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1. CORPORATE INFORMATION

Glorious Sun Enterprises Limited, which is the ultimate holding company, is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Glorious Sun Group Building, 97 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group engaged in the retailing, export and production of casual wear.

2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

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2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(b) HKAS 39 Financial Instruments: Recognition and Measurement *(continued)*

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 *Leases*. However, the adoption of this interpretation has had no material impact on these financial statements.

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2.3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The result of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party to the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	1.67% – 5% or over the terms of the leases, whichever is shorter
Leasehold improvements	20% – 25% or over the terms of the leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and office equipment	10% – 33%
Motor vehicles	20% – 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

Construction in progress represents buildings and office premises under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated on the straight-line basis to write off the cost or valuation of each items of leased asset to its residual value over its estimated useful life. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risk associated with foreign currency fluctuation. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out and weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of sub-contracting and management services, when the services are rendered;

(c) from the rendering of decoration and renovation services, in the period in which such services are performed;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(e) rental income, on a time proportion basis over the lease terms; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Retirement benefits schemes (continued)

Prior to the MPF Scheme becoming effective, the Group operated two defined contribution retirement benefits schemes for some of its employees, the assets of which are held separately from those of the Group in independently administered funds. Under one of the schemes, contributions payable by the employers and employees were suspended in January 1994, but the administrator continues to manage and invest the assets of the scheme and to make payments to employees in accordance with the rules of the scheme. Under the other scheme, contributions were made based on a percentage of the eligible employees' salaries and were charged to the income statement as they became payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amounts of forfeited contributions. This scheme is still operating after 1 December 2000.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with rules of the central pension scheme.

Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$38,612,000 (2005: Nil). More details are given in note 17.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$16,966,000 (2005: 14,525,000). The amount of unrecognised tax losses at 31 December 2006 was HK$17,921,000 (2005: HK$30,768,000). Further details are contained in note 31 to the financial statements.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the "retail operations" segment engages in the retailing of casual wear;

(b) the "export operations" segment manufactures and exports apparel; and

(c) the "others" segment comprises, principally, the trading of fabric and other businesses.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers during the year (2005: Nil).

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4. SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Retail operations		Export operations		Others		Consolidated	
	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 revenue:								
Sales to external customers	**2,918,766**	2,492,489	**1,254,136**	1,148,110	**224,457**	161,799	**4,397,359**	3,802,398
Other income and gains	**27,828**	30,636	**26,351**	46,189	**20,093**	9,104	**74,272**	85,929
Total	**2,946,594**	2,523,125	**1,280,487**	1,194,299	**244,550**	170,903	**4,471,631**	3,888,327
Segment results	**207,557**	221,730	**67,844**	86,264	**12,777**	6,657	**288,178**	314,651
Interest income and unallocated revenue							**136,475**	46,203
Unallocated expenses							**(44,522)**	(25,501)
Finance costs							**(17,837)**	(9,481)
Share of profits and losses of:								
Jointly-controlled entities	**–**	–	**341**	(338)	**(53)**	769	**288**	431
Associates	**–**	–	**28,662**	44,628	**–**	–	**28,662**	44,628
Profit before tax							**391,244**	370,931
Tax							**(77,586)**	(79,446)
Profit for the year							**313,658**	291,485

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4. SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

Group

	Retail operations		Export operations		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities:								
Segment assets	**943,951**	717,032	**740,675**	782,249	**345,474**	182,204	**2,030,100**	1,681,485
Interests in jointly-controlled entities	**–**	–	**3,461**	3,745	**16,725**	18,116	**20,186**	21,861
Interests in associates	**65,740**	84,292	**141,283**	129,521	**–**	–	**207,023**	213,813
Unallocated assets							**1,454,686**	1,494,778
Total assets							**3,711,995**	3,411,937
Segment liabilities	**606,594**	531,014	**414,869**	433,402	**170,641**	124,095	**1,192,104**	1,088,511
Unallocated liabilities							**651,657**	510,598
Total liabilities							**1,843,761**	1,599,109
Other segment information:								
Depreciation, recognition and amortisation	**50,655**	66,033	**19,346**	47,875	**46,548**	10,366	**116,549**	124,274
Net impairment/(reversal of impairment) losses of property, plant and equipment recognised in the income statement	**(121)**	416	**(2,208)**	(521)	**–**	–	**(2,329)**	(105)
Net deficit/(surplus) on revaluation of buildings recognised in the income statement	**–**	–	**–**	72	**–**	(285)	**–**	(213)
Change in fair value of investment properties	**–**	–	**–**	–	**(1,523)**	(600)	**(1,523)**	(600)
Other non-cash expenses/(income)	**67,840**	39,325	**3,091**	12,004	**(81,736)**	(8,683)	**(10,805)**	42,646
Capital expenditure	**111,992**	114,970	**28,939**	37,475	**97,284**	128,517	**238,215**	280,962
Net surplus on revaluation of buildings recognised directly in equity	**–**	–	**–**	(917)	**90**	(4,043)	**90**	(4,960)

4. SEGMENT INFORMATION *(CONTINUED)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Mainland China HK$'000	Hong Kong HK$'000	United States of America ("U.S.A") HK$'000	Australia and New Zealand HK$'000	Canada HK$'000	Others HK$'000	Con-solidated HK$'000
Segment revenue:							
Sales to external customers	**2,087,199**	**130,940**	**1,039,058**	**875,731**	**155,142**	**109,289**	**4,397,359**
Other segment information:							
Segment assets	**1,132,138**	**67,565**	**363,232**	**260,110**	**1,349**	**205,706**	**2,030,100**
Capital expenditure	**185,139**	**940**	**–**	**34,408**	**–**	**17,728**	**238,215**

Year ended 31 December 2005

	Mainland China HK$'000	Hong Kong HK$'000	United States of America ("U.S.A") HK$'000	Australia and New Zealand HK$'000	Canada HK$'000	Others HK$'000	Con-solidated HK$'000
Segment revenue:							
Sales to external customers	1,781,836	118,004	934,090	785,207	80,793	102,468	3,802,398
Other segment information:							
Segment assets	992,000	84,282	226,363	179,038	11,472	188,330	1,681,485
Capital expenditure	213,183	2,821	–	44,670	–	20,288	280,962

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Revenue		
Retailing of casual wear	**2,918,767**	2,492,489
Export of apparel	**1,254,135**	1,148,110
Trading of fabric and other businesses	**224,457**	161,799
	4,397,359	3,802,398
Other income		
Bank interest income	**33,226**	30,294
Services and sub-contracting fee income	**21,132**	19,524
Other sales income	**3,935**	1,402
Commission and management fee income	**3,943**	5,886
Decoration and renovation income	**13,274**	5,353
Gross rental income	**3,138**	204
Others	**32,560**	34,163
	111,208	96,826
Gains		
Gain on disposal of equity investments	**5,741**	–
Foreign exchange differences, net	**9,848**	10,573
Fair value gains, net:		
Equity investments at fair value through profit or loss	**68,551**	13,853
Derivative financial instruments – transactions not qualifying as hedges	**11,936**	8,370
Others	**3,463**	2,510
	99,539	35,306
	210,747	132,132

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6. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**17,657**	9,307
Interest on finance leases	**180**	174
	17,837	9,481

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group 2006 HK$'000	2005 HK$'000
Cost of inventories sold*		**2,573,042**	2,176,579
Depreciation	14	**116,122**	123,865
Recognition of prepaid land lease payments	16	**427**	409
Minimum lease payments under operating leases:			
Land and buildings		**579,507**	403,021
Plant and machinery		**499**	198
		580,006	403,219
Auditors' remuneration		**6,845**	6,312
Employee benefits expenses (including directors' remuneration, note 8):			
Wages and salaries		**736,445**	657,877
Pension scheme contributions		**18,037**	16,652
Less: Forfeited contributions		**(38)**	(112)
Net pension scheme contributions**		**17,999**	16,540
		754,444	674,417
Reversal of impairment of items of property, plant and equipment	14	**(2,329)**	(105)
Loss on disposal/write-off of items of property, plant and equipment		**14,247**	25,204

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7. PROFIT BEFORE TAX *(CONTINUED)*

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Net revaluation surplus on buildings		**–**	(213)
Change in fair value of investment properties	15	**(1,523)**	(600)
Gain on liquidation of a jointly-controlled entity		**(1,334)**	–
Reversal of impairment on liquidation of a jointly-controlled entity#		**(1,474)**	–
Write-down of inventories to net realisable value*		**8,172**	16,368
Provision for loans to associates#		**47,045**	11,106
Impairment of interests in jointly-controlled entities#		**1,692**	–
Gross rental income from investment properties		**(3,138)**	(204)
Direct operating expenses (including repairs and maintenance) arising on rental-earning of investment properties		**363**	10

* *The cost of inventories sold and the cost of sales include the write-down of inventories to net realisable value of HK$8,172,000 (2005: HK$16,368,000).*

** *As at 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).*

\# *These items are included in "Other expenses" on the face of the consolidated income statement.*

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**400**	400
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**8,538**	6,729
Discretionary bonuses	**10,275**	11,295
Pension scheme contributions	**290**	271
	19,103	18,295
	19,503	18,695

(a) Independent non-executive directors

The fees paid and payable to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Mr. Wong Man Kong, Peter, BBS, JP	**100**	100
Mr. Lau Hon Chuen, Ambrose, GBS, JP	**100**	100
Mr. Chung Shui Ming, Timpson, GBS, JP	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Dr. Charles Yeung, SBS, JP	–	60	1,610	3	1,673
Mr. Yeung Chun Fan	–	1,723	3,837	49	5,609
Mr. Yeung Chun Ho	–	1,104	323	55	1,482
Mr. Pau Sze Kee, Jackson	–	1,795	2,779	76	4,650
Mr. Hui Chung Shing, Herman, JP	–	1,200	469	60	1,729
Ms. Cheung Wai Yee	–	696	1,177	35	1,908
Mr. Chan Wing Kan, Archie	–	1,000	–	12	1,012
Mr. Teo Heng Kee, Peter	–	960	80	–	1,040
	–	8,538	10,275	290	19,103
Non-executive director:					
Dr. Lam Lee G.	100	–	–	–	100
	100	8,538	10,275	290	19,203
2005					
Executive directors:					
Dr. Charles Yeung, SBS, JP	–	60	3,290	3	3,353
Mr. Yeung Chun Fan	–	1,731	3,544	46	5,321
Mr. Yeung Chun Ho	–	1,051	294	53	1,398
Mr. Pau Sze Kee, Jackson	–	1,694	2,785	72	4,551
Mr. Hui Chung Shing, Herman, JP	–	1,200	455	60	1,715
Ms. Cheung Wai Yee	–	660	927	33	1,620
Mr. Chan Wing Kan, Archie	–	333	–	4	337
Mr. Teo Heng Kee, Peter	–	–	–	–	–
	–	6,729	11,295	271	18,295
Non-executive director:					
Dr. Lam Lee G.	100	–	–	–	100
	100	6,729	11,295	271	18,395

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,290**	5,531
Discretionary bonuses	**4,953**	9,503
Pension scheme contributions	**381**	522
	10,624	15,556

The number of non-director, highest paid employees whose remuneration fell within the following bands is as below:

	Number of employees	
	2006	2005
HK$2,000,001 – HK$2,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	1
HK$4,000,001 – HK$4,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**–**	1
	3	3

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**19,469**	21,131
Under/(over) provision in prior years	**(2,961)**	1,690
Current – Elsewhere	**61,677**	60,729
Deferred (note 31)	**(599)**	(4,104)
Total tax charge for the year	**77,586**	79,446

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the location in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate and a reconciliation of the applicable rate (i.e., the Hong Kong statutory tax rates) to the Groups' effective tax rates, are as follows:

	Group			
	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit before tax	**391,244**		370,931	
Tax at the statutory tax rate	**68,467**	**17.5**	64,912	17.5
Higher tax rates of other countries	**17,373**	**4.4**	41,433	11.1
Adjustments in respect of current tax of previous periods	**(2,961)**	**(0.8)**	1,690	0.4
Profits and losses attributable to jointly-controlled entities and associates	**(5,066)**	**(1.3)**	(7,885)	(2.1)
Income not subject to tax	**(14,231)**	**(3.6)**	(20,507)	(5.5)
Expenses not deductible for tax	**11,737**	**3.0**	3,192	0.9
Tax losses utilised from previous periods	**(9,314)**	**(2.4)**	(3,686)	(1.0)
Tax losses not recognised	**9,245**	**2.4**	5,378	1.4
Others	**2,336**	**0.6**	(5,081)	(1.3)
Tax charge at the Group's effective rate	**77,586**	**19.8**	79,446	21.4

10. TAX *(CONTINUED)*

Under the People's Republic of China (the "PRC") income tax law, companies with operations in the PRC are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income.

Sino-foreign equity joint ventures are subject to the State CIT at a rate of 30% and the local CIT at a rate at 3%. Certain of the joint ventures are entitled to a full exemption from such taxes for the first two/three years and a 50% reduction in the next three/four years, commencing from the first profitable year.

The tax rate applicable to subsidiaries established and operating in Australia and New Zealand is 30%. Provision for Australian and New Zealand income tax has been made on the estimated assessable profits arising in Australia and New Zealand for the year.

The share of tax credit attributable to jointly-controlled entities amounting to HK$533,000 (2005: tax expense of HK$519,000) and the share of tax expense attributable to associates amounting to HK$11,823,000 (2005: HK$15,051,000), are included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$25,483,000 (2005: HK$15,723,000), which has been dealt with in the financial statements of the Company (note 34).

12. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Interim – HK3.20 cents (2005: HK2.90 cents) per ordinary share (note 34)	**33,756**	30,432
Underaccrual of final dividend of previous year (note 34)	**1,063**	265
	34,819	30,697
Proposed final – HK12.24 cents (2005: HK10.90 cents) per ordinary share (note 34)	**129,115**	114,382
Proposed special – HK10.00 cents (2005: HK10.00 cents) per ordinary share (note 34)	**105,486**	104,938
	269,420	250,017

12. DIVIDENDS *(CONTINUED)*

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**271,582**	242,809

	Number of shares	
	2006	2005
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,053,183**	1,020,029
Effect of dilution – weighted average number of ordinary shares:		
Share options	**7,759**	19,660
	1,060,942	1,039,689

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost or valuation	167,147	259,455	444,498	295,904	47,450	66,313	1,280,767
Accumulated depreciation and impairment	–	(151,761)	(285,368)	(188,138)	(33,337)	–	(658,604)
Net carrying amount	167,147	107,694	159,130	107,766	14,113	66,313	622,163
At 1 January 2006, net of accumulated depreciation and impairment	167,147	107,694	159,130	107,766	14,113	66,313	622,163
Additions	8,210	91,809	83,044	50,536	3,913	1,604	239,116
Acquisition of subsidiaries (note 35)	–	–	689	7,788	243	–	8,720
Disposals/write-off	(300)	(13,141)	(4,728)	(3,219)	(1,397)	–	(22,785)
Transfers	66,092	–	–	–	–	(66,092)	–
Transfer to investment properties	(17,410)	–	–	–	–	–	(17,410)
Depreciation provided during the year	(6,605)	(17,210)	(47,162)	(40,598)	(4,547)	–	(116,122)
Reversal of impairment	–	109	1,497	425	298	–	2,329
Exchange realignment	4,151	2,965	6,817	6,514	619	9	21,075
At 31 December 2006, net of accumulated depreciation and impairment	221,285	172,226	199,287	129,212	13,242	1,834	737,086
At 31 December 2006:							
Cost or valuation	228,472	316,111	532,205	360,610	47,411	1,834	1,486,643
Accumulated depreciation and impairment	(7,187)	(143,885)	(332,918)	(231,398)	(34,169)	–	(749,557)
Net carrying amount	221,285	172,226	199,287	129,212	13,242	1,834	737,086
Analysis of cost or valuation:							
At cost	–	316,111	532,205	360,610	47,411	1,834	1,258,171
At valuation	228,472	–	–	–	–	–	228,472
	228,472	316,111	532,205	360,610	47,411	1,834	1,486,643

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14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 1 January 2005:							
Cost or valuation	101,261	237,521	431,835	286,802	46,381	5,346	1,109,146
Accumulated depreciation and impairment	–	(142,780)	(250,615)	(187,525)	(30,870)	–	(611,790)
Net carrying amount	101,261	94,741	181,220	99,277	15,511	5,346	497,356
At 1 January 2005, net of accumulated depreciation and impairment	101,261	94,741	181,220	99,277	15,511	5,346	497,356
Additions	68,685	69,349	25,091	53,045	4,421	60,967	281,558
Disposals/write-off	(391)	(21,808)	(1,216)	(3,069)	(1,069)	–	(27,553)
Surplus on revaluation	6,101	–	–	–	–	–	6,101
Depreciation provided during the year	(4,005)	(34,314)	(43,333)	(37,900)	(4,313)	–	(123,865)
Reversal of impairment/ (impairment)	–	162	31	(29)	(59)	–	105
Exchange realignment	(4,504)	(436)	(2,663)	(3,558)	(378)	–	(11,539)
At 31 December 2005, net of accumulated depreciation and impairment	167,147	107,694	159,130	107,766	14,113	66,313	622,163
At 31 December 2005:							
Cost or valuation	167,147	259,455	444,498	295,904	47,450	66,313	1,280,767
Accumulated depreciation and impairment	–	(151,761)	(285,368)	(188,138)	(33,337)	–	(658,604)
Net carrying amount	167,147	107,694	159,130	107,766	14,113	66,313	622,163
Analysis of cost or valuation:							
At cost	–	259,455	444,498	295,904	47,450	66,313	1,113,620
At valuation	167,147	–	–	–	–	–	167,147
	167,147	259,455	444,498	295,904	47,450	66,313	1,280,767

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The net book value of the Group's property, plant and equipment held under finance leases at 31 December 2006, amounted to HK$1,514,000 (2005: HK$2,771,000).

Last year, the Group's buildings were revalued individually by DTZ Debenham Tie Leung Limited, S.F. Ahmed & Co and PT Saptasentra Jasa Pradana, independent professionally qualified valuers, at an aggregate open market value of HK$167,147,000 based on their existing use. In the opinion of the directors, there has been no material change in valuation as at the balance sheet date.

During the year, certain of the Group's buildings were transferred to investment properties. The buildings were revalued at the date of change in use as an investment property by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at an open market value of HK$17,410,000 based on its existing use (note 15). No revaluation surplus or deficit was resulted from the valuation.

Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$197,352,000.

The Group's buildings included above are held under the following lease terms:

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Freehold	–	7,855	7,855
Long term leases	–	77,149	77,149
Medium term leases	2,925	133,356	136,281
	2,925	218,360	221,285

At 31 December 2006, certain of the Group's buildings with a net book value of HK$52,059,000 (2005: HK$52,885,000) and plant and machinery with a net book value of HK$4,042,000 (2005: HK$4,722,000), were pledged to secure banking facilities granted to the Group (note 28).

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15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**2,500**	1,900
Transfer from owner-occupied properties (note 14)	**17,410**	–
Net profit from a fair value adjustment	**1,523**	600
Carrying amount at 31 December	**21,433**	2,500

The Group's investment properties are held under the following lease terms:

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong – medium term leases	**3,100**	2,500
PRC – medium term leases	**18,333**	–
	21,433	2,500

The Group's investment properties were revalued on 31 December 2006 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$21,433,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2006, the Group's investment properties with a net book value of HK$18,333,000 (2005: Nil) were pledged to secure banking facilities granted to the Group (note 28).

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15. INVESTMENT PROPERTIES *(CONTINUED)*

The particulars of the Group's investment properties are as follows:

Location	Use	Tenure	Percentage of attributable interest of the Group
Workshops Nos.1, 2, 3 and 5 10th Floor, International Trade Centre No. 11 Sha Tsui Road Tsuen Wan New Territories, Hong Kong	Industrial	Medium term lease	60
Level 1, 2 and 3 Nos. 012-014 Huangxing Middle Road Furong District Changsha Hunan Province, PRC	Commercial	Medium term lease	100

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**17,618**	18,027
Recognised during the year	**(427)**	(409)
Exchange realignment	**746**	–
Carrying amount at 31 December	**17,937**	17,618
Current portion included in prepayments, deposits and other receivables	**(427)**	(409)
Non-current portion	**17,510**	17,209

The leasehold land is held under a medium lease and is situated in Mainland China.

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17. GOODWILL

	Group	
	2006	2005
	HK$'000	HK$'000
Cost and net carrying amount at 31 December (Note 35)	**38,612**	–

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated retained profits.

The amounts of goodwill and negative goodwill remaining in consolidated retained profits as at 31 December 2006, arising from the acquisition of subsidiaries, jointly-controlled entities and associates prior to the adoption of SSAP 30 in 2001, were HK$2,429,000 (2005: HK$2,429,000) and HK$7,145,000 (2005: HK$7,145,000), respectively. The amount of goodwill is stated at its cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the retail operations cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the retail operations cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 5.5% and cash flows beyond the five-year period are extrapolated using a growth rate of 5.0% which is the same as the long term average growth rate of the New Zealand retail operations. Senior management believes that this growth rate is justified, given the Company's past experience in New Zealand.

Key assumptions were used in the value in use calculation of the retail operations cash-generating unit for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the Australia and New Zealand retail operations.

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18. INTEREST IN A SUBSIDIARY

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**377,717**	377,717
Due from a subsidiary	**363,668**	316,419
	741,385	694,136
Provision for impairment	**(45,000)**	(45,000)
	696,385	649,136

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiary. The carrying amount of this amount due from a subsidiary approximates to its fair value. Particulars of the principal subsidiaries are set out in note 42 to the financial statements.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**46,589**	45,005
Due from jointly-controlled entities	**1,525**	1,804
Due to jointly-controlled entities	**(19,568)**	(16,806)
	28,546	30,003
Provision for impairment	**(8,360)**	(8,142)
	20,186	21,861

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/to jointly-controlled entities approximate to their fair values.

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

Particulars of the principal jointly-controlled entities are as follows:

Name	Registered capital	Place of registration and operations	Percentage of equity attributable to the Group* 2006	2005	Principal activities
湖北長進制衣有限公司	US$1,200,000	Mainland China	**30**	30	Manufacturing of apparel
Nanjing Jiangda Clothes Co., Ltd.	US$1,500,000	Mainland China	**45**	45	Manufacturing of apparel
Mingshi Dyeing Factory Co., Ltd.	US$8,100,000	Mainland China	**40**	40	Provision of dyeing services
Hubei Xian Garment Mfg. Co., Ltd.	US$728,300	Mainland China	**15.1**	15.1	Manufacturing of apparel

All jointly-controlled entities are held indirectly through subsidiaries.

All the above jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* *The percentages of voting power and profit sharing are the same as the percentage of equity attributable to the Group.*

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

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

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2006	2005
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**69,742**	70,843
Non-current assets	**24,768**	24,494
Current liabilities	**(47,921)**	(50,332)
Net assets	**46,589**	45,005

	2006	2005
	HK$'000	HK$'000
Share of the jointly-controlled entities' results:		
Turnover	**178,845**	174,467
Other revenue	**360**	428
Total revenue	**179,205**	174,895
Total expenses	**(179,450)**	(173,945)
Tax	**533**	(519)
Profit after tax	**288**	431

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20. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets	**124,904**	117,652
Goodwill on acquisition	**8,282**	8,282
Due from associates	**1,338**	1,470
Due to associates	**(3,000)**	(7,682)
Loans to associates	**141,932**	113,479
	273,456	233,201
Provision for impairment	**(8,282)**	(8,282)
Provision for loans to associates	**(58,151)**	(11,106)
	207,023	213,813

The balances with associates and the loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to associates and the loans approximate to their fair values.

Particulars of the principal associates are as follows:

Name	Nominal value of issued and paid up capital	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2006	Percentage of ownership interest attributable to the Group 2005	Principal activities
Glorious Sun Fashion Garment Mfg. Co. (Phil.) Inc.	Ordinary shares of Phil Peso 33,500,000	The Philippines	**49.5**	49.5	Manufacturing of apparel
Rays Apparel (H.K.) Limited	Ordinary shares of HK$200,000	Hong Kong	**35**	35	Provision of agency services
Rays Apparel, Inc.	Ordinary shares of US$232,243 Preference shares of US$1,667,757	USA	**35**	35	Import and distribution of apparel

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20. INTERESTS IN ASSOCIATES *(CONTINUED)*

Name	Nominal value of issued and paid up capital	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2006	2005	
RTG Garments Manufacturing (HK) Limited	Ordinary shares of HK$1,000,000	Hong Kong	**50**	50	Manufacturing of apparel
G.S – i.t Limited	Ordinary shares of HK$2	Hong Kong	**50**	50	Investment holding and retail of apparel
Quiksilver Glorious Sun JV Limited	Ordinary shares of HK$10,000	Hong Kong	**50**	50	Retail of apparel

All associates are held indirectly through subsidiaries.

All the above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group has discontinued the recognition of its share of losses of G.S – i.t Limited and Quiksilver Glorious Sun JV Limited because the share of losses of these associates exceeded the Group's interests in these associates. The Group's unrecognised share of losses of these associates for the current year was HK$17,695,000 (2005: HK$11,106,000).

During the year, the operating performance of retail business carried out by the associates was below the forecast due to intense competition in the business environment. In the opinion of the directors, while the associates continue to operate, it is uncertain that sufficient cash flow will be generated by the associates in the foreseeable future to substantiate the carrying amount of investment costs and loans to associates and accordingly, the Group recognised a provision for loans to associates of HK$47,045,000 with reference to the recoverable amount of the associates.

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20. INTERESTS IN ASSOCIATES *(CONTINUED)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts/financial statements, except for G.S-i.t Limited and Quiksilver Glorious Sun JV Limited which the Group has discontinued the recognition of its share of the result of these associates:

	2006	2005
	HK$'000	HK$'000
Assets	**668,305**	875,666
Liabilities	**(379,902)**	(640,320)
Revenues	**1,016,116**	1,184,830
Profits	**57,277**	89,256

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**81,225**	101,628
Work in progress	**103,157**	112,629
Finished goods	**424,931**	346,278
	609,313	560,535

At 31 December 2006, the carrying amount of the Group's inventories was pledged as security for the Group's bank loans amounting to HK$83,048,000 (2005: HK$86,017,000), as further detailed in note 28 to the financial statements.

22. TRADE AND BILLS RECEIVABLES

The trade and bills receivables include trade receivables, net of provision for impairment, of HK$279,400,000 (2005: HK$233,326,000) and bills receivable of HK$269,470,000 (2005: HK$198,324,000). The bills receivable aged less than four months at the balance sheet date for the year. An aged analysis of the trade receivables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than 4 months	**264,957**	219,060
4 – 6 months	**6,988**	13,496
Over 6 months	**7,455**	770
	279,400	233,326

The Group allows an average credit period of 45 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

At 31 December 2006, the Group had discounted bills receivable of HK$80,757,000 (2005: HK$83,115,000) to the banks with recourse (the "Discounted Bills"). The Discounted Bills were included in the above bills receivable because the derecognition criteria for the financial assets were not met. Accordingly, the advances from the relevant banks received by the Group as consideration for the Discounted Bills at the balance sheet date were recognised as liabilities and included in interest-bearing bank and other borrowings (note 28).

23. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

Name	**Balance at 31 December 2006**	**Maximum outstanding during the year**	**Balance at 1 January 2006**
	HK$'000	HK$'000	HK$'000
Jeanswest Corporation (New Zealand) Limited	–	589	589
G.S. Property Management Limited	230	443	197
Golden Sunshine Enterprises Limited	177	177	151
Harbour Guide Limited	–	29	29
Gloryear Management Limited	317	317	106
	724		1,072

All of the above companies are controlled by Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Fan, both of whom are directors of the Company.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from related companies approximate to their fair values.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong listed equity investments, at market value	**180,266**	59,525

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**477,112**	497,650	**315**	315
Time deposits		**569,598**	790,331	**432,885**	692,677
		1,046,710	1,287,981	**433,200**	692,992
Less: Time deposits pledged for bank overdraft and long term bank loan facilities	28	**(21,784)**	(21,784)	**–**	–
Cash and cash equivalents		**1,024,926**	1,266,197	**433,200**	692,992

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$283,070,000 (2005: HK$347,717,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

At 31 December 2006, certain of the Group's bank deposits with a carrying value of HK$21,784,000 (2005: HK$21,784,000) were pledged to secure banking facilities granted to the Group (note 28).

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26. TRADE AND BILLS PAYABLES

The trade and bills payables include trade payables of HK$477,383,000 (2005: HK$405,466,000). An aged analysis of the trade payables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Less than 4 months	**435,818**	391,685
4 – 6 months	**38,255**	10,597
Over 6 months	**3,310**	3,184
	477,383	405,466

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

27. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group has entered into various forward currency contracts to manage its foreign currency risk exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$11,936,000 (2005: HK$8,370,000) were credited to the income statement during the year.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group – 2006

	Effective interest rate (%)	Maturity	HK$'000
Current			
Finance lease payables (note 29)	2.75 – 6.8	2007	912
Bank overdrafts – unsecured	Prime – Prime+0.5	On demand	17,572
Bank overdrafts – secured	10.75	On demand	2,932
Bank loans – unsecured	HIBOR+1 – 5.58	2007	24,902
Bank loans – secured	HIBOR+0.875 – 10.5	2007	128,683
Advances from bank as consideration for the Discounted Bills (note 22)	HIBOR+0.875	2007	80,757
Trust receipt loans – secured	HIBOR+0.875	2007	73,842
			329,600
Non-current			
Finance lease payables (note 29)	2.75 – 6.8	2008 – 2011	671
			330,271

28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

Group – 2005

	Effective interest rate (%)	Maturity	HK$'000
Current			
Finance lease payables (note 29)	5 – 13	2006	1,381
Bank overdrafts – unsecured	Prime – Prime+2.5	On demand	7,388
Bank overdrafts – secured	Prime – Prime+2.5	On demand	3,742
Bank loans – unsecured	HIBOR+0.875	2006	24,272
Bank loans – secured	HIBOR+0.5	2006	56,169
Advances from banks as consideration for the Discounted Bills (note 22)	HIBOR+0.75	2006	83,115
Trust receipt loans – secured	HIBOR+0.75	2006	75,120
			251,187
Non-current			
Finance lease payables (note 29)	5 – 13	2007 – 2009	1,088
Bank loans – secured	HIBOR+0.5	2007 – 2008	4,916
			6,004
			257,191

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

	Group 2006 HK$'000	2005 HK$'000
Analysed into:		
Bank loans, trust receipt loans and overdrafts repayable:		
Within one year or on demand	**328,688**	249,806
In the second year	**–**	4,878
In the third to fifth years, inclusive	**–**	38
	328,688	254,722
Finance leases repayable:		
Within one year or on demand	**912**	1,381
In the second year	**179**	671
In the third to fifth years, inclusive	**492**	417
	1,583	2,469
	330,271	257,191

Notes:

(a) Certain of the Group's bank overdrafts, trust receipt loans and bank loans are secured by:

(i) mortgages over certain of the Group's buildings which had an aggregate carrying value at the balance sheet date of HK$52,059,000 (2005: HK$52,885,000);

(ii) mortgages over certain of the Group's plant and machinery which had an aggregate carrying value at the balance sheet date of HK$4,042,000 (2005: HK$4,722,000);

(iii) mortgages over certain of the Group's investment properties which had an aggregate carrying value at the balance sheet date of HK$18,333,000 (2005: Nil);

(iv) certain bank deposits at the balance sheet date of HK$21,784,000 (2005: HK$21,784,000); and

(v) floating charges over certain of the Group's inventories with an aggregate carrying amount at the balance sheet date of HK$83,048,000 (2005: HK$86,017,000).

(b) All interest-bearing bank and finance leases are denominated in the functional currency of the entity to which they relate.

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Finance lease payables	**1,583**	**–**	2,469	–
Bank overdrafts – unsecured	**–**	**17,572**	–	7,388
Bank overdrafts – secured	**–**	**2,932**	–	3,742
Bank loans – unsecured	**4,902**	**20,000**	–	24,272
Bank loans – secured	**8,627**	**120,056**	–	61,085
Advances from banks as consideration for the Discounted Bills	**–**	**80,757**	–	83,115
Trust receipt loans – secured	**–**	**73,842**	–	75,120

29. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicles for its manufacturing process and business purposes. These leases are classified as finance leases and have remaining lease terms ranging from three to five years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2006	Minimum lease payments 2005	**Present value of minimum lease payments 2006**	Present value of minimum lease payments 2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**1,015**	1,542	**912**	1,381
In the second year	**236**	756	**179**	671
In the third to fifth years, inclusive	**542**	473	**492**	417
Total minimum finance lease payments	**1,793**	2,771	**1,583**	2,469
Future finance charges	**(210)**	(302)		
Total net finance lease payables	**1,583**	2,469		
Portion classified as current liabilities (note 28)	**(912)**	(1,381)		
Non-current portion (note 28)	**671**	1,088		

30. LONG TERM LOANS FROM MINORITY SHAREHOLDERS

The long term loans from minority shareholders are unsecured, interest-free and are repayable beyond one year. The carrying amounts of the long term loans from minority shareholders approximate to their fair values.

31. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profit	
	2006	2005
	HK$'000	HK$'000
At 1 January 2006	**14,525**	11,887
Acquisition of subsidiaries (note 35)	**703**	–
Deferred tax credited to the income statement during the year (note 10)	**441**	3,484
Exchange differences	**1,297**	(846)
Gross deferred tax assets at 31 December 2006	**16,966**	14,525

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation	
	2006	2005
	HK$'000	HK$'000
At 1 January 2006	**411**	1,057
Deferred tax credited to the income statement during the year (note 10)	**(158)**	(620)
Exchange differences	**16**	(26)
Gross deferred tax liabilities at 31 December 2006	**269**	411
Net deferred tax assets at 31 December 2006	**16,697**	14,114

31. DEFERRED TAX *(CONTINUED)*

The Group has tax losses arising in Hong Kong of HK$17,921,000 (2005: HK$30,768,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. SHARE CAPITAL

Shares

	Number of ordinary shares		**Company**	
	2006	2005	**2006**	2005
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**6,000,000**	6,000,000	**600,000**	600,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each	**1,054,864**	1,049,376	**105,486**	104,938

During the year, the subscription rights attaching to 288,000 and 5,200,000 share options were exercised at the subscription prices of HK$2.564 and HK$2.876 per share, respectively (note 33), resulting in the issue of 5,488,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$15,693,000.

32. SHARE CAPITAL *(CONTINUED)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
	'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	1,000,584	100,058	268,668	368,726
Share options exercised	48,792	4,880	90,159	95,039
	1,049,376	104,938	358,827	463,765
Share issue expenses	–	–	(18)	(18)
31 December 2005 and at 1 January 2006	1,049,376	104,938	358,809	463,747
Share options exercised	5,488	548	15,145	15,693
	1,054,864	105,486	373,954	479,440
Share issue expenses	–	–	(16)	(16)
At 31 December 2006	1,054,864	105,486	373,938	479,424

33. SHARE OPTION SCHEMES

On 1 September 2005, the shareholders of the Company approved the termination (to the effect that the Company can no longer grant any further options) of the share option scheme adopted by the Company on 2 September 1996 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"). All options granted and outstanding prior to the termination of the Old Scheme will remain in full force and effect.

(a) Old Scheme

The Old Scheme was adopted by the Company on 2 September 1996. The purpose of the Old Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme include the executive directors and other full-time employees of the Group.

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33. SHARE OPTION SCHEMES *(CONTINUED)*

(a) Old Scheme *(continued)*

Share options under the Old Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Old Scheme during the year:

	Number of shares subject to options					Share options			Price of Company's share***	
	At	During the year			At				Immediately	At exercise
Category of	1 January				31 December			Subscription	before the	date of
participant	2006	Exercised	Lapsed	Cancelled	2006	Date of grant*	Exercise period	price**	exercise date	share options
	'000	'000	'000	'000	'000			HK$	HK$	HK$
Employees										
in aggregate	7,800	(5,200)	–	–	2,600	16/06/1997	15/06/2000 to 14/06/2007	2.876	3.909	3.915
	12,816	(288)	(1,052)	–	11,476	30/08/1997	16/09/1997 to 29/08/2007	2.564	3.752	3.769
	6,656	–	(1,052)	–	5,604	31/10/1997	31/10/1997 to 30/10/2007	1.800	–	–
	27,272	(5,488)	(2,104)	–	19,680					

33. SHARE OPTION SCHEMES *(CONTINUED)*

(a) Old Scheme *(continued)*

Notes to the reconciliation of share options under the Old Scheme outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised.

The 5,488,000 share options exercised during the year resulted in the issue of 5,488,000 ordinary shares of the Company and new share capital of HK$548,000 and share premium of HK$15,145,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the balance sheet date, the Company had 19,680,000 share options outstanding under the Old Scheme, which represented approximately 1.87% of the Company's shares in issue as at that date. The exercise in full of all outstanding share options would, under the present capital structure of the Company, result in the issue of 19,680,000 additional shares of HK$0.10 each and proceeds of approximately HK$46,989,000.

No theoretical value of share options is disclosed as no share options were granted during the year.

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33. SHARE OPTION SCHEMES *(CONTINUED)*

(b) New Scheme

The New Scheme was adopted by the Company on 1 September 2005, unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from the date of adoption.

The purpose of the New Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted must not in aggregate exceed 10% of the shares in issue at the date of approval of the New Scheme. The maximum number of shares issuable under share options to each eligible participant in the New Scheme in any 12-month period is limited to 1% of the ordinary shares of the Company in issue.

The subscription price of the share options is determinable by the board of directors, but shall not be less than whichever is the higher of (i) the closing price of the ordinary shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing prices of the ordinary shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the ordinary share of the Company.

During the year, no share options were granted or exercised under the New Scheme. Therefore, no theoretical value of share options is disclosed.

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34. RESERVES

Group

		Attributable to equity holders of the Company							
	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve (note i) HK$'000	Non–distributable reserves (note ii) HK$'000	Retained profits (note ii) HK$'000	Total HK$'000	Minority interests HK$'000
At 1 January 2005		268,668	115,551	16,201	(18,604)	5,942	877,376	1,265,134	149,114
Net surplus on revaluation of buildings		–	–	4,960	–	–	–	4,960	851
Exchange realignment on translation of overseas subsidiaries, jointly-controlled entities and associates		–	–	–	(14,147)	–	–	(14,147)	919
Transfer from retained profits		–	–	–	–	465	(465)	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(49,887)
Revaluation reserve released on disposal		–	–	(17)	–	–	17	–	17
Profit for the year		–	–	–	–	–	242,809	242,809	48,676
Issue of shares	32	90,159	–	–	–	–	–	90,159	–
Share issue expenses	32	(18)	–	–	–	–	–	(18)	–
Underaccrual of final 2004 dividend	12	–	–	–	–	–	(265)	(265)	–
Interim 2005 dividend	12	–	–	–	–	–	(30,432)	(30,432)	–
Proposed final 2005 dividend	12	–	–	–	–	–	(114,382)	(114,382)	–
Proposed special 2005 dividend	12	–	–	–	–	–	(104,938)	(104,938)	–
At 31 December 2005		358,809	115,551	21,144	(32,751)	6,407	869,720	1,338,880	149,690

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34. RESERVES *(CONTINUED)*

Group

		Attributable to equity holders of the Company							
	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve (note i) HK$'000	Non-distributable reserves (note ii) HK$'000	Retained profits (note ii) HK$'000	Total HK$'000	Minority interests HK$'000
At 1 January 2006		358,809	115,551	21,144	(32,751)	6,407	869,720	1,338,880	149,690
Exchange realignment on translation of overseas subsidiaries, jointly-controlled entities and associates		–	–	–	26,744	–	–	26,744	4,220
Transfer from retained profits		–	–	–	–	413	(413)	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(51,424)
Capital contributed by a minority shareholder		–	–	–	–	–	–	–	670
Revaluation reserve released on disposal		–	–	(90)	–	–	90	–	–
Profit for the year		–	–	–	–	–	271,582	271,582	42,076
Issue of shares	32	15,145	–	–	–	–	–	15,145	–
Share issue expenses	32	(16)	–	–	–	–	–	(16)	–
Underaccrual of final 2005 dividend	12	–	–	–	–	–	(1,063)	(1,063)	–
Interim 2006 dividend	12	–	–	–	–	–	(33,756)	(33,756)	–
Proposed final 2006 dividend	12	–	–	–	–	–	(129,115)	(129,115)	–
Proposed special 2006 dividend	12	–	–	–	–	–	(105,486)	(105,486)	–
At 31 December 2006		373,938	115,551	21,054	(6,007)	6,820	871,559	1,382,915	145,232

Notes: (i) Included in the exchange fluctuation reserve is an amount of HK$28,191,000 (2005: exchange gains of HK$15,386,000), representing the exchange gains arising on the translation of loans to overseas subsidiaries that are not repayable in the foreseeable future and, in the opinion of the directors, are part of the Company's net investments in the subsidiaries.

(ii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries and jointly-controlled entities in Mainland China has been transferred to non-distributable reserves, which are restricted as to use.

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34. RESERVES *(CONTINUED)*

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		268,668	377,567	516,889	1,163,124
Issue of shares		90,159	–	–	90,159
Share issue expenses		(18)	–	–	(18)
Profit for the year	11	–	–	15,723	15,723
Underaccrual of final 2004 dividend	12	–	–	(265)	(265)
Interim 2005 dividend	12	–	–	(30,432)	(30,432)
Proposed final 2005 dividend	12	–	–	(114,382)	(114,382)
Proposed special 2005 dividend	12	–	–	(104,938)	(104,938)
At 31 December 2005 and at 1 January 2006		358,809	377,567	282,595	1,018,971
Issue of shares		15,145	–	–	15,145
Share issue expenses		(16)	–	–	(16)
Profit for the year	11	–	–	25,483	25,483
Underaccrual of final 2005 dividend	12	–	–	(1,063)	(1,063)
Interim 2006 dividend	12	–	–	(33,756)	(33,756)
Proposed final 2006 dividend	12	–	–	(129,115)	(129,115)
Proposed special 2006 dividend	12	–	–	(105,486)	(105,486)
At 31 December 2006		373,938	377,567	38,658	790,163

The Group's contributed surplus represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in 1996.

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

35. BUSINESS COMBINATION

On 7 April 2006, the Group acquired a 100% interest in Goldpromise Limited from directors of the Company. Goldpromise Limited and its subsidiaries (collectively "Goldpromise Group") engage in the retailing of jeans and other fashion goods in New Zealand. Further details of the transactions are included in note 40(b) to the financial statements. The purchase consideration for the acquisition was in the form of cash, with HK$42,263,000 paid at the completion date on 27 May 2006.

The fair values of the identifiable assets and liabilities of Goldpromise Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Carrying amount** HK$'000
Property, plant and equipment	14	8,720	8,720
Deferred tax assets	31	703	703
Cash and bank balances		14,166	14,166
Inventories		12,248	12,248
Prepayments and other receivables		7,610	7,610
Tax recoverable		194	194
Trade payables		(274)	(274)
Accruals and other payables		(3,147)	(3,147)
Shareholders' loan		(36,569)	(36,569)
		3,651	3,651
Goodwill on acquisition	17	38,612	
Satisfied by cash		42,263	

35. BUSINESS COMBINATION *(CONTINUED)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(42,263)
Shareholders' loan	(36,569)
Cash and bank balances acquired	14,166
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(64,666)

Since its acquisition, Goldpromise Group contributed HK$64,693,000 to the Group's revenue and HK$5,022,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$4,433,384,000 and HK$313,851,000, respectively.

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$901,000 (2005: HK$596,000).

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37. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees provided for facilities granted to subsidiaries	**–**	–	**841,660**	1,079,860
Extent of the guaranteed facilities utilised by subsidiaries	**–**	–	**9,738**	27,062

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the lease generally also require the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**2,772**	119
In the second to fifth years, inclusive	**7,252**	–
	10,024	119

38. OPERATING LEASE ARRANGEMENTS *(CONTINUED)*

(b) As lessee

The Group leases certain of its plant and machinery, retail stores and office properties under operating lease arrangements, with leases negotiated for terms ranging from three to six years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**386,981**	291,311
In the second to fifth years, inclusive	**713,256**	554,700
After five years	**213,430**	174,446
	1,313,667	1,020,457

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
Construction in progress	**10,946**	27,284
Authorised, but not contracted for:		
Construction in progress	**3,675**	35,774
Capital contributions payable to associates	**–**	12,900
	3,675	48,674
	14,621	75,958

At the balance sheet date, the Company had no significant commitments.

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40. RELATED PARTY TRANSACTIONS

(a) In addition to the connected transactions disclosed in the report of the directors, which were also related party transactions, the Group had the following material transactions with related parties during the year:

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Purchases of raw materials from jointly-controlled entities	(i)	**22**	172
Processing charges paid to jointly-controlled entities	(ii)	**106,600**	63,449
Processing charge paid to an associate	(ii)	**4,052**	33,045
Management fee paid to an associate	(iii)	**–**	5,968
Sales of goods to associates	(iv)	**188**	293

Notes:

(i) The directors consider that purchases of raw materials were made according to terms and conditions comparable to those offered to other customers of the jointly-controlled entities.

(ii) The processing charges were calculated at the costs incurred by the jointly-controlled entities and associates plus a mark-up agreed between the parties.

(iii) The management fee was based on direct costs incurred, plus a mark-up agreed between the parties.

(iv) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group.

(b) Other transactions with related parties:

During the year, the Group acquired subsidiaries, Goldpromise Group, from directors of the Company for HK$42,263,000, based on an internal valuation of the business performed by the Company. Further details of the transaction are included in note 35 to the financial statements.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding receivables from its related companies of HK$724,000 (2005: HK$1,072,000), as at the balance sheet date. The receivables are unsecured, interest-free and have no fixed terms of repayment.

(ii) Details of the Group's loans to and amounts due from/to its associates as at the balance sheet date are included in note 20 to the financial statements, and details of the Group's amounts due from/to its jointly-controlled entities are included in note 19 to the financial statements.

(iii) Details of the Group's long term loans from its minority shareholders are included in note 30 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**34,905**	37,088
Post-employment benefit	**859**	821
Total compensation paid to key management personnel	**35,764**	37,909

Further details of directors' emoluments are included in note 8 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken to enhance the yield from idle fund. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligation with a floating interest rate.

The Group's policy is to manage its interest cost under variable rate debts. As the Group's long term debt obligation is not significant, the Group does not anticipate significant impact under this type of risks.

Foreign currency risk

The Group manages its foreign currency risk with trading policies and close monitoring of adherence to such policies. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group's functional currencies consist of Hong Kong dollars, RMB, New Zealand dollars and Australian dollars. As Hong Kong dollars are pegged to United States dollars, the Company does not anticipate significant movement in the exchange rates except those relating to Australian dollars. Approximately 18% (2005: 20%) of the Group's sales are denominated in Australian dollars while almost 23% (2005: 24%) of the related costs are denominated in United States dollars. The Group enters into forward contracts to hedge the foreign currency risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is to match the maturity of borrowings with expected cash inflow from the relevant assets acquired to ensure proper funding.

Fair values

As at 31 December 2006, the carrying amounts of the Group's financial assets and liabilities approximated to their fair values.

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group		Principal activities
			2006	2005	
Glorious Sun Enterprises (BVI) Limited*	British Virgin Islands/ Hong Kong	US$200	**100**	100	Investment holding
Jeanswest (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Jeanswest International (L) Limited	Malaysia/ Hong Kong	US$1	**100**	100	Investment holding
Glorious Sun Licensing (L) Limited	Malaysia/ Hong Kong	US$1	**100**	100	Holding of trademarks
Jeanswest Investments (Australia) Pty. Ltd.	Australia	A$12,002,202	**100**	100	Investment holding
Jeanswest Wholesale Pty. Ltd.	Australia	A$2	**100**	100	Trading of apparel
Jeanswest Corporation Pty. Ltd.	Australia	A$11,000,000 Ordinary A$1,000,000 A class shares	**100**	100	Retail of apparel in Australia

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Renher Pty. Ltd.	Australia	A$2,200 Ordinary	**100**	100	Provision of shop leasing services in Australia
Goldpromise Limited	British Virgin Islands/ Hong Kong	US$2 Ordinary	**100**	–	Investment holding
Jeanswest Corporation (New Zealand) Limited	New Zealand	NZD1,191,264 Ordinary	**100**	–	Retail of apparel in New Zealand
Jeanswest International (H.K.) Limited	Hong Kong/ Mainland China	HK$10,000,000 Ordinary	**100**	100	Retail of apparel in Mainland China
Advancetex Investment Limited	Hong Kong/ Mainland China	HK$10,000,000 Ordinary	**100**	100	Retail of apparel in Mainland China
Glorious Sun Industries (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
The Glorious Sun Fashion Garment Manufactory (H.K.) Limited	Hong Kong	HK$2,600,000 Ordinary	**100**	100	Trading of apparel

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Pacific Potential Trading Company Limited	Hong Kong	HK$200,000 Ordinary	**100**	100	Provision of agency services
Advancetex International Trading (HK) Company Limited	Hong Kong	HK$6,000,000 Ordinary	**100**	100	Trading and production of apparel
Parkent Industries Limited	Hong Kong	HK$600,000 Ordinary	**100**	100	Import and export of apparel
Gold Treasure Investment Limited	Hong Kong	HK$2 Ordinary	**100**	100	Provision of production management services
Advancetex Fashion Garment Mfy. (Hui Zhou) Limited**	Mainland China	US$8,128,000 paid up to US$6,128,000	**100**	100	Manufacturing of apparel
新東江服飾(惠州)有限公司**	Mainland China	US$7,000,000	**100**	100	Manufacturing and trading of apparel
Glorious Sunshine Textiles Company Limited	Hong Kong	HK$10,000,000 Ordinary	**100**	100	Import and distribution of textile products

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Sparrow Apparels Limited#	Bangladesh	Tk10,000,000 Ordinary	**70**	70	Manufacturing of apparel
Gennon Industries Limited	Hong Kong	HK$10,000 Ordinary	**100**	100	Investment holding
大進貿易(惠州)有限公司**	Mainland China	HK$500,000	**100**	100	Trading of apparel
Chapman International Macao Commercial Offshore Limited	Macau	MOP100,000	**50.4**	50.4	Trading of apparel
Main Pui Investments Limited	Hong Kong	HK$1,460,000 Ordinary	**50.4**	50.4	Property holding and provision of management services
Recent Garments and Knitting Industries Ltd.#	Bangladesh	Tk100,000 Ordinary	**35.3**##	35.3	Manufacturing of apparel
Shamoli Garments Limited#	Bangladesh	Tk10,000,000 Ordinary	**35.3**##	35.3	Manufacturing of apparel

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
P.T. Crownfund Garment Factory#	Indonesia	US$1,000,000	**47.9**##	47.9	Manufacturing of apparel
Gennon (Cambodia) Garment Manufacturing Ltd.#	Cambodia	US$500,000 Ordinary	**50.4**	50.4	Manufacturing of apparel
惠州新安制衣廠有限公司***	Mainland China	HK$5,000,000	**48.4**##	48.4	Manufacturing of apparel
Dongguan Ming Hoi Dyeing & Finishing Factory Co., Ltd.**	Mainland China	HK$195,230,000 paid up to HK$192,014,320	**50.4**	50.4	Provision of dyeing and knitting services
Recent Sweaters Limited#	Bangladesh	Tk200,000 Ordinary	**35.3**##	35.3	Manufacturing of apparel
Rays The Glorious Investment (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Full Yuen Investments Limited	Hong Kong	HK$2 Ordinary	**100**	100	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share or registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Shijiazhuang Changhong Building Decoration Engineering Co., Ltd.***	Mainland China	US$2,100,000	**65**	65	Provision of interior decoration and renovation services
Taizhou Famebish Apparel Co. Ltd.***	Mainland China	US$100,000	**60**	60	Manufacturing of apparel

* *Directly held by the Company.*

** *Registered as wholly-foreign-owned enterprises under the PRC law.*

*** *Registered as sino-foreign equity joint ventures under the PRC law.*

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Subsidiaries of a non-wholly-owned subsidiary of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

During the year, the Group acquired Goldpromise Group from directors of the Company. Further details of this acquisition are included in notes 35 and 40(b) to the financial statements.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2007.