1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its subsidiaries are set out in note 29.

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

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group on 7 June 2005. Details of the Group Reorganisation are more fully explained in Appendix V to the prospectus of the Company dated 21 March 2006.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2005 have been prepared using the principles of merger accounting. The consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2005 have been prepared on the basis as if the current group structure had been in existence throughout the period. The consolidated balance sheet of the Group as at 31 December 2005 have been prepared to present the assets and liabilities of the companies then comprising the Group as if the current group structure had been in existence as at that date.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2006.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s)

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

The Group has not early applied the following new Standards, Amendment or Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendment or INTs will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) (Continued)

HKAS 1 (Amendment)	Capital disclosure[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[7]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[6]
HK(IFRIC) – INT 12	Service concession arrangements[8]

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

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

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

Leases

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

Construction in progress is stated at cost which includes all development expenditure and other direct costs, attributable to such projects. They are not depreciated until completion of construction and the asset is put into use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

For the leasehold land and buildings where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated over their estimated useful lives of 50 years on a straight line basis.

The cost of buildings in Mainland China (the "PRC") is depreciated over their estimated useful lives of 30 years using the straight line method.

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

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

Assets held under finance leases are depreciated over their expected useful lives using the straight line method or, where shorter, the term of the relevant lease.

Land use rights

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Financial instruments

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

Trade and other receivables

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

Cash and cash equivalents

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

Financial liability and equity

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

Trade and other payables

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

Bank borrowings/other short-term loans/obligations under finance leases/mortgage loan

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets

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

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

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

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

Research and development costs

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

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

4. FINANCIAL RISK MANAGEMENT OF OBJECTIVES AND POLICIES

Credit risk

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

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

4. FINANCIAL RISK MANAGEMENT OF OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

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

Liquidity risk

Certain bank balances and cash of RMB13,864,000 at 31 December 2006 (2005: RMB21,405,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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

Interest rate risk

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

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

Fair value

The fair value of financial assets and financial liabilities are determined based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

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

	2006	2005
	RMB'000	RMB'000
Sales of goods from		
– sales of finished fabrics	**756,237**	524,908
– trading of fabrics and clothing	**92,659**	19,622
	848,896	544,530
Subcontracting services	**53,612**	55,386
	902,508	599,916

Business segments

The Group is organised into two operating divisions, namely processing, printing and sales of finished fabrics and trading of goods. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

– Processing, printing and sales of finished fabrics

– Trading of goods: Trading of fabrics and clothing

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

(i) An analysis of the Group's turnover and results by business segments is as follows:

	Turnover		Results	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Processing, printing and sales of finished fabrics				
– external sales	**765,165**	580,294		
– inter-segment sale	**44,684**	–		
	809,849	580,294	**172,053**	130,258
Trading of goods	**137,343**	19,622	**2,777**	(1,012)
	947,192	599,916	**174,830**	129,246
Elimination	**(44,684)**	–	**–**	–
	902,508	599,916	**174,830**	129,246
Interest income			**3,305**	90
Unallocated corporate expenses			**(9,724)**	(8,560)
Finance costs			**(8,902)**	(6,273)
Profit before taxation			**159,509**	114,503
Taxation			**(23,929)**	(3,990)
Profit for the year			**135,580**	110,513

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

(ii) Other information

	2006 **RMB'000**	2005 RMB'000
Capital additions		
– processing, printing and sales of finished fabrics	**229,289**	43,438
– trading of goods	**1,967**	54
	231,256	43,492
Depreciation		
– processing, printing and sales of finished fabrics	**28,735**	18,074
– trading of goods	**340**	216
– corporate level	**178**	181
	29,253	18,471

(iii) Analysis of the Group's balance sheet by business segments is as follows:

	2006 **RMB'000**	2005 RMB'000
ASSETS		
Segment assets		
– processing, printing and sales of finished fabrics	**768,519**	537,047
– trading of goods	**33,580**	6,815
Deferred tax assets	**2,558**	2,558
Unallocated corporate assets	**54,004**	32,817
	858,661	579,237
LIABILITIES		
Segment liabilities		
– processing, printing and sales of finished fabrics	**47,581**	72,589
– trading of goods	**17,065**	8,773
Taxation	**10,117**	3,890
Deferred tax liabilities	**343**	–
Unallocated corporate liabilities	**159,359**	148,572
	234,465	233,824

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segments

The Group's turnover is derived from customers located in the PRC and overseas including Hong Kong.

The following table provides an analysis of the Group's sales by geographical markets:

	Turnover	
	2006	2005
	RMB'000	RMB'000
The PRC	**766,665**	580,294
Hong Kong and Overseas	**135,843**	19,622
	902,508	599,916

The following is an analysis of the carrying amount of segment assets, and capital additions, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**786,607**	537,047	**231,235**	43,438
Hong Kong and Overseas	**15,492**	6,815	**21**	54
	802,099	543,862	**231,256**	43,492

6. FINANCE COSTS

	2006	2005
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	**(8,646)**	(6,088)
– not wholly repayable within five years	**(256)**	(185)
	(8,902)	(6,273)

7. PROFIT BEFORE TAXATION

	2006	2005
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 8)*	**1,090**	897
Other staff's retirement benefits scheme contributions	**1,255**	475
Other staff costs	**22,914**	19,613
	25,259	20,985
Less: Staff costs included in research and development costs	**(756)**	(586)
	24,503	20,399
Depreciation on property, plant and equipment		
– owned by the Group	**29,142**	18,471
– held under finance leases	**111**	–
	29,253	18,471
Less: Depreciation included in research and development costs	**(1,080)**	(125)
	28,173	18,346
Auditor's remuneration	**1,530**	832
Operating lease rentals in respect of land use rights	**473**	279
Research and development costs	**4,235**	2,901
and after crediting:		
Interest income	**3,305**	90

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2006				2005			
	Fees	Salaries and other benefits	Retirement benefits scheme contribut-ions	Total	Fees	Salaries and other benefits	Retirement benefits scheme contribut-ions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Sze Siu Hung ("Mr. Sze ")	–	133	12	145	–	135	–	135
Mr. Qiu Fengshou	–	199	–	199	–	203	–	203
Madam Cai Peilei	–	132	–	132	–	137	–	137
Mr. Sze Chin Pang	–	398	12	410	–	410	12	422
Independent non-executive directors								
Professor Zeng Qingfu	51	–	–	51	–	–	–	–
Professor Zhao Bei	51	–	–	51	–	–	–	–
Mr. Lui Siu Keung	102	–	–	102	–	–	–	–
	204	862	24	1,090	–	885	12	897

The five highest paid individuals included two directors, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals are as follows:

	2006 RMB'000	2005 RMB'000
Employees		
– basic salaries and allowances	1,126	807
– retirement benefits scheme contributions	33	25
	1,159	832

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

9. TAXATION

	2006 RMB'000	2005 RMB'000
The charge comprises:		
PRC income tax	**(23,536)**	(3,825)
Hong Kong Profits Tax	**(43)**	–
	(23,579)	(3,825)
Deferred taxation	**(350)**	(165)
	(23,929)	(3,990)

Pursuant to the relevant laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. Such tax benefit will be fully utilised in 2008.

Taxation in the PRC is calculated at the rates prevailing in the PRC jurisdiction while Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax had been made in the financial statements in 2005 as the Group's operations in Hong Kong had no assessable profit in that year.

9. TAXATION (Continued)

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

	2006		2005	
	RMB'000	%	RMB'000	%
Profit before taxation	159,509		114,503	
Tax at the applicable income tax rate	(43,067)	(27.0)	(30,916)	(27.0)
Tax effect of expenses not deductible for tax purposes	(1,656)	(1.0)	(2,226)	(1.9)
Effect of tax exemption granted to PRC subsidiaries	21,380	13.4	30,445	26.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	81	0.1	(978)	(0.9)
Tax effect of tax loss not recognised	–	–	(272)	(0.2)
Tax effect of tax loss utilised	369	0.2	–	–
Others	(1,036)	(0.7)	(43)	(0.1)
Tax charge and effective tax rate for the year	(23,929)	(15.0)	(3,990)	(3.5)

10. DIVIDENDS

The final dividend proposed for the year ended 31 December 2006 is calculated on the basis of 808,000,000 shares in issue as at the date of this report.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year of RMB135,580,000 (2005: RMB110,513,000) and on the weighted average number of 766,246,575 (2005: 660,000,000) shares in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue as detailed in note 22 have been effective on 1 January 2005.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2005	124,151	2,111	588	131,469	11,646	269,965
Currency realignment	(174)	(19)	–	–	–	(193)
Additions	9,321	124	–	31,098	–	40,543
Transfers	–	–	–	11,646	(11,646)	–
At 31 December 2005	133,298	2,216	588	174,213	–	310,315
Currency realignment	(349)	(40)	–	–	–	(389)
Additions	62,498	1,970	2,018	103,522	51,944	221,952
Acquisition of a subsidiary	–	14	–	–	–	14
Transfers	695	–	–	778	(1,473)	–
At 31 December 2006	196,142	4,160	2,606	278,513	50,471	531,892
DEPRECIATION						
At 1 January 2005	5,056	383	326	49,316	–	55,081
Currency realignment	(2)	(3)	–	–	–	(5)
Provided for the year	4,315	328	95	13,733	–	18,471
At 31 December 2005	9,369	708	421	63,049	–	73,547
Currency realignment	(15)	(20)	(1)	–	–	(36)
Provided for the year	5,323	540	252	23,138	–	29,253
At 31 December 2006	14,677	1,228	672	86,187	–	102,764
NET BOOK VALUES						
At 31 December 2006	181,465	2,932	1,934	192,326	50,471	429,128
At 31 December 2005	123,929	1,508	167	111,164	–	236,768

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of the Group's properties, which are situated on land under medium-term leases is analysed as follows:

	2006 RMB'000	2005 RMB'000
Land and buildings in Hong Kong	8,235	8,746
Buildings in the PRC	173,230	115,183
	181,465	123,929

The net book value of motor vehicles includes an amount of RMB1,785,000 (2005: Nil) in respect of assets held under finance leases.

The Group has pledged its buildings and plant and machinery with an aggregate net book value of RMB115,790,000 (2005: RMB25,985,000) to certain banks to secure the credit facilities granted to the Group.

13. LAND USE RIGHTS

	2006 RMB'000	2005 RMB'000
CARRYING VALUE		
At 1 January	9,319	6,649
Additions during the year	9,304	2,949
Charged to income statement for the year	(473)	(279)
At 31 December	18,150	9,319

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

The Group has pledged its land use rights with an aggregate carrying value of RMB7,569,000 (2005: RMB9,319,000) to certain banks to secure the credit facilities granted to the Group.

14. DEFERRED TAXATION

The following is the deferred tax asset, net of deferred tax liabilities, recognised by the Group and movements thereon during the year:

	Difference in depreciation RMB'000
At 1 January 2005	2,723
Charged to income statement for the year	(165)
At 31 December 2005	2,558
Currency realignment	7
Charged to income statement for the year	(350)
At 31 December 2006	2,215

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 RMB'000	2005 RMB'000
Deferred tax assets	**2,558**	2,558
Deferred tax liabilities	**(343)**	–
	2,215	2,558

15. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**119,271**	113,418
Finished goods	**54,818**	37,818
	174,089	151,236

16. TRADE AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**69,490**	74,977
Deposits paid to suppliers	**80,214**	61,201
Other receivables	**18,550**	3,344
	168,254	139,522

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 60 days to 90 days of issuance, except for certain well established customers for which the credit terms are up to 180 days.

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

	2006 RMB'000	2005 RMB'000
Age		
0 to 90 days	**44,837**	70,398
91 to 180 days	**6,642**	4,579
181 to 270 days	**7,810**	–
271 to 365 days	**9,059**	–
Over 365 days	**1,142**	–
	69,490	74,977

17. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits and bank balances and cash comprise cash held by the Group and bank deposits. The bank deposits carry interest at the prevailing market interest rate of approximately 3.7% (2005: 3.7%) per annum.

18. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Trade payables	**22,374**	53,433
Bills payables	**3,130**	12,600
	25,504	66,033
Customers' deposits	**27,225**	5,042
Payables for acquisition of property, plant and equipment	**5,549**	1,945
Other payables	**7,990**	10,727
	66,268	83,747

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

	2006 RMB'000	2005 RMB'000
Age		
0 to 90 days	**18,752**	53,053
91 to 180 days	**1,239**	10,795
181 to 270 days	**1,060**	2,185
271 to 365 days	**136**	–
Over 365 days	**4,317**	–
	25,504	66,033

19. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.5% to 2.75% per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**675**	–	**600**	–
Between one to two years	**675**	–	**637**	–
Between two to five years	**325**	–	**318**	–
	1,675	–	**1,555**	–
Less: Future finance charges	**120**	–	**–**	–
Present value of lease obligations	**1,555**	–	**1,555**	–
Less: Amount due within one year shown under current liabilities			**600**	–
Amount due after one year			**955**	–

20. MORTGAGE LOAN

	2006 RMB'000	2005 RMB'000
The mortgage loan is secured and repayable as follows:		
Within one year	**524**	771
Between one to two years	**551**	544
Between two to five years	**1,835**	1,865
After five years	**1,572**	1,995
	4,482	5,175
Less: Amount due within one year shown under current liabilities	**524**	771
Amount due after one year	**3,958**	4,404

The mortgage loan carried interest at 5.15% per annum and is denominated in Hong Kong dollars.

21. SHORT-TERM BANK LOANS

	2006 RMB'000	2005 RMB'000
Short-term bank loans		
– secured	**73,200**	70,600
– unsecured	**78,500**	52,692
	151,700	123,292

21. SHORT-TERM BANK LOANS (Continued)

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

	RMB	HK$	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2006	151,700	–	151,700
At 31 December 2005	123,100	192	123,292

The short-term bank loans at 31 December 2006 carry interests at rates ranging from 5.58% to 7.25% (2005: 4.65% to 7.25%) per annum.

At 31 December 2006, the Group had unutilised bank credit facilities of RMB36,870,000 (2005: RMB16,568,000).

22. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.10 each				
– on incorporation	3,800	380	–	–
– increase in authorised share capital	996,200	99,620	–	–
– issue pursuant to the Group Reorganisation	–	–	30	3
– balance at 31 December 2005	1,000,000	100,000	30	3
– issue of shares on capitalisation issue	–	–	659,970	65,997
– issue of shares by placing and public offer	–	–	140,000	14,000
– balance at 31 December 2006	1,000,000	100,000	800,000	80,000

22. SHARE CAPITAL (Continued)

	RMB'000
Shown in the consolidated balance sheet at	
– 31 December 2006 as	82,760
– 31 December 2005 as	3

According to the written shareholders' resolution of the Company dated 15 March 2006, the share premium account of the Company was credited as a result of the placing and public offer of the shares of the Company, the directors were authorised to capitalise HK$65,997,000 (approximately RMB68,274,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 659,970,000 shares for allotment and issued to the holders whose name appeared on the register of members of the Company at the close of business on 15 March 2006 in proportion to their then shareholding in the Company.

On 30 March 2006, by means of placing and public offer, the Company issued a total of 140,000,000 new ordinary shares of HK$0.10 each at HK$1.16 per share. The Company's shares were then listed on the Main Board of the Stock Exchange.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

23. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 15 March 2006. The purpose of the Share Option Scheme is to enable the Company to grant options to directors, eligible employees and other outside third parties under the Share Option Scheme, in the sole discretion of the directors of the Company, who have contributed or will contribute to the growth and development of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall be 80,000,000 shares, representing 10% of the issued share capital of the Company as at the date of this annual report.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.

23. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

There is no general requirement that an option must be held for any minimum period before it can be exercised but the directors of the Company is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the Board of Directors to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than fourteen days after the date of grant. The amount payable on acceptance of an option is HK$1.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board of Directors at its absolute discretion and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Up to 31 December 2006, no options were granted to directors, eligible employees and other outside parties under the Share Option Scheme.

24. MAJOR NON-CASH TRANSACTIONS

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

25. ACQUISITION OF A SUBSIDIARY

In June 2006, the Group acquired 100% of the registered capital of 廈門拓浩貿易有限公司 (Xiamen Tophot Trade Co., Ltd.) for a consideration of RMB3,000,000. The net assets obtained on acquisition were insignificant.

26. CAPITAL COMMITMENTS

	2006	2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	**13,382**	25,807

27. RETIREMENT BENEFITS SCHEME

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

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

28. POST BALANCE SHEET EVENT

In January 2007, the Company granted 45,000,000 share options to its eligible employees under the Share Option Scheme at an exercise price of HK$0.75 per share exercisable between January 2007 and January 2010. Subsequent to the grant of the share options, 8,000,000 option shares were exercised.

29. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Co-Prosperity (Hong Kong) Limited	Hong Kong	Ordinary shares – HK$2	Trading of fabrics
福建協盛協豐印染有限公司 (Shasing Shapheng Dyeing Co. Ltd.)	PRC for a term of 50 years commencing 20 June 2003 as a wholly-owned foreign investment enterprise	Registered capital – HK$50,000,000	Processing, printing and sales of finished fabrics
協豐(福建)印染實業有限公司 (Xiefeng (Fujian) Printing & Dyeing Co., Ltd.)	PRC for a term of 50 years commencing 26 May 1999 as a wholly-owned foreign investment enterprise	Registered capital – US$3,000,000	Processing, printing and sales of finished fabrics
協盛(石獅市)染織實業有限公司 (Xuesheng (Shishi) Printing & Knitting Industry Co., Ld.)	PRC for a term of 50 years commencing 16 September 1993 as a wholly-owned foreign investment enterprise	Registered capital – US$5,000,000	Processing, printing and sales of finished fabrics
廈門拓浩貿易有限公司 (Xiamen Tophot Trade Co., Ltd.)	PRC for a term of 30 years commencing 13 June 2006 as a wholly-owned foreign investment enterprise	Registered capital – RMB8,000,000	Import and export trading

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

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