, it will then be recognised as an asset.

(x) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant 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.

3. FINANCIAL RISK MANAGEMENT

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable, bills receivable, other receivables, bank borrowings, accounts payable, accruals and other payables, license fees payable and bills payable.

The management of the Group regularly monitors the financial risks of the Group. Because of the simplicity of the Group's financial structure and current operations, no major hedging activities are undertaken by the management of the Group.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign exchange risk

The majority of the Group's transactions are denominated in United States dollars, Chinese Renminbi and Hong Kong dollars. The Group's business operations are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars, Philippine Pesos, Thai Bahts, New Taiwan dollars and Chinese Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The management of the Group monitors the related foreign exchange risk exposure closely and will consider hedging significant foreign exchange risk exposure should the need arises.

(b) Credit risk

The Group's sales are mainly covered by letters of credit. The remaining portion of the sales is on open account, which is substantially covered by credit insurance. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(c) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

(d) Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arises.

(e) Fair value estimation

The carrying value less impairment provision of accounts receivable and accounts payable are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates 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, seldomly equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives, residual values and depreciation of property, plant and equipment

The management of the Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management of the Group will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

4. CRITICAL ACCOUNTING ESTIMATES (Continued)

(b) Estimated impairment of property, plant and equipment, leasehold land and land use rights, investment properties and intangible assets

The Group assesses annually whether property, plant and equipment, leasehold land and land use rights, investment properties and intangible assets have any indication of impairment. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgment and estimates.

(c) Income taxes and deferred tax

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group 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 are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as the management of the Group considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets in the period in which such estimates have been changed.

(d) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables in the period in which such estimates have been changed.

(e) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

(f) Retirement benefits

The determination of the Group's liabilities under defined benefit plans and long service payment liabilities depends on a number of factors relating to an actuarial valuation using a number of assumptions. The key assumptions are disclosed in Note 28(b) and (c). Any changes in these assumptions will impact the carrying amount of the retirement benefit obligations in the period in which such assumptions have been changed.

5. REVENUE/INCOME AND SEGMENT INFORMATION

(a) Revenue/income by nature

	2006 HK$'000	2005 HK$'000
Revenue		
Turnover — sales of goods	**2,843,724**	2,684,389
Commission income	**14,751**	9,836
	2,858,475	2,694,225
Other income		
Rental income from investment properties	**1,900**	1,280
Gain on disposal of a subsidiary	**—**	3,189
Gain on disposal of an investment	**576**	—
Sundry income	**247**	—
	2,723	4,469
	2,861,198	2,698,694

(b) Primary reporting format — Business segments

The Group conducts the majority of its business activities in two segments: (i) garment manufacturing and trading, and (ii) branded product distribution and trading. The segment results are as follows:

	Garment manufacturing and trading		Branded product distribution and trading		Elimination		Group	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
External revenue	**2,544,719**	2,406,776	**313,756**	287,449	**—**	—	**2,858,475**	2,694,225
Inter-segment revenue*	**—**	530	**—**	—	**—**	(530)	**—**	—
Revenue	**2,544,719**	2,407,306	**313,756**	287,449	**—**	(530)	**2,858,475**	2,694,225
Segment results	**121,240**	115,311	**25,351**	17,619	**—**	—	**146,591**	132,930
Share of profits of associated companies	**—**	21,344	**—**	—	**—**	—	**—**	21,344
Net gain arising from acquisition of a subsidiary	**590**	53,926	**—**	—	**—**	—	**590**	53,926
Finance income							**10,494**	5,213
Finance costs							**(11,610)**	(2,075)
Profit before income tax							**146,065**	211,338
Income tax expense							**(25,804)**	(35,507)
Profit for the year							**120,261**	175,831

* Inter-segment revenue is accounted for at commercial market prices and eliminated on consolidation.

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Primary reporting format — Business segments (Continued)

	Garment manufacturing and trading		Branded product distribution and trading		Unallocated**		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**1,177,084**	999,969	**169,389**	180,302	**291,050**	242,160	**1,637,523**	1,422,431
Segment liabilities	**332,709**	360,045	**113,497**	106,106	**299,193**	196,171	**745,399**	662,322
Net assets							**892,124**	760,109
Capital expenditure	**40,924**	203,080	**2,233**	3,526	**—**	8,424	**43,157**	215,030
Depreciation	**51,947**	45,558	**2,478**	2,511	**1,555**	617	**55,980**	48,686
Amortisation of leasehold land and land use rights	**484**	479	**—**	—	**173**	603	**657**	1,082
Impairment of property, plant and equipment	**—**	9,638	**—**	—	**—**	—	**—**	9,638
Impairment of investment properties	**—**	—	**—**	—	**978**	—	**978**	—
Revaluation deficit on buildings	**812**	—	**—**	—	**—**	—	**812**	—
Impairment of investment in an associated company	**—**	14,768	**—**	—	**—**	—	**—**	14,768
Amortisation of license rights	**—**	—	**6,974**	6,480	**—**	—	**6,974**	6,480

** Unallocated assets mainly include land and buildings not in use, investment properties and corporate cash. Unallocated liabilities mainly include income tax liabilities and certain corporate borrowings.

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(c) Secondary reporting format — Geographical segments

The Group's revenue is mainly derived from customers located in the United States of America, Asia and Europe, while the Group's business activities are conducted predominantly in the People's Republic of China*** (the "PRC") and Thailand. An analysis of the Group's external revenue by location of customers and an analysis of the Group's assets and capital expenditure by location of assets are as follows:

	The United States of America		Asia		Europe		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
External revenue	**2,151,499**	2,159,873	**383,721**	332,390	**323,255**	201,962	**2,858,475**	2,694,225

	PRC		Thailand		Other locations		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**947,032**	806,825	**220,098**	232,377	**179,343**	141,069	**1,346,473**	1,180,271
Unallocated corporate assets							**291,050**	242,160
							1,637,523	1,422,431
Capital expenditure	**24,251**	26,407	**8,911**	141,510	**9,995**	47,113	**43,157**	215,030

*** PRC includes Mainland China, Hong Kong and Macau.

6. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	2006	2005
	HK$'000	HK$'000
Crediting		
Net gain on disposals of property, plant and equipment	**371**	—
Net rental income from investment properties	**1,532**	1,104
Reversal of provision for impairment of receivables	**745**	1,622
Charging		
Depreciation on property, plant and equipment	**55,766**	48,473
Impairment of property, plant and equipment	**—**	9,638
Net loss on disposals of property, plant and equipment	**—**	18,140
Revaluation deficit on buildings	**812**	—
Depreciation on investment properties	**214**	213
Impairment of investment properties	**978**	—
Amortisation of leasehold land and land use rights	**657**	1,082
Loss on disposal of leasehold land	**—**	83
Amortisation of license rights	**6,974**	6,480
Write-down of inventories to net realisable value	**14,890**	7,123
Employment expenses (Note 13)	**566,862**	429,923
Operating lease rental in respect of land and buildings	**37,390**	38,143
Auditors' remuneration	**4,211**	3,016
Net exchange loss	**1,033**	3,740

7. NET GAIN ARISING FROM ACQUISITION OF A SUBSIDIARY

	2006 HK$'000	2005 HK$'000
Excess of fair value of the Group's share of net assets acquired over cost	**590**	68,694
Impairment loss on investment in an associated company	**—**	(14,768)
	590	53,926

During the year ended 31 December 2006, the Group acquired additional interest in Hua Thai Manufacturing Public Company Limited ("Hua Thai"), bringing its equity interest in Hua Thai to 97.33% as at 31 December 2006. The excess of fair value of the Group's share of net assets acquired over the cost of acquisitions, amounting to HK$590,000, was recognised in the consolidated income statement.

During the year ended 31 December 2005, the Group acquired additional equity interest in Hua Thai; increased its equity interest in Hua Thai from 36.43% (then an associated company) to 55.43% on 28 October 2005, and then increased to 96.96% on 15 December 2005. The excess of fair value of the Group's share of net assets acquired over the cost of acquisitions, totaling HK$68,694,000, was recognised in the consolidated income statement. In connection with the aforesaid acquisitions, the Group recognised impairment loss of HK$14,768,000 relating to its original 36.43% equity interest in Hua Thai, by reference to the fair value of the net assets of Hua Thai as at 28 October 2005.

8. FINANCE INCOME/FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Finance income		
Interest income on bank deposits	**10,494**	5,213
Finance costs		
Interest on bank loans and overdrafts	**8,494**	2,075
Imputed interest on license fees payable	**3,116**	—
	11,610	2,075

9. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current income tax		
Hong Kong profits tax	**13,032**	27,162
Non-Hong Kong tax	**7,363**	6,034
Deferred income tax	**5,409**	2,311
	25,804	35,507

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit. Income tax on non-Hong Kong profit has been calculated on the relevant estimated assessable profit at the income tax rates prevailing in the countries/places in which the Group operates.

In accordance with the relevant tax rules and regulations in the PRC, certain PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income taxes at the tax rates ranging from 10% to 33%.

The subsidiary in Vietnam is entitled to 4-year exemption followed by 7-year 50% reduction in income tax commencing from the first profit-making year. The subsidiary in Vietnam was enjoying tax exemption for the year ended 31 December 2006.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits of the group companies, as follows:

	2006 HK$'000	2005 HK$'000
Profit before income tax	**146,065**	211,338
Less: Share of profits of associated companies	**—**	(21,344)
	146,065	189,994
Tax calculated at domestic tax rates applicable	**25,737**	27,761
Income not subject to tax	**(6,667)**	(5,693)
Expenses not deductible for tax	**6,772**	9,757
Utilisation of previously unrecognised tax losses	**(4,655)**	(1,805)
Unrecognised current year tax losses	**6,478**	5,019
Net (over)/under provision for prior years	**(1,861)**	468
Income tax expenses	**25,804**	35,507

The weighted average applicable tax rate was 18% for the year ended 31 December 2006 (2005: 15%).

Share of associated companies' income tax for the year ended 31 December 2005 amounting to HK$2,147,000 was included in the consolidated income statement under share of profits of associated companies.

In early 2006, the Hong Kong Inland Revenue Department ("HK IRD") initiated a tax audit on certain companies of the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000 and 2000/2001. Since the tax audit is still at a preliminary fact-finding stage, its outcome cannot be readily ascertained with any degree of accuracy. The management of the Group has reviewed the situation and after seeking necessary professional advice considers that sufficient tax related provisions have been made in the consolidated financial statements in respect of the two years' protective assessments which the Group had received.

10. 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$72,710,000 (2005: HK$49,689,000).

11. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend paid — HK$0.07 (2005: HK$0.09) per share	**18,811**	24,186
Final dividend proposed — HK$0.11 (2005: HK$0.15) per share	**29,561**	40,310
	48,372	64,496

A final dividend for the year ended 31 December 2006 of HK$0.11 per share, totaling HK$29,561,000 (2005: HK$0.15 per share, totaling HK$40,310,000), is recommended by the Directors for approval at the forthcoming annual general meeting of the Company. This proposed dividend has not been dealt with as dividend payable as at 31 December 2006.

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 of HK$115,359,000 (2005: HK$167,779,000) by the weighted average number of shares in issue during the year of 268,735,253 (2005: 268,735,253).

As there was no potential dilutive share, diluted earnings per share equals to the basic earnings per share.

13. EMPLOYMENT EXPENSES

	2006 HK$'000	2005 HK$'000
Wages, salaries, allowances and bonuses	**543,478**	408,272
Directors' emoluments (Note 14)	**8,559**	9,579
Defined contribution plans (Note 28(a))	**14,099**	8,806
Defined benefit plans (Note 28(b))	**(284)**	921
Long service payment liabilities (Note 28(c))	**643**	1,175
Other retirement benefits	**367**	1,170
	566,862	429,923

14. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are as follows:

Name	Fees HK$'000	Salary and other benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit schemes HK$'000	2006 Total HK$'000	2005 Total HK$'000
Executive directors						
Mr. WANG Kin Chung, Peter	30	4,377	2,361	234	7,002	7,389
Mr. WU Ching Her (Resigned on 26 January 2005)	—	—	—	—	—	209
Non-executive directors						
Ms. WANG KOO Yik Chun	87	720	300	—	1,107	1,081
Ms. Leslie TANG SCHILLING	60	—	—	—	60	60
Ms. MAK WANG Wing Yee, Winnie	85	—	—	—	85	120
Dr. WANG Shui Chung, Patrick	60	—	—	—	60	50
Independent non-executive directors						
Mr. YUAN Ching Man, James	85	—	—	—	85	210
Mr. LO Kai Yiu, Anthony	95	—	—	—	95	290
Mr. James Christopher KRALIK	65	—	—	—	65	170
	567	5,097	2,661	234	8,559	9,579

No director waived his/her emoluments during the year.

15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2006 include one director (2005: one director), whose emoluments are disclosed in Note 14. Details of emoluments of the other four (2005: four) individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	8,872	10,298
Discretionary bonuses	13,483	11,070
Contribution to retirement benefit schemes	422	488
	22,777	21,856

The emoluments of these four (2005: four) employees are within the following bands:

	Number of employees 2006	2005
HK$2,000,001 – HK$2,500,000	—	1
HK$2,500,001 – HK$3,000,000	1	—
HK$3,000,001 – HK$3,500,000	—	2
HK$3,500,001 – HK$4,000,000	1	—
HK$4,500,001 – HK$5,000,000	1	—
HK$11,000,001 – HK$11,500,000	1	—
HK$13,000,001 – HK$13,500,000	—	1
	4	4

No emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
As at 1 January 2006							
Cost or valuation	62,811	217,042	303,933	214,124	23,627	1,218	822,755
Accumulated depreciation	—	(38,604)	(233,930)	(174,418)	(19,721)	—	(466,673)
Net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
Year ended 31 December 2006							
Opening net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
Additions	—	4,280	17,387	9,088	2,147	301	33,203
Transfers	—	408	713	405	—	(1,526)	—
Disposals	—	—	(305)	(1,713)	(413)	—	(2,431)
Surplus on revaluation credited to assets revaluation reserve	16,808	38,194	—	—	—	—	55,002
Deficit on revaluation recognised in the income statement	—	(812)	—	—	—	—	(812)
Depreciation	—	(15,739)	(18,386)	(20,068)	(1,573)	—	(55,766)
Exchange differences	6,780	13,847	2,655	1,808	109	68	25,267
Closing net book amount	86,399	218,616	72,067	29,226	4,176	61	410,545
As at 31 December 2006							
Cost or valuation	86,399	218,616	300,594	215,434	24,212	61	845,316
Accumulated depreciation	—	—	(228,527)	(186,208)	(20,036)	—	(434,771)
Net book amount	86,399	218,616	72,067	29,226	4,176	61	410,545

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
As at 1 January 2005							
Cost or valuation	17,466	127,354	191,848	233,700	22,403	177	592,948
Accumulated depreciation	—	(34,725)	(137,477)	(171,193)	(18,746)	—	(362,141)
Net book amount	17,466	92,629	54,371	62,507	3,657	177	230,807
Year ended 31 December 2005							
Opening net book amount	17,466	92,629	54,371	62,507	3,657	177	230,807
Additions	—	51	18,915	10,134	2,315	693	32,108
Acquisitions of a subsidiary	45,908	102,993	25,680	7,256	128	525	182,490
Disposal of a subsidiary	—	—	(610)	(104)	(6)	—	(720)
Transfers/Reclassification	—	98	(276)	338	—	(160)	—
Disposals	—	(9,576)	(6,641)	(14,148)	(730)	—	(31,095)
Depreciation	—	(7,784)	(15,877)	(23,340)	(1,472)	—	(48,473)
Impairment++	—	—	(6,283)	(3,355)	—	—	(9,638)
Exchange differences	(563)	27	724	418	14	(17)	603
Closing net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
As at 31 December 2005							
Cost or valuation	62,811	217,042	303,933	214,124	23,627	1,218	822,755
Accumulated depreciation	—	(38,604)	(233,930)	(174,418)	(19,721)	—	(466,673)
Net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082

\+ Freehold land is located in Thailand, Taiwan and the Philippines. The freehold land and buildings were valued by Vigers Appraisal & Consulting Ltd., CB Richard Ellis (Thailand) Co. Ltd., CB Richard Ellis Vietnam Ltd. and Jones Lang La Salle (Thailand) Ltd., independent valuers, on the basis of market value, with an aggregated value of HK$305,015,000 as at 31 December 2006. The net book value of freehold land and buildings as at 31 December 2006 would have been HK$235,048,000 (2005: HK$224,050,000) had they been stated at cost less accumulated depreciation.

++ For the year ended 31 December 2005, the Group recognised impairment loss of HK$9,638,000 in respect of obsolete machinery and equipment.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2006				
Cost	**33**	**23,067**	**1,325**	**24,425**
Accumulated depreciation	**(28)**	**(22,140)**	**(1,011)**	**(23,179)**
Net book amount	**5**	**927**	**314**	**1,246**
Year ended 31 December 2006				
Opening net book amount	**5**	**927**	**314**	**1,246**
Additions	**—**	**12**	**1,547**	**1,559**
Disposals	**—**	**—**	**(244)**	**(244)**
Depreciation	**(4)**	**(629)**	**(302)**	**(935)**
Closing net book amount	**1**	**310**	**1,315**	**1,626**
As at 31 December 2006				
Cost	**33**	**22,706**	**1,824**	**24,563**
Accumulated depreciation	**(32)**	**(22,396)**	**(509)**	**(22,937)**
Net book amount	**1**	**310**	**1,315**	**1,626**

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2005				
Cost	33	23,101	1,840	24,974
Accumulated depreciation	(25)	(20,868)	(1,316)	(22,209)
Net book amount	8	2,233	524	2,765
Year ended 31 December 2005				
Opening net book amount	8	2,233	524	2,765
Additions	—	14	—	14
Depreciation	(3)	(1,320)	(210)	(1,533)
Closing net book amount	5	927	314	1,246
As at 31 December 2005				
Cost	33	23,067	1,325	24,425
Accumulated depreciation	(28)	(22,140)	(1,011)	(23,179)
Net book amount	5	927	314	1,246

17. INVESTMENT PROPERTIES

	2006 **HK$'000**	2005 HK$'000
As at 1 January		
Cost	**9,067**	9,067
Accumulated depreciation	**(213)**	—
Net book amount	**8,854**	9,067
Year ended 31 December		
Opening net book amount	**8,854**	9,067
Depreciation	**(214)**	(213)
Impairment	**(978)**	—
Closing net book amount	**7,662**	8,854
As at 31 December		
Cost	**9,067**	9,067
Accumulated depreciation	**(1,405)**	(213)
Net book amount	**7,662**	8,854

The investment properties are located in Hong Kong and are held under medium-term leases of 10 to 50 years.

18. LEASEHOLD LAND AND LAND USE RIGHTS

	2006 **HK$'000**	2005 HK$'000
As at 1 January		
Cost	**26,920**	24,412
Accumulated amortisation	**(7,246)**	(3,282)
Net book amount	**19,674**	21,130
Year ended 31 December		
Opening net book amount	**19,674**	21,130
Acquisitions of a subsidiary	**—**	432
Additions	**9,954**	—
Disposals	**—**	(943)
Amortisation	**(657)**	(1,082)
Exchange differences	**321**	137
Closing net book amount	**29,292**	19,674
As at 31 December		
Cost	**37,290**	26,920
Accumulated amortisation	**(7,998)**	(7,246)
Net book amount	**29,292**	19,674

18. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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

	2006 HK$'000	2005 HK$'000
In Hong Kong		
Medium-term leases of 10 to 50 years	**7,172**	7,349
Outside Hong Kong		
Medium-term leases of 10 to 50 years	**21,789**	12,042
Short-term lease of less than 10 years	**331**	283
	22,120	12,325
	29,292	19,674

19. SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**397,639**	397,639
Amount due from a subsidiary	**85,030**	54,607
Less: Accumulated impairment losses	**(240)**	(240)
	482,429	452,006

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2006.

Amount due from a subsidiary, under investments in subsidiaries, is unsecured, interest free and has no pre-determined repayment terms.

(b) Amounts due from/to subsidiaries

Amounts due from/to subsidiaries, classified as current assets/liabilities, are unsecured, interest free, and are repayable on demand.

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2006:

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
A-Grade Garments Manufacturing Corporation	The Philippines	The Philippines	Garment manufacturing	P26,000,000	—	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	—	100%	100%
All Asia Industries Co., Ltd. (Note (iii))	The People's Republic of China	The People's Republic of China	Garment manufacturing	RMB49,016,383	—	100%	100%
All Asia Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$69,530,000	—	100%	100%
All Asia Industries Limited	Hong Kong	Hong Kong	Investment holding	HK$4,000 (ordinary) HK$1,500,600 (deferred) (Note (i))	15%	85%	100%
Asia Wide Properties Company, Inc.	The Philippines	The Philippines	Investment holding	P3,500,000	—	100%	100%
Asia Wide Trading Co., Ltd.	Taiwan	Taiwan	General trading and sales liaison services	NT$6,600,000	—	100%	100%
Broad Street Apparel Co., Inc.	The Philippines	The Philippines	Garment manufacturing	P6,250,000	—	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd. (Note (iii))	The People's Republic of China	The People's Republic of China	Garment manufacturing	HK$30,000,000	—	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P47,650,000 (common) P180,000,000 (preferred) (Note (ii))	—	100%	100%
Elite Fashion (Hong Kong) Limited (formerly known as "Elite Fashion House Company Limited")	Hong Kong	Hong Kong	General trading, sales and marketing services	HK$2	100%	—	100%
Elkin Trading Limited	Hong Kong	Hong Kong	General trading and agency services	HK$100	—	100%	100%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	—	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P15,000,000	—	100%	100%
Fashion Express Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000 (ordinary)	—	97.32%	97.32%
Guangzhou Tristate Industrial Co., Ltd. (Note (iii))	The People's Republic of China	The People's Republic of China	Garment manufacturing	RMB13,226,944	—	100%	100%
Gold Flower Limited	Hong Kong	Hong Kong	Administrative services	HK$10,000	—	100%	100%
Hefei Tristate Garment Manufacturing Company Limited (Note (iii))	The People's Republic of China	The People's Republic of China	Garment trading and manufacturing	RMB12,236,000	—	100%	100%

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2006 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	—	100%	100%
HT Trading Limited	Malaysia	Macau	Garment trading	US$ 1	—	97.33%	97.33%
Hua Thai Manufacturing Public Company Limited (Note (iv))	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000 (ordinary)	—	97.33%	97.33%
Hua Thai Merchandising (Singapore) Pte Ltd	Singapore	Singapore	Sales liaison and administrative services	SGD 2 (ordinary)	—	97.33%	97.33%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Garment trading and investment holding	HK$1,250,000	—	100%	100%
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	—	60%	60%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution	HK$3,000,000	—	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary) HK$7,200,075 (deferred) (Note (i))	—	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	—	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	—	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	—	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	—	100%
Shanghai Tristate Enterprises Co., Ltd. (Note (iii))	The People's Republic of China	The People's Republic of China	Branded product distribution	RMB20,000,000	—	100%	100%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	—	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	—	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	—	100%
Tristate Industrial Co., Inc.	The Philippines	The Philippines	Garment manufacturing	P49,930,000 (common) P47,620,000 (preferred) (Note (ii))	—	100%	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$98,580,000	—	100%	100%

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2006 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Tristate (Macau) Garment Manufacturing Company Limited	Macau	Macau	Garment manufacturing	MOP$25,000	—	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US$1	—	100%	100%
Upgain (Laos) Manufacturing Company Limited	Laos	Laos	Dormant	US$10,950,000	—	97.32%	97.32%
Upgain Limited	British Virgin Islands	Thailand	Investment holding	US$16,000,000	—	97.33%	97.33%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	—	97.33%	97.33%
Zhejiang Huazhang Garment Co., Ltd. (Note (iii))	The People's Republic of China	The People's Republic of China	Garment manufacturing	US$3,800,000	—	100%	100%

Notes:

(i) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be distributed out of the surplus assets of the company in accordance with its articles of association.

(ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.

(iii) A wholly-owned foreign investment enterprise established in the PRC.

(iv) The ordinary shares of Hua Thai are listed on The Stock Exchange of Thailand. The quoted market value of the Group's 97.33% (2005: 96.96%) interest in Hua Thai as at 31 December 2006 amounted to HK$158,771,000 (2005: HK$183,144,000).

20. INTANGIBLE ASSETS – LICENSE RIGHTS

Intangible assets represent license rights on branded products with contractual rights up to 2010.

	2006	2005
	HK$'000	HK$'000
As at 1 January		
Cost	**68,785**	—
Accumulated amortisation	**(6,480)**	—
Net book amount	**62,305**	—
Year ended 31 December		
Opening net book amount	**62,305**	—
Additions	**—**	68,785
Amortisation	**(6,974)**	(6,480)
Closing net book amount	**55,331**	62,305
As at 31 December		
Cost	**68,785**	68,785
Accumulated amortisation	**(13,454)**	(6,480)
Net book amount	**55,331**	62,305

License rights represent capitalisation of the expected variable payments based on pre-determined criteria on future revenue from the licensed business that can be reliably estimated at the time of the inception, payable up to 2010 (Note 29). They are recognised based on a discount rate equal to the Group's weighted average borrowing rate of approximately 5.0% per annum at the date of inception.

21. OTHER LONG-TERM ASSETS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with a financial institution	**10,096**	9,633	**10,096**	9,633
Club debentures	**1,200**	1,200	**—**	—
Other investment, at cost	**1**	202	**—**	—
	11,297	11,035	**10,096**	9,633

Deposits with a financial institution are denominated in Hong Kong dollars with an effective interest rate of 4.8% per annum (2005: 5.1% per annum).

22. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**163,226**	138,332
Work-in-progress	**116,587**	110,182
Finished goods	**56,330**	51,623
	336,143	300,137

23. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	2006 HK$'000	2005 HK$'000
Less than 3 months	**384,698**	298,567
3 months to 6 months	**6,989**	3,691
Over 6 months	**4,457**	7,604
	396,144	309,862
Less: impairment of receivables	**(4,457)**	(7,379)
	391,687	302,483

Accounts receivable and bills receivable are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
United States dollars	**353,696**	284,649
Chinese Renminbi	**36,944**	12,448
Hong Kong dollars	**433**	3,638
Other currencies	**614**	1,748
	391,687	302,483

The majority of sales are covered by letters of credit with bills payable at sight. The remaining portion of the sales is on open account with credit term of approximately 30 days and is substantially covered by credit insurance.

The carrying amounts of the accounts receivable and bills receivable approximate their fair value.

24. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables mainly consisted of advance payments for purchases of raw materials, rental and utility deposits.

25. ACCOUNTS PAYABLE AND BILLS PAYABLE

The aging analysis is as follows:

	2006	2005
	HK$'000	HK$'000
Less than 3 months	**189,922**	170,885
3 months to 6 months	**4,731**	3,791
Over 6 months	**2,244**	4,933
	196,897	179,609

Accounts payable and bills payable are denominated in the following currencies:

	2006	2005
	HK$'000	HK$'000
United States dollars	**134,381**	118,682
Hong Kong dollars	**30,408**	41,859
Chinese Renminbi	**24,128**	7,399
Other currencies	**7,980**	11,669
	196,897	179,609

Payment terms with suppliers are on letters of credit and open account. Certain suppliers grant credit periods ranging from 30 to 60 days.

26 ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consisted of accrued operating expenses and accrued employment expenses.

27. BANK BORROWINGS

As at 31 December 2006, the bank borrowings were unsecured, due for repayment within four months, and bore interest at rates ranging from 5.5% to 6.4% per annum (2005: 4.8% to 5.3% per annum). The Group's bank borrowings of HK$107,450,000 (2005: HK$50,014,000) were covered by corporate guarantees given by the Company.

Short-term bank borrowings are denominated in the following currencies:

	2006	2005
	HK$'000	HK$'000
United States dollars	**107,450**	50,014
Thai Bahts	**56,176**	29,278
	163,626	79,292

The carrying amounts of the bank borrowings approximate their fair value.

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Defined contribution plans (Note (a))	**794**	339	**—**	—
Defined benefit plans (Note (b))	**15,156**	15,589	**—**	—
Long service payment liabilities (Note (c))	**7,970**	9,265	**—**	—
Other retirement benefits	**12,562**	12,195	**12,562**	12,195
	36,482	37,388	**12,562**	12,195

(a) Defined contribution plans

Forfeited contributions totaling HK$95,000 (2005: HK$779,000) were utilised during the year leaving HK$230,000 (2005: HK$281,000) available at the year-end to reduce future contributions.

The Group operates/participates the following defined contribution plans:

(i) A defined contribution scheme for employees in Hong Kong, under which the Group and its employee each contributes 5% of the employee's salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer contribution.

(ii) The Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a monthly cap of HK$1,000.

(iii) The Group's subsidiaries in the Mainland China contribute approximately 10% to 14% of the basic salary of their employees to retirement schemes operated by municipal governments. Other than the mandatory contributions, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries.

(v) From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis.

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

(b) Defined benefit plans

The Group operates/participates the following defined benefit plans:

(i) A defined benefit retirement plan in the Philippines, which cover substantially all employees in the Philippines. The benefits are based on a prescribed percentage of the final monthly basic salary for every year of credited service.

The latest actuarial valuation of the plan was performed by Watson Wyatt Worldwide, a professionally qualified independent actuarial firm, as at 31 December 2006 using the "projected unit credit cost" method. According to the actuarial report, the aggregate market value of the plan's assets as at 31 December 2006 was HK$8,773,000, representing approximately 223% of the aggregate actuarial accrued liabilities at that date.

(ii) A defined benefit retirement scheme operated by the Group's subsidiaries in Taiwan. The Group makes monthly contributions, at approximately 8% of the employees' salaries and wages, to a retirement fund which is administered by the employees retirement fund committee and is deposited in the committee's name in the Central Trust of China.

The latest actuarial valuation of the plan was performed by Actuarial Consulting Co., Ltd. in Taiwan, a professionally qualified independent actuarial firm, as at 31 December 2006 using the "projected unit credit cost" method. Based on the actuarial report, the aggregate market value of the plan's assets as at 31 December 2006 was HK$22,436,000, which representing approximately 117% of the actuarial accrued liability at that date.

The amounts recognised in the consolidated balance sheet are as follows:

	2006	2005
	HK$'000	HK$'000
Present value of funded obligations	**23,094**	23,627
Fair value of plan assets	**(31,209)**	(28,263)
	(8,115)	(4,636)
Unrecognised actuarial gain	**23,271**	20,225
Net liability	**15,156**	15,589

The amounts recognised in the consolidated income statement, which are included as general and administrative expenses, are as follows:

	2006	2005
	HK$'000	HK$'000
Current service cost	**898**	2,102
Interest cost	**1,059**	1,623
Expected return on plan assets	**(1,503)**	(1,185)
Net actuarial gain recognised	**(738)**	(1,619)
Total, included in employment expenses	**(284)**	921
Actual return on plan assets	**1,933**	1,194

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

(b) Defined benefit plans (Continued)

Changes in the present value of the defined benefit obligations are as follows:

	2006 HK$'000	2005 HK$'000
As at 1 January	**23,627**	44,246
Current service cost	**898**	2,102
Interest cost	**1,059**	1,623
Actuarial gains	**(2,292)**	(19,391)
Exchange differences	**820**	(1,335)
Benefits paid	**(1,018)**	(3,618)
As at 31 December	**23,094**	23,627
Experience adjustments on plan liabilities	**(4,439)**	

Changes in the fair value of plan assets are as follows:

	2006 HK$'000	2005 HK$'000
As at 1 January	**28,263**	29,705
Expected return on plan assets	**1,503**	1,185
Actuarial gains	**430**	8
Contributions by employer	**755**	1,702
Exchange differences	**1,276**	(719)
Benefits paid	**(1,018)**	(3,618)
As at 31 December	**31,209**	28,263
Experience adjustments on plan assets	**430**	

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	**4% to 7%**	4% to 12%
Expected rate of return on plan assets	**3% to 10%**	3% to 12%
Expected rate of future salary increase	**3% to 7%**	3% to 8%

The Group expects to contribute HK$737,000 to its defined benefit plans in the year ending 31 December 2007.

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

(b) Defined benefit plans (Continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2006	2005
Deposits with financial institutions	**37.8%**	37.7%
Bonds	**16.1%**	19.7%
Stocks	**14.9%**	17.4%
Short term bills	**14.7%**	11.8%
Government securities	**10.1%**	4.6%
Other assets	**6.4%**	8.8%

(c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make lump sum payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement schemes. The Group does not set aside any assets to fund any remaining obligations.

(ii) Under the Labor Protection Act, A.D. 1998 of Thailand, the Group is obliged to make lump sum payments to their employees in Thailand upon cessation of employment. The amount payable is dependent on the employee's final salary and years of service.

(iii) Under labour law of Vietnam, the Group is obliged to make lump sum payments on cessation of employment to the employees who have employed by the Group for more than twelve months. The amount payable is dependent on the employee's average salary prior to the termination and years of service.

The latest actuarial valuations of the Group's obligations of long service payment liabilities as at 31 December 2006 were carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, using the "projected unit credit cost" method.

	2006	2005
	HK$'000	HK$'000
Present value of unfunded obligations	**10,098**	8,734
Unrecognised actuarial (losses)/gains	**(2,128)**	531
Liability in balance sheet	**7,970**	9,265
Current services cost	**1,339**	1,089
Interest cost	**350**	86
Curtailment effect	**(241)**	—
Actuarial gain recognised	**(805)**	—
Total, included in employment expenses	**643**	1,175

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

(c) Long service payment liabilities (Continued)

Movement in the present value of unfunded obligations:

	2006 HK$'000	2005 HK$'000
As at 1 January	**8,734**	309
Acquisitions of a subsidiary	**—**	7,004
Current service cost	**1,339**	1,089
Interest cost	**350**	86
Benefit paid	**(2,786)**	(119)
Actuarial losses	**1,455**	365
Exchange differences	**1,006**	—
As at 31 December	**10,098**	8,734
Experience adjustments on unfunded obligations	**1,248**	

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	**4% to 9%**	4% to 5%
Expected rate of future salary increase	**3% to 8%**	3% to 4%

29. LICENSE FEES PAYABLE

	2006 HK$'000	2005 HK$'000
Within one year	**14,722**	9,609
In the second year	**10,036**	12,677
In the third to fifth year	**32,190**	40,019
	56,948	62,305
Less: Current portion included under accruals and other payables	**(14,722)**	(9,609)
Non-current portion	**42,226**	52,696
Estimated fair value of:		
Current portion	**14,633**	9,609
Non-current portion	**41,345**	52,696

License fees payable represents payable up to 2010. It is recognised based on a discount rate equal to the Group's weighted average borrowing rate of 5.0% per annum at the date of inception of such obligation. License fees payable is denominated in United States dollars.

Estimated fair values were calculated based on discount rate of 5.7% (2005: 5.0%) per annum, which approximate the external borrowing rates available to the Group.

30. DEFERRED INCOME TAX ASSETS/LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the balance sheets are, after appropriate offsetting, as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income tax assets to be recovered:				
After 12 months	**3,672**	552	**—**	—
Within 12 months	**2,865**	5,651	**247**	328
	6,537	6,203	**247**	328
Deferred income tax liabilities to be realised:				
After 12 months	**(104,925)**	(86,294)	**—**	—
Within 12 months	**(2,918)**	(1,984)	**—**	—
	(107,843)	(88,278)	**—**	—
Net deferred income tax (liabilities)/assets	**(101,306)**	(82,075)	**247**	328

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, are as follows:

Deferred income tax liabilities

	Accelerated tax depreciation		Withholding tax for distribution of retained earnings of subsidiaries		Revaluation of freehold land and buildings		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 1 January	**6,679**	9,247	**55,369**	4,892	**30,307**	—	**92,355**	14,139
Exchange differences	**—**	—	**—**	(487)	**4,264**	(416)	**4,264**	(903)
Acquisitions of a subsidiary	**—**	—	**84**	47,403	**—**	31,010	**84**	78,413
Revaluation of freehold land and buildings	**—**	—	**—**	—	**10,442**	—	**10,442**	—
Recognised in the income statement	**(1,409)**	(2,150)	**13,900**	3,561	**(1,900)**	(287)	**10,591**	1,124
Credited to equity	**—**	(418)	**—**	—	**—**	—	**—**	(418)
As at 31 December	**5,270**	6,679	**69,353**	55,369	**43,113**	30,307	**117,736**	92,355

30. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

Deferred income tax assets

	Provisions		Decelerated tax depreciation		Tax losses		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 1 January	**8,874**	3,413	**1,131**	488	**260**	—	**15**	(758)	**10,280**	3,143
Exchange differences	**931**	(107)	**—**	—	**37**	(4)	**—**	—	**968**	(111)
Acquisitions of a subsidiary	**—**	8,173	**—**	—	**—**	262	**—**	—	**—**	8,435
Recognised in the income statement	**(2,484)**	(2,605)	**1,753**	643	**5,928**	2	**(15)**	773	**5,182**	(1,187)
As at 31 December	**7,321**	8,874	**2,884**	1,131	**6,225**	260	**—**	15	**16,430**	10,280

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2006, the Group did not recognise deferred income tax assets of HK$29,266,000 (2005: HK$26,689,000) that can be carried forward against future taxable income. The cumulative tax losses of HK$101,179,000 (2005: HK$ 88,302,000) can be carried forward indefinitely, while tax losses of HK$37,679,000 (2005: HK$37,243,000) will expire within five years.

31. SHARE CAPITAL

	2006	2005
	HK$'000	HK$'000
Authorised:		
500,000,000 (2005: 500,000,000) shares of HK$0.10 each	**50,000**	50,000
Issued and fully paid:		
268,735,253 (2005: 268,735,253) shares of HK$0.10 each	**26,874**	26,874

32. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Assets revaluation reserve HK$'000	Translation reserve HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2006, as previously stated	8,124	115,421	55,868	25,943	(132,693)	383,043	261,165	716,871
Effect of adoption of HKAS 21 (Amendment)	—	—	—	—	(8,040)	—	8,040	—
As at 1 January 2006, as restated	8,124	115,421	55,868	25,943	(140,733)	383,043	269,205	716,871
Revaluation surplus on freehold land and buildings	—	—	—	55,002	—	—	—	55,002
Deferred tax impact on revaluation	—	—	—	(10,442)	—	—	—	(10,442)
Currency translation differences	—	—	—	—	32,039	—	—	32,039
Profit for the year	—	—	—	—	—	—	115,359	115,359
Transfers	—	1,506	650	—	—	—	(2,156)	—
Dividends paid to equity holders of the Company	—	—	—	—	—	—	(59,121)	(59,121)
As at 31 December 2006	8,124	116,927	56,518	70,503	(108,694)	383,043	323,287	849,708
Representing:								
Proposed dividend							29,561	
Others							293,726	
							323,287	

32. RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Assets revaluation reserve HK$'000	Translation reserve HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2005	8,124	115,421	51,877	37,082	(144,749)	383,043	143,996	594,794
Deferred tax credited to equity	—	—	—	—	—	—	418	418
Assets revaluation reserve realised upon disposal of property, plant and equipment	—	—	—	(11,139)	—	—	11,139	—
Currency translation differences	—	—	—	—	4,016	—	—	4,016
Profit for the year	—	—	—	—	—	—	167,779	167,779
Transfers	—	—	3,991	—	—	—	(3,991)	—
Dividends paid to equity holders of the Company	—	—	—	—	—	—	(51,060)	(51,060)
Unclaimed dividends credited back	—	—	—	—	—	—	924	924
As at 31 December 2005	8,124	115,421	55,868	25,943	(140,733)	383,043	269,205	716,871
Representing:								
Proposed dividend							40,310	
Others							228,895	
							269,205	

32. RESERVES (Continued)

Company

	Share premium HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2006	**8,124**	**431,020**	**71,377**	**510,521**
Profit for the year	**—**	**—**	**72,710**	**72,710**
Dividends paid to equity holders of the Company	**—**	**—**	**(59,121)**	**(59,121)**
As at 31 December 2006	**8,124**	**431,020**	**84,966**	**524,110**
Representing:				
Proposed dividend			**29,561**	
Others			**55,405**	
			84,966	

	Share premium HK$'000	Contributed surplus and general reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2005	8,124	431,020	71,824	510,968
Profit for the year	—	—	49,689	49,689
Dividends paid to equity holders of the Company	—	—	(51,060)	(51,060)
Unclaimed dividends credited back	—	—	924	924
As at 31 December 2005	8,124	431,020	71,377	510,521
Representing:				
Proposed dividend			40,310	
Others			31,067	
			71,377	

Notes:

(a) The contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable.

(b) Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. Subsidiaries in Taiwan did not transfer any amount to the statutory reserve during the year ended 31 December 2006 (2005: Nil).

(c) The laws and regulations in Mainland China require wholly foreign-owned enterprises established in Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

For the year ended 31 December 2006, the subsidiaries in Mainland China have transferred HK$650,000 (2005: HK$3,991,000) to statutory reserves.

(d) During the year ended 31 December 2006, a subsidiary in Mainland China increased its issued capital by capitalisation of retained earnings of HK$1,506,000.

33. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 28 November 1997, under which the directors of the Company may, at their discretion, invite any full-time employees (including executive directors) of the Company or its subsidiaries to take up options upon payment of HK$1 by each grantee as consideration for the options to subscribe for shares in the Company. Each option entitles the grantee to subscribe for one share in the Company and the subscription price is determined by the Board of Directors at a price of not less than 80% of the average of the closing price of the shares of the Company as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five business days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher. An option is exercisable at any time during a period determined by the Board of Directors or is exercisable according to restrictions imposed by the Board of Directors. The expiry dates of the options granted are the earlier of (i) the date falling on the expiry of three years after their respective dates of grant, and (ii) the date falling on the expiry of ten years from 28 November 1997.

With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Hong Kong Stock Exchange on the date of grant and the average closing prices of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant.

The Company has not granted any options during the year ended 31 December 2006 (2005: Nil). As at 31 December 2006, there was no share option outstanding (2005: Nil).

34. COMMITMENTS

(a) Operating lease commitments

(i) The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

	2006 **HK$'000**	2005 HK$'000
Not later than 1 year	**21,951**	26,045
Later than 1 year and not later than 5 years	**16,654**	20,370
Later than 5 years	**15,290**	20,933
	53,895	67,348

(ii) The Group had future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of land and buildings, as follows:

	2006 **HK$'000**	2005 HK$'000
Not later than 1 year	**1,166**	1,173
Later than 1 year and not later than 5 years	**438**	529
	1,604	1,702

34. COMMITMENTS (Continued)

(b) Capital commitments

The Group had capital commitments in relation to office renovation, purchase of equipment, and construction of production facilities, as follows:

	2006 **HK$'000**	2005 HK$'000
Contracted but not provided for	**—**	3,898
Authorised but not contracted for	**21,318**	5,384
	21,318	9,282

35. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns approximately 66.40% of the Company's issued shares as at 31 December 2006.

(a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the business:

		Group	
	Note	**2006** **HK$'000**	2005 HK$'000
TDB Company Limited			
Rental expense	(i)	**4,457**	4,457
Hua Thai and its subsidiaries	(ii)		
Purchases of finished goods		**N/A**	428,728
Sales of finished goods		**N/A**	55,682
Handling expenses on purchase of raw materials		**N/A**	1,102
Handling income on sales of raw materials		**N/A**	15,597
Handling income on sales of finished goods		**N/A**	6,846
Sample and other income		**N/A**	3,390

Notes:

(i) The entire issued share capital of TDB Company Limited is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was for the leasing of factory, office and warehouse space and was determined by reference to open market rental.

(ii) Hua Thai was an associated company up to 27 October 2005, and thereafter has become a subsidiary. The transactions for the year ended 31 December 2005 were up to 27 October 2005 when Hua Thai was an associated company.

(b) Transactions/Balances with subsidiaries

	Company	
	2006 **HK$'000**	2005 HK$'000
Transactions with subsidiaries		
Service fee charged to subsidiaries	**42,160**	44,552
Service fee charged by a subsidiary	**2,504**	—
Balances with subsidiaries		
Amounts due from subsidiaries	**184,806**	164,944
Amounts due to subsidiaries	**22,288**	7,744

35. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Salaries, allowances and bonuses	**33,990**	37,645	**28,881**	27,248
Defined contribution plans	**767**	745	**569**	495
Other retirement benefits	**367**	1,170	**367**	1,170
	35,124	39,560	**29,817**	28,913

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from operations

	2006	2005
	HK$'000	HK$'000
Profit before income tax	**146,065**	211,338
Adjustments for:		
Share of profits of associated companies	**—**	(21,344)
Depreciation on property, plant and equipment	**55,766**	48,473
Impairment of property, plant and equipment	**—**	9,638
Revaluation deficit on buildings	**812**	—
Depreciation on investment properties	**214**	213
Impairment of investment properties	**978**	—
Amortisation of leasehold land and land use rights	**657**	1,082
Amortisation of license rights	**6,974**	6,480
Loss on disposal of leasehold land	**—**	83
Net (gain)/loss on disposals of property, plant and equipment	**(371)**	18,140
Gain on disposal of an investment	**(576)**	—
Gain on disposal of a subsidiary	**—**	(3,189)
Net gain arising from acquisition of a subsidiary	**(590)**	(53,926)
Reversal of impairment of an unlisted investment	**—**	(200)
Finance income	**(10,494)**	(5,213)
Finance costs	**11,610**	2,075
Effect of foreign exchange rate changes	**6,245**	1,529
	217,290	215,179
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
(Increase)/decrease in inventories	**(36,006)**	29,870
Increase in accounts receivable and bills receivable	**(89,204)**	(54,040)
(Increase)/decrease in prepayments and other receivables	**(3,608)**	2,489
Increase in intangible assets – license rights	**—**	(68,785)
Decrease in net amounts due to associated companies	**—**	(4,691)
Increase/(decrease) in accounts payable and bills payable	**17,288**	(51,308)
(Decrease)/increase in accruals and other payables	**(27,320)**	66,994
(Decrease)/increase in retirement benefits and other post retirement obligations	**(906)**	11,018
(Decrease)/increase in license fees payable	**(8,473)**	52,696
Cash generated from operations	**69,061**	199,422

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) In the consolidated cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2006 HK$'000	2005 HK$'000
Net book amount	**2,431**	31,095
Net gain/(loss) on disposals of property, plant and equipment	**371**	(18,140)
Proceeds from disposals of property, plant and equipment	**2,802**	12,955

37. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

During the year ended 31 December 2006, the Group acquired additional interest in Hua Thai, bringing the Group's equity interest in Hua Thai from 96.96% as at 31 December 2005 to 97.33% as at 31 December 2006.

Details of the fair value of net assets relating to the additional equity interest in Hua Thai acquired during the year and the related excess of the fair value of net assets acquired over the cost of acquisition are as follows:

	HK$'000
Fair value of net assets acquired	**1,324**
Deferred tax on distributable retained earnings of the subsidiary	**(84)**
Purchase consideration:	
Cash consideration	**(650)**
Excess of fair value of net assets acquired over the cost of the acquisition	**590**

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

39. ULTIMATE HOLDING COMPANY

The directors regard Silver Tree Holdings Inc., a company incorporated in the British Virgin Islands, as the ultimate holding company.

40. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's Board of Directors on 2 April 2007.