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CHING HING GROUP

CHING HING (Holdings) Limited

Stock Code : 692

Contents

Corporate Information

DIRECTORS

Executive directors:

Mr. Yiu Ching On *(Chairman)*
Mr. Yiu Kwok Ming, Tommy
(Vice-Chairman and Managing Director)
Mr. Leung Kwok Ip
Mr. Wong Wai Man
Ms. Wong Kai Chun *(resigned on 7 August 2007)*

Independent non-executive directors:

Mr. Cheung Cho Yiu *(appointed on 7 August 2007)*
Mr. Chan Kin Wah, Billy *(appointed on 25 July 2007)*
Mr. Liang Jin An *(appointed on 25 July 2007)*
Mr. Cheung Wing Yui *(resigned on 25 July 2007)*
Mr. Wong Shiu Hoi, Peter *(resigned on 25 July 2007)*
Mr. Lo Wai Kon *(resigned on 7 August 2007)*

COMPANY SECRETARY

Mr. Wong Ho Yin

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Auditors

Cachet Certified Public Accountants Limited
Certified Public Accountants
13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited, Nantou Branch
Edward Wong Credit Limited
Shanghai Commercial Bank Limited
Bank of Communications Co., Limited

LEGAL ADVISORS

W.K. To & Co.

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10th Floor
International Industrial Building
501-503 Castle Peak Road
Kowloon
Hong Kong

Chairman's Statement & Management Discussion and Analysis

Chairman's Statement
& Management Discussion and Analysis

To Shareholders,

On behalf of the board of directors of the Group, I hereby present the annual report for the year ended 31 December 2007.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

FINANCIAL RESULTS

In view of the recent surge in oil and fuel prices, appreciation of the Renminbi, increasing labour cost and increasing regulations in environmental protection in Pearl River Region of the People's Republic of China (the "PRC"), the operating environment of textile industry in the PRC is challenging. Although the revenue of the Group increased by 17.7%, the Group has recognised a net loss attributable to equity holders of HK$9.1 million for the year ended 31 December 2007, as compared with a net profit of HK$1.1 million last year.

Revenue increased by HK$45.5 million over last year to HK$303 million. The increase was mainly due to the growth of revenue in trading of garments and other related accessories during the year. Compared with fabric businesses of the Group, the amount of trading of garments and other related accessories per order is relatively larger but lower in gross profit margin. As a result of significant increase in revenue generated from this lower profit margin segment, the Group's overall gross profit margin dropped to about 12.0% as compared with 15.4% of last year.

Distribution costs included costs related to sales and marketing functions of the Group. The increase in distribution costs by HK$6.9 million to HK$19.7 million was also because of the growth of business in trading of garments and other related accessories.

In view of the accelerating inflation rate in Hong Kong and the PRC in 2007 and appreciation of the Renminbi (the functional currency of our fabric processing business), the administrative expenses, other operating expenses and finance costs increased slightly to HK$28.6 million.

In early July 2007, in order to strengthen the working capital position and to broaden the shareholder base and capital base of the Group, we placed 64,000,000 shares of the Company to independent investors at the placing price of HK$0.36 per share. The Group utilised the proceeds as intended and placed it on interest bearing term deposits with financial institutions in Hong Kong and therefore a substantial growth in cash position was shown in the financial statements.

The Group promised to pursue its existing businesses and at the same time, actively pursue other opportunistic investments in the PRC. In early December 2007, the Group entered a joint venture agreement with a strategic partner and committed to diversify into the railway catering services in the PRC. The strategic partner is currently engaged in providing catering services and sale of environmentally friendly products on trains and/or in railway terminals in the PRC. The deal had already secured support of the Group's shareholders at the special general meeting held on 18 February 2008. The Group believed that such diversification will enable the Group to tap into the strong growth rate of the railway sectors in the PRC, providing opportunities for future growth of the Group thereby moving towards its long term objective of profitable growth.

REVIEW OF OPERATION

The Group is engaged in the sale of fabrics, provision of fabric processing services and the sale of garment and accessories.

Sale of Fabrics

In each year, the Group experiences seasonal fluctuations in sale of fabrics with highest sales occurring in the months of October, November and December. After the outbreak of the sub-prime mortgage crisis in the United States in the fourth quarter of 2007, the customers became reluctant to place fabrics orders and much sensitive in price, causing a decrease in revenue generated from sale of fabrics by 5.2% to about HK$87.2 million and an increase in segment loss to HK$2 million. In 2007, around 65.3% of the dyed fabrics (in terms of revenue) were processed by the Group's dyeing factory in Zhongshan, the PRC. With a production base near to the customers in Hong Kong, the Group can cope with the dramatic demands during the time of strong economic growth and can deliver the finished fabrics in time. However, it reduces the flexibility of Group's pricing strategy when facing the cut-throat pricing policy by its competitors. Despite of the fact that the Group has started to switch the fabrics orders to the northern region of the PRC in an attempt to maintain the profit margin during 2007, the process was still slow. The Group was still cautious in selecting suitable dyed fabrics suppliers because any substandard products of these suppliers would discredit the image of the Group. After establishing close network of production bases in the PRC, we expect there will be a significant growth in revenue generated by this sector in the nearly future.

The Group understands that outstanding salespersons are the long-term assets of a business. During the year under review, the Group structured certain incentive scheme to the salespersons to motivate them to achieve the Group's strategic goals. Another Group's strategy is to form strategic alliance with salespersons with high marketing caliber to widen our exposure and knowledge over different types of dyed fabrics in textile industry. A subsidiary engaged in trading of dyed fabrics was formed in the second half of the year with a strategic partner. This subsidiary has yet made any contribution in earning to the Group.

Fabric Processing

Revenue generated from provision of fabric processing services decreased by HK$0.45 million to about HK$45.4 million and segment loss increased to about HK$6.0 million.

The fabric processing segment experiences loss for several years since 2000. In the past several years, the Group has launched certain measures to reduce the direct manufacturing costs, such as installation of coal-fire power plant to replace oil-fire power plant. The Group has also enhanced its product qualities to minimise unsubstantiated quality claims from customers and to retain customer loyalty. However, as mentioned before, the manufacturing environments in the PRC, especially in the Pearl River Region, further deteriorated in 2007. Most of the fabric processing customers in this region moved their supply bases to other part of the PRC, such as Wuhan, Zhejiang and thereby causing a negative impact upon the Group's results. Due to the continuing harsh operating environment and keen competitions in the Pearl River Region, the Group decided to concentrate its resources on business segment with high profit margin such as fabrics trading and to maintain a minimum production in its Zhongshan factory so as to avoid further cash outlays from the Group.

Sale of Garments and Accessories

Revenue from sale of garments and other related accessories accounted for about 56.2% of the Group's revenue. With the expansion in the sales and marketing functions, the segment result of the sale of garments and other related accessories showed an encouraging increase by 42.4% to about HK$170.3 million.

The group principally acquired garments from Southeast Asia, such as Bangladesh, the countries over there can provide abundant labour force with low cost of production and exported garments to the United States. The sales and purchases of the segment were transacted in the United States dollars and exchange risk was considered to be minimal to the Group. We only faced moderate rivalry from our competitors because average sale amount per order from our customers are normally over HK$5 million and therefore only company with relatively stronger financial supports, equipped with high caliber staff are capable of meeting the demands. Furthermore, the Group has set up several liaison offices in Southeast Asia to closely monitor the production progress of our suppliers in order to ensure the product qualities and to continuously look for production base with lower costs to further maximise the return of the Group. While such comparative advantages can be maintained effectively, despite the worldwide fallout from the sub-prime crises, the Group believed the revenue of this segment will still have a healthy growth.

PROSPECT AND OUTLOOK

The launch of requirement by the PRC Government on the custom deposits for processing factories situated in the southern region of the PRC in August 2008 and stringent environmental regulations promulgated in the Guangdong Province exert rising pressure on the performance and financial resource of the Group. Additionally, outcome of the sub-prime mortgage crisis in the United States is still uncertain. The Group expects that the growth in textiles

industry will be moderate in 2008. On the contrary, the significant economic growth in the PRC and appreciation of the Renminbi provide an optimistic future to the Group's diversification strategy in the PRC. Therefore, the Group decided to diversify to the railway catering services as its principal business in future, but will at the same time continue to carry on its existing businesses.

Although the railway catering services is still in the preliminary stage, the Group will actively tap the financial channel of the capital market to prepare for its expansion. To retain the comparative advantages in textile industry in 2008, the Group will continue forming strategic alliance with sales persons with high marketing caliber to enhance our market position, deploy its financial resources only in high profit margin business, such as fabric trading segment, be cautious in sourcing dyed fabrics from fabrics suppliers, closely monitor the fabric processing segment to maintain positive cash inflows, diversify the customer base in the sales of garments and accessories to minimise the downside exposure caused by the sub-prime mortgage crisis.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2007, the Group had total assets of HK$205 million which were financed by total liabilities of HK$116.1 million and equity of HK$88 million. Accordingly, the Group's ratio of debts to total assets and debts to equity were reduced to 56.8% (2006:58.2%) and 131% (2006: 140%), respectively.

The Group generally financed its operation by internal cash resources and bank financing. On 12 July 2007, 64,000,000 shares of the Company were placed and allotted to independent investors at HK$0.36 per share. The net proceeds of the placing of approximately HK$22.8 million are as general working capital of the Company.

At 31 December 2007, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$61.1 million (of which about HK$17 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$52 million, which we consider sufficient for normal daily operation and expansion.

APPRECIATION

I wish to extend my sincerest thanks and appreciation to staff at all levels within the Group and my fellow directors of their collective efforts, loyalty and continuing support to the Group during the year.

Yiu Ching On
Chairman

Hong Kong, 23 April 2008

Profile of the Management

EXECUTIVE DIRECTORS

Mr. Yiu Ching On, aged 72, is the Chairman of the Company and founder of the Group. He is responsible for the development of the strategic planning of the Group and liaising with various local government authorities in the PRC. He has extensive experience in textile and dyeing industries in Hong Kong and the PRC. He was the vice-chairman of The Hong Kong Association of Textile Bleachers, Dyers, Printers and Finishers Limited. He is the father of Mr. Yiu Kwok Ming, Tommy.

Mr. Yiu Kwok Ming, Tommy, aged 46, is the Vice-Chairman and the Managing Director of the Company. He is responsible for the business development of the Group and the overall management of the Group's production facilities in Zhongshan, the PRC. He also assists in liaising and maintaining relationship with various local government authorities in the PRC. He has extensive experience in the textile and dyeing industries in Hong Kong and the PRC. He holds a bachelor degree in accounting from San Francisco State University of California. Prior to joining the Group in 1987, he worked for Exxon Corporation, a listed company in the United States, in its accounting and administration division. He is a son of Mr. Yiu Ching On.

Mr. Leung Kwok Ip, aged 49, is responsible for seeking fabric processing orders and sale orders of dyed fabrics for the Group. He has over 20 years of experience in fabric processing industry and has deep connection and relationship with people engaged in this industry. Prior to joining the Group in mid 2002, he served as a Sales Manager in a well-known fabric processing factory in Hong Kong which operated a production plant situated in Shenzhen, the PRC for about 16 years.

Mr. Wong Wai Man, aged 40, is an associate member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts Degree in Accountancy from Hong Kong Polytechnic University. Prior to joining the existing Group in early 2001, he had gained extensive experience in accounting and auditing practices in Ernst & Young and had served as Financial Controller and Company Secretary in a main-board listed company in Hong Kong for about five years.

Ms. Wong Kai Chun, aged 66, was appointed as an executive director in 2001 and resigned on 7 August 2007. She was responsible for internal administration control and corporate governance of the Group. She is the wife of Mr. Yiu Ching On and the mother of Mr. Yiu Kwok Ming, Tommy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Cho Yiu, aged 43, was appointed as an independent non-executive director on 7 August 2007. He has over 20 years of experience in corporate management in trading business. He is currently a director of a privately-owned motor trading company in Hong Kong. He is now also the president of The Rotary Club of Kowloon East, Hong Kong and is actively participating in various charitable activities.

Profile of the Management

Mr. Chan Kin Wah, Billy, aged 44, was appointed as an independent non-executive director on 25 July 2007. He has over 15 years of experience in accounting, finance and taxation fields. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia.

Mr. Liang Jin An, aged 41, was appointed as an independent non-executive director on 25 July 2007. He has over 20 years of experience in finance, general management and property development in the PRC. He is currently a vice president and vice general manager of a privately-owned cosmetics manufacturing company in Guangzhou, the PRC. He was previously the financial controller and vice general manager of a well established property developer in Guangzhou from 1997 to 2005.

Mr. Cheung Wing Yui, aged 58, was appointed as an independent non-executive director in 1999 and resigned on 25 July 2007. He has been a practising lawyer of the High Court of Hong Kong since 1979 and has also been admitted as a solicitor of the United Kingdom and as an advocate and solicitor in Singapore. He is a consultant of Woo, Kwan, Lee & Lo. Mr. Cheung is non-executive director and independent non-executive director of a number of companies listed on the Stock Exchange.

Mr. Wong Shiu Hoi, Peter, aged 67, was appointed as an independent non-executive director in 1999 and resigned on 25 July 2007. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 30 years of experience in the financial services industry. He is the managing director and chief executive of Taifook Securities Group Limited and an independent non-executive director of High Fashion International Limited and Theme International Holdings Limited, and the shares of these companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong is the Chairman of The Hong Kong Institute of Directors.

Mr. Lo Wai Kon, aged 62, was appointed as an independent non-executive director in 1999 and resigned on 7 August 2007. He has been a practising lawyer of the High Court of Hong Kong since 1977 and is a consultant of Lo, Wong & Tsui. Apart from being a lawyer, Mr. Lo is also a China Appointed Attesting Officer of Hong Kong and was a member of the Election Committee-Religious Subsector.

Profile of the Management

SENIOR MANAGEMENT

Mr. Wong Ho Yin, aged 37, is the Financial Controller and Company Secretary of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts Degree in Accountancy from Hong Kong Polytechnic University. Prior to joining the Group in mid 2001, he had worked in a local medium-size accounting firm for about four years. He has extensive experience in accounting and corporate compliance.

Mr. Tseng Kwun Wa, aged 54, is the Factory Manager of a major subsidiary of the Group engaged in fabric processing and sale of dyed fabrics. He is responsible for monitoring the daily operation of a dyeing factory of the Group in Zhongshan, the PRC. He has over 20 years of experience in fabric processing industry and has abundant experience in operating a dyeing factory. Prior to joining the Group in late 2003, he served as a factory manager in a well-known fabric processing factory in Hong Kong which operated a production plant situated in Shenzhen, the PRC for about 16 years.

Mr. Wong Kwok Tai, aged 68, is the principal consultant of the Group particularly on production, general management and long-term strategy aspects. He also provided valued advice on the development strategy of the Group. He has over 40 years of experience on dyeing machines, dyeing technology and corporate management. Prior to joining the Group, he served as director of Shenzhen South China Dyeing and Printing Factory Limited, deputy general manager of Shenzhen Victor Onward Textile Industrial Co., Limited and top management of a number of famous dyeing factories in Hong Kong and the PRC.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made in the best interest of the Company and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also been provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectation of its shareholders and stakeholders.

For the year under review, the Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, same as disclosed below, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

In late November 2007, the spouse of Mr. Yiu Ching On (Chairman) disposed of 252,000 shares of the Company at a time when Mr. Yiu Ching On himself was not free to deal (A6 of the Model Code). Upon completion of the disposal, Mr. Yiu Ching On immediately informed the Board of this incident. Timely and appropriate disclosure by way of submitting Form 3A (Director's/Chief Executive Notice - Interests in shares of Listed Corporation) to the Stock Exchange was also made without delay. The Board is of the view that Mr.Yiu Ching On has not fully complied with A1 and B8 of the Model Code, because he has not discharged his duty to seek to avoid dealings of the shares in question by his spouse. However, having considered all the facts and circumstances, the Board believes that Mr. Yiu Ching On's non-compliance is purely due to his oversight in discharging the duty under A6 of the Model Code satisfactorily, and has nothing to do with his intentional breach.

In connection with this incident, the Board is of the view that Mr. Yiu Ching On was not at the time vigilant about the duties of being a director under the laws and the Listing Rules. The Board has reminded Mr. Yiu Ching On of the importance of strict compliance with such duties. The Board has also strongly recommended Mr. Yiu Ching On to attend training seminars in respect of the duties of directors so as to avoid re-occurrence of similar incidents in the future. In late February 2008, Mr. Yiu Ching On participated in a course organised by the Hong Kong Institute of Directors and obtained the "Certificate on the Role of a Listed Company's Director".

BOARD OF DIRECTORS

As at 31 December 2007, the Board comprises four executive directors, namely Mr. Yiu Ching On (Chairman), Mr. Yiu Kwok Ming, Tommy (Vice Chairman and Managing Director), Mr. Leung Kwok Ip and Mr. Wong Wai Man and three independent non-executive directors, namely Mr. Cheung Cho Yiu, Mr. Chan Kin Wah, Billy and Mr. Liang Jin An. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every non-executive director has confirmed his independence with the Stock Exchange. The biographical details of all directors and their family relationship, if any, are provided on pages 8 to 9 of this annual report. The Board had arranged insurance cover for their directors.

The Board is accountable to shareholders. Its key responsibilities include the formulation of long-term business directions and strategies, monitoring of internal control, review of financial statements and approval of capital expenditures. The management is delegated with the authority to make decisions on daily operations related to the Company's business affairs. The Board reviews the performance of the management to ensure company policies are carried out properly and the business is run smoothly in the best interests of its shareholders.

Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities as directors, subject to the prior consent of the Chairman.

Corporate Governance Report

Six full board meetings were held during the year, four of which were held through telephone conference. Meeting agendas were settled by the Chairman or Vice-Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year.

Members	Number of Board meetings attended/held	Percentage of Board meetings attended
Executive directors		
Mr. Yiu Ching On	6/6	100%
Mr. Yiu Kwok Ming, Tommy	6/6	100%
Mr. Leung Kwok Ip	6/6	100%
Mr. Wong Wai Man	6/6	100%
Ms. Wong Kai Chun *(Note 1)*	0/3	0%
Independent non-executive directors		
Mr. Cheung Cho Yiu *(Note 2)*	3/3	100%
Mr. Chan Kin Wah, Billy *(Note 3)*	3/3	100%
Mr. Liang Jin An *(Note 3)*	3/3	100%
Mr. Cheung Wing Yui *(Note 4)*	3/3	100%
Mr. Wong Shiu Hoi, Peter *(Note 4)*	3/3	100%
Mr. Lo Wai Kon *(Note 1)*	3/3	100%

Notes

1. Ms. Wong Kai Chun and Mr. Lo Wai Kon resigned on 7 August 2007. Three full board meetings were held before their resignations during the year.

2. Mr. Cheung Cho Yiu was appointed as director on 7 August 2007. Three full board meetings were held after his appointment during the year.

3. Mr. Chan Kin Wah, Billy and Mr. Liang Jin An were appointed as directors on 25 July 2007. Three full board meetings were held after their appointments during the year.

4. Mr. Cheung Wing Yui and Mr. Wong Shiu Hoi, Peter resigned on 25 July 2007. Three full board meetings were held before their resignations during the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company's overall business directions and coordination between the Board and the Company's management, and the CEO is responsible for the business operations and executions of decisions made by the Board.

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

At every annual general meeting ("AGM"), one third of the directors (other than the Chairman and CEO but including independent non-executive directors), or the nearest number to one third, shall retire from office and be eligible for re-election. A director appointed since the most recent AGM shall hold office only until the next annual general meeting and shall then be eligible for re-election. The directors to retire each year shall be the directors longest in office since being elected or re-elected. We have appointed the independent non-executive directors at specific terms for three years commencing from 21 June 2005.

AUDIT COMMITTEE

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

The Audit Committee is responsible for monitoring reporting, accounting, financial and control aspects of the executive management's activities. It also monitors the function of the group's external auditors. The Audit Committee presently comprises three independent non-executive directors, namely Mr. Chan Kin Wah, Billy (Chairman of the Committee), Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the year.

Members	Number of Audit Committee meetings attended/held	Percentage of Audit Committee meetings attended
Independent non-executive directors		
Mr. Chan Kin Wah, Billy *(Note 1)*	1/1	100%
Mr. Cheung Cho Yiu *(Note 2)*	1/1	100%
Mr. Liang Jin An *(Note 1)*	1/1	100%
Mr. Cheung Wing Yui *(Note 3)*	1/1	100%
Mr. Wong Shiu Hoi, Peter *(Note 3)*	1/1	100%
Mr. Lo Wai Kon *(Note 4)*	1/1	100%

Notes

1. Mr. Chan Kin Wah, Billy and Mr. Liang Jin An were appointed as directors on 25 July 2007. One Audit Committee meeting was held after their appointments during the year.

2. Mr. Cheung Cho Yiu was appointed as director on 7 August 2007. One Audit Committee meeting was held after his appointment during the year.

3. Mr. Cheung Wing Yui and Mr. Wong Shiu Hoi, Peter resigned on 25 July 2007. One Audit Committee meeting was held before their resignations during the year.

4. Mr. Lo Wai Kon resigned on 7 August 2007. One Audit Committee meeting was held before his resignation during the year.

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Cheung Cho Yiu (Chairman of the Committee), Mr. Chan Kin Wah, Billy and Mr. Liang Jin An, and one executive director, namely Mr. Yiu Kwok Ming, Tommy. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	**Number of Remuneration Committee meetings attended/held**	**Percentage of Remuneration Committee meetings attended**
Executive director		
Mr. Yiu Kwok Ming, Tommy	1/1	100%
Independent non-executive directors		
Mr. Cheung Cho Yiu *(Note 1)*	0/0	0%
Mr. Chan Kin Wah, Billy *(Note 2)*	0/0	0%
Mr. Liang Jin An *(Note 2)*	0/0	0%
Mr. Cheung Wing Yui *(Note 3)*	1/1	100%
Mr. Wong Shiu Hoi, Peter *(Note 3)*	1/1	100%

Notes

1. Mr. Cheung Cho Yiu was appointed as director on 7 August 2007. No Remuneration Committee meeting was held after his appointment during the year.

2. Mr. Chan Kin Wah, Billy and Mr. Liang Jin An were appointed as directors on 25 July 2007. No Remuneration Committee meeting was held after their appointments during the year.

3. Mr. Cheung Wing Yui and Mr. Wong Shiu Hoi, Peter resigned on 25 July 2007. One Remuneration Committee meeting was held before their resignations during the year.

FINANCIAL REPORTING

It is the responsibility of the Board to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board acknowledge their responsibility for the preparation of accounts which give a true and fair view. The financial statements are prepared in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards.

The responsibilities of independent external auditors to the shareholders are set out on pages 28 to 29 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Audit Department was established to evaluate the effectiveness of internal control systems and to ensure the systems can meet the Group's particular needs and the risks to which it is exposed. It also assists the Audit Committee and the Board to review the completeness, accuracy and fairness of the financial statements, though the Board is responsible for the preparation of financial statements which give a true and fair view.

The Board has conducted a review of the effectiveness of the system of internal control of the Group by engaging an independent accounting firm to conduct regular quarterly reviews of the internal control system together with the Internal Audit Department. The reviews have covered all material controls, including financial, operating and compliance controls, and risk management functions. Regular review reports were submitted to the Board and the Audit Committee for comments and approval. Based on all findings and conclusions deduced from the review reports, the Board considers that the internal control systems of the Group are effective and adequate.

EXTERNAL AUDITORS

The Company's independent external auditors is Cachet Certified Public Accountants Limited. The financial statements for the year ended 31 December 2006 were audited by Horwath Hong Kong CPA Limited, who retired at the annual general meeting and did not seek for re-appointment. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the year ended 31 December 2007, the services provided by the Company's independent external auditors to the Group were as follows:

	2007	2006
	HK$'000	*HK$'000*
Cachet Certified Public Accountants Limited		
— Audit services	**350**	—
— Other non-audit services	**170**	—
Horwath Hong Kong CPA Limited		
— Audit services	**—**	638
— Tax compliance services	**—**	13

COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the Annual Report, the Interim Report, periodic announcements made through the Stock Exchange and through AGM. Copies of relevant corporate and financial information are also made available through the Company's website: www.ching-hing.com.hk.

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its AGM.

Directors' Report

The directors submit their report together with the audited accounts for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and note 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no distributable reserves.

DONATIONS

During the year, the Group made charitable donations amounting to HK$45,000.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group are set out in note 13 and 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group at 31 December 2007 are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Yiu Ching On
Mr. Yiu Kwok Ming, Tommy
Mr. Leung Kwok Ip
Mr. Wong Wai Man
Ms. Wong Kai Chun *(resigned on 7 August 2007)*

Independent non-executive directors

Mr. Cheung Cho Yiu *(appointed on 7 August 2007)*
Mr. Chan Kin Wah, Billy *(appointed on 25 July 2007)*
Mr. Liang Jin An *(appointed on 25 July 2007)*
Mr. Cheung Wing Yui *(resigned on 25 July 2007)*
Mr. Wong Shiu Hoi, Peter *(resigned on 25 July 2007)*
Mr. Lo Wai Kon *(resigned on 7 August 2007)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Leung Kwok Ip and Mr. Wong Wai Man will retire by rotation at the forthcoming annual general meeting and pursuant to Clause 102(A) of the Company's bye-laws, Mr. Cheung Cho Yiu, Mr. Chan Kin Wah, Billy and Mr. Liang Jin An will retire at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 34 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 8 to 9.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2007, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Ching On	4,752,000	32,618,000 *(note a)*	300,000 *(note b)*	117,618,055 *(note d and e)*	155,288,055
Mr. Yiu Kwok Ming, Tommy	2,100,000	2,610,637	49,857,142 *(note c)*	117,618,055 *(note d)*	172,185,834
Mr. Wong Wai Man	270,000	—	—	—	270,000

Notes:

(a) Such shares are beneficially owned by his spouse, Ms. Wong Kai Chun.

(b) Such shares are beneficially owned by Gaport Limited, the entire issued share capital of which is owned, as to 50% by, Mr. Yiu Ching On, 25% by Ms. Wong Kai Chun and 25% by Mr. Yiu Kwok Yung, the son of Mr. Yiu Ching On and the younger brother of Mr. Yiu Kwok Ming, Tommy.

(c) Such shares are beneficially owned, as to 19,857,142 shares by Cotton Row Limited and as to 30,000,000 shares by Happy Joy Limited. The entire issued share capital of each of Cotton Row Limited and Happy Joy Limited is beneficially owned by Mr. Yiu Kwok Ming, Tommy.

(d) Jarak Assets Limited holds the 117,618,055 shares. The entire issued share capital of Jarak Assets Limited is owned, as to 5.02% by Happy Joy Limited and as to 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust, 99.99% units in issue of which is owned by HSBC International Trustee Limited as the trustee of The Yiu's Family Trust, the beneficiaries (after the death of the last to die of Mr. Yiu Ching On and Ms. Wong Kai Chun) of which include, among others, Mr. Yiu Kwok Ming, Tommy, Mr. Yiu Kwok Yung, the younger brother of Mr. Yiu Kwok Ming, Tommy and the issues of Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.

(e) Mr. Yiu Ching On is the founder of The Yiu's Family Trust, a discretionary trust.

Associated corporation:

Name of associated corporation	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 *(note b)*	28,023,134 *(note c)*
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 *(note b)*	—

Notes:

(a) The above represent interests in non-voting deferred shares.

(b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.

(c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, the chairman of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

Interest in underlying shares

The directors of the company have been granted options under the Company's share option scheme, details of which are set out in note 25 to the financial statements.

Save as disclosed above and note 25 to the financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, the following companies have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	**Number of shares held**	**Percentage of issued share capital at 31 December 2007**
Jarak Assets Limited *(note a)*	117,618,055	30.6%
Determine Win Investments Limited *(note a)*	117,618,055	30.6%
HSBC International Trustee Limited *(note b)*	117,618,055	30.6%
HSBC Investment Bank Holdings B.V. *(note b)*	117,618,055	30.6%
HSBC Holdings B.V. *(note b)*	117,618,055	30.6%
HSBC Finance (Netherlands) *(note b)*	117,618,055	30.6%
HSBC Holdings plc *(note b)*	117,618,055	30.6%
Wong Kai Chun *(note c)*	32,618,000	8.5%
Happy Joy Limited *(note d)*	30,000,000	7.8%
Cotton Row Limited *(note d)*	19,857,142	5.2%

Notes:

(a) Jarak Assets Limited is owned as to approximately 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust.

(b) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.

(c) Ms. Wong Kai Chun is the spouse of Mr. Yiu Ching On, the Chairman of the Company.

(d) The entire issued share capital of Happy Joy Limited and Cotton Row Limited are wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.

CONNECTED TRANSACTIONS

The Company has entered into certain connected transactions during the year ended 31 December 2007. All connected party transactions are also regarded as related party transactions and disclosed in note 34 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	15.9%
— five largest suppliers combined	36.8%
Sales	
— the largest customer	48.9%
— five largest customers combined	59.5%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the management shareholders (as defined in the Main Board Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the Directors of the Company is aware of information that would reasonably indicated that the Company is not, or was not throughout the accounting period, in compliance with the Code provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that, save as disclosed in "Directors' Securities Transactions" set out in Corporate Governance Report, all directors have complied with the required standard set out in Model Code.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considered all of the independent non-executive directors to be independent throughout the year.

SUFFICIENCY OF PUBLIC FLOAT

The company has maintained a sufficient public float throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Chan Kin Wah, Billy, Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2007.

Auditors

Horwath Hong Kong CPA Limited acted as auditors of the Company for the years ended 31 December 2005 and 2006.

During the year, Horwath Hong Kong CPA Limited retired at the annual general meeting and did not seek for re-appointment as auditors of the Company and Cachet Certified Public Accountants Limited were appointed by directors to fill the casual vacancy so arising.

The accompanying financial statements for the year ended 31 December 2007 were audited by Cachet Certified Public Accountants Limited. A resolution for the reappointment of Cachet Certified Public Accountants Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yiu Ching On
Chairman

Hong Kong, 23 April 2008

Independent Auditors' Report

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

13F Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong

To the shareholders of

Ching Hing (Holdings) Limited

(Incorporated in the Bermuda with limited liability)

We have audited the financial statements of Ching Hing (Holdings) Limited (the "Company") set out on pages 30 to 91, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditors’ Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
23 April 2008

Consolidated Income Statement

For The Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Revenue	4	**302,987**	257,481
Cost of sales		**(266,486)**	(217,910)
Gross profit		**36,501**	39,571
Other income	4	**1,521**	1,342
Fair value gain on revaluation of investment properties		**5,176**	—
Distribution costs		**(19,679)**	(12,781)
Administrative expenses		**(21,749)**	(20,184)
Other operating expenses	5	**(2,285)**	(1,699)
Operating (loss)/profit	6	**(515)**	6,249
Finance costs	7	**(4,526)**	(4,030)
(Loss)/profit before taxation		**(5,041)**	2,219
Taxation	8a	**(1,829)**	(605)
(Loss)/profit for the year		**(6,870)**	1,614
Attributable to:			
Equity holders of the Company	9	**(9,154)**	1,122
Minority interests		**2,284**	492
(Loss)/profit for the year		**(6,870)**	1,614
(Loss)/earnings per share			
— Basic	10	**(2.62 cents)**	0.35 cents
— Diluted	10	**N/A**	0.35 cents

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

As At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Property, plant and equipment	13	**54,218**	57,368
Prepaid lease payments	14	**3,653**	4,964
Investment properties	15	**8,469**	—
Available-for-sale investment		**590**	590
Deposit paid	16	**2,000**	—
		68,930	62,922
Current assets			
Inventories	18	**21,787**	22,509
Trade receivables			
— third parties	19	**47,365**	47,511
— a related company	19	**—**	3
Other receivables, prepayments and deposits	20	**5,168**	6,273
Prepaid lease payments	14	**101**	118
Bank deposits	21	**37,694**	20,855
Cash and bank balances	21	**23,469**	9,479
		135,584	106,748
Current liabilities			
Bank overdrafts, secured	27	**3,171**	5,366
Interest-bearing bank borrowings, secured	27	**32,513**	25,810
Trust receipt loans, secured	27	**11,495**	8,561
Trade payables	22	**48,039**	42,840
Other payables and accruals		**9,008**	5,610
VAT and other tax payable		**1,259**	1,259
Due to a director	23	**—**	6,213
Due to a shareholder	23	**6,213**	—
Finance lease payables	29	**563**	293
Taxation payable		**2,704**	2,227
		114,965	98,179
Net current assets		**20,619**	8,569
Total assets less current liabilities		**89,549**	71,491
Non-current liabilities			
Finance lease payables	29	**1,128**	499
Net assets		**88,421**	70,992

Consolidated Balance Sheet

As At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	**2007** **$'000**	2006 $'000
Equity			
Equity attributable to shareholders of the Company			
Share capital	*24*	**19,217**	16,017
Reserves	*26a*	**66,423**	54,481
		85,640	70,498
Minority interests		**2,781**	494
Total equity		**88,421**	70,992

The financial statements were approved and authorised for issue by the board of directors on 23 April 2008.

Yiu Ching On
Director

Yiu Kwok Ming, Tommy
Director

The accompanying notes form part of these financial statements.

Balance Sheet

As At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Investments in subsidiaries	*17*	**60,961**	67,686
Current assets			
Other receivables, prepayments and deposits	*20*	**345**	273
Cash and bank balances		**19,195**	155
		19,540	428
Current liabilities			
Other payables and accruals		**2,164**	596
Due to a director	*23*	**—**	200
Due to a shareholder	23	**200**	—
		2,364	796
Net current assets/(liabilities)		**17,176**	(368)
Net assets		**78,137**	67,318
Capital and reserves			
Share capital	*24*	**19,217**	16,017
Reserves	*26b*	**58,920**	51,301
Total equity		**78,137**	67,318

The financial statements were approved and authorised for issue by the board of directors on 23 April 2008.

Yiu Ching On	**Yiu Kwok Ming, Tommy**
Director	*Director*

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For The Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Net cash inflow/(outflow) from operating activities	31a	**3,411**	(1,294)
Investing activities			
Interest received		**1,350**	736
(Increase)/decrease in bank deposits		**(1,257)**	1,215
Proceeds from disposal of property, plant and equipment		**—**	420
Payment to acquire property, plant and equipment		**(814)**	(670)
Increase in deposit paid		**(2,000)**	—
Net cash (outflow)/inflow from investing activities		**(2,721)**	1,701
Financing activities			
Proceeds from new bank borrowings		**33,043**	7,695
Repayment of bank borrowings		**(27,661)**	(8,278)
Increase in due to a director		**—**	2,200
Repayment to a minority shareholder upon dissolution of a subsidiary		**—**	(8)
Contribution from a minority shareholder		**3**	—
Proceed from placing of shares		**22,774**	—
Repayment of finance lease payables		**(451)**	(428)
Net cash inflow from financing activities		**27,708**	1,181
Net increase in cash and cash equivalents		**28,398**	1,588
Cash and cash equivalents at 1 January		**251**	(1,556)
Effect of foreign exchange rate changes		**435**	219
Cash and cash equivalents at 31 December		**29,084**	251
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**23,469**	9,479
Bank deposits excluding bank deposits pledged		**20,281**	4,699
Bank overdrafts, secured		**(3,171)**	(5,366)
Trust receipt loans repayable within three months		**(11,495)**	(8,561)
		29,084	251

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $'000	**Share premium** $'000	**Properties revaluation reserves** $'000	**Statutory reserves** $'000	**Employee share-based reserves** $'000	**Capital reserves** $'000	**Exchange reserves** $'000	**Accumulated losses** $'000	**Total** $'000	**Minority interests** $'000	**Total** $'000
	(Note 24)			*(Note 26(a))*		*(Note 26(a))*					
At 1 January 2006	**16,017**	**51,574**	**18,006**	**7,611**	**—**	**52,694**	**8,322**	**(84,901)**	**69,323**	**8**	**69,331**
Exchange difference arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	6,468	—	6,468	—	6,468
Exchange difference arising from translation of intercompany balances of overseas subsidiaries	—	—	—	—	—	—	(6,453)	—	(6,453)	—	(6,453)
Dissolution of a subsidiary	—	—	—	—	—	—	—	—	—	(8)	(8)
Deemed acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	2	2
Equity settled share-based transactions	—	—	—	—	38	—	—	—	38	—	38
Profit for the year	—	—	—	—	—	—	—	1,122	1,122	492	1,614
At 31 December 2006	**16,017**	**51,574**	**18,006**	**7,611**	**38**	**52,694**	**8,337**	**(83,779)**	**70,498**	**494**	**70,992**
Exchange difference arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	422	—	422	—	422
Capital contribution from minority interests	—	—	—	—	—	—	—	—	—	3	3
Surplus on revaluation	—	—	946	—	—	—	—	—	946	—	946
Equity settled share-based transactions	—	—	—	—	154	—	—	—	154	—	154
Loss for the year	—	—	—	—	—	—	—	(9,154)	(9,154)	2,284	(6,870)
Issue of shares	3,200	—	—	—	—	—	—	—	3,200	—	3,200
Premium of issue of shares	—	19,574	—	—	—	—	—	—	19,574	—	19,574
At 31 December 2007	**19,217**	**71,148**	**18,952**	**7,611**	**192**	**52,694**	**8,759**	**(92,933)**	**85,640**	**2,781**	**88,421**

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

Ching Hing (Holdings) Limited (the "Company") and its subsidiaries (the "Group") are principally engaged in the sale of fabrics, provision of fabric processing services and sale of garments and other related accessories in Hong Kong, the United States and the Peoples' Republic of China (the "PRC").

The Company is a limited liability company incorporated in Bermuda and its registered office is Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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 acquisition 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. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(Expressed in Hong Kong dollars unless otherwise stated)

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

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellation [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [3]
HK(IFRIC) – Int 12	Service Concession Arrangements [5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [5]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 January 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKAS 1 has been revised to separate owners and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement or in two linked statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

HKFRS 2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The interpretation also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to 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 are under the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets), 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 in those expense categories consistent with the function of the impaired 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 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, but 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.

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); or

(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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties are stated at cost 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)*

Depreciation is calculated on the straight-line basis to write off the cost 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:

Buildings	5%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor Vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value assessed by professional valuers on the basis of open market value. If this information is not available, alternative valuation methods are used such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties *(continued)*

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred. Any changes in fair value are reported directly in the income statement. Deferred income tax is provided on revaluation surpluses of investment properties in accordance with HKAS-Int 21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets" on HKAS 12 "Income Taxes".

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss, the gain is recognised in the income statement up to the amount previously debited.

Leases

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 operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading or these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition".

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 less any allowance for impairment. 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interests method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income and gains" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimate is significant for that investment, or (b) the probabilities or the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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, and significant changes in the technological, market, economic or legal environment that have an adverse effect on 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 uncollectable.

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)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or when other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Financial liabilities including trade payables, other payables and accruals, trust receipt loans, interest bearing bank borrowings, finance lease payables, bank overdrafts and amount due to a shareholder and due to a director 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. The related interest expense is recognised within "finance cost" in the income statement.

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities 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. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability 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.

Financial liabilities 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 liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for a financial liabilities. A financial guarantee contract is recognised initially at its fair value less 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".

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, director 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 that are readily convertible into known amounts of cash 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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 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 investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carry forward 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 carry forward 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 investments 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.

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 measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and exclude value added tax or other sales related taxes.

Revenue from the provision of fabric processing services is recognised on the completion of the process, which generally coincides with the time when goods are delivered to customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition *(continued)*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Employee benefits

Pension obligations

The Group contributes to various defined contribution retirement schemes for its employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme costs charged to the consolidated income statement represent contributions payable by the Group to the schemes.

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

Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

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 date 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 income statement. 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 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 the 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 a separate component of 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 judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Assessment of impairment of non-current assets

The Group tests annually whether non-current assets have suffered any impairment based on their value in use or their net selling price.

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

Fair value of unlisted equity investments

The unlisted equity investments have been assessed for impairment based on the financial information available for those investments. This assessment requires the Group to make estimates about expected future performance of the investments and hence they are subject to uncertainty. The unlisted equity investments have been partially impaired at 31 December 2007. Further details are included in note 17 to the financial statements.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be recovered from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

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

Segment Information

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and certain property, plant and equipment. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

In respect of geographical segment reporting, sales are based in the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the sale of fabrics, provision of fabric processing and sale of garments and other related accessories. Revenues recognised during the year are as follows:

	2007	2006
	$'000	*$'000*
Revenue		
Sale of fabrics	**87,243**	92,008
Fabric processing	**45,455**	45,912
Sale of garments and accessories	**170,289**	119,561
	302,987	257,481
Other income		
Interest income	**1,350**	736
Gain on disposal of property, plant and equipment	**—**	420
Scrap sales	**171**	151
Others	**—**	35
	1,521	1,342
Total revenue	**304,508**	258,823

4. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

Primary report format — business segments

The Group is organised into three main business segments:

— Sale of fabrics — sale of fabrics
— Fabric processing — provision of fabric processing services
— Sale of garments and accessories — sale of garments and other related accessories

Secondary report format — geographical segments

The Group's three business segments are operated in four main geographical areas:

— Hong Kong — fabric processing and sale of fabrics
— United States — sale of garments and accessories
— The PRC — fabric processing and sale of fabrics
— Other countries (principally Bangladesh, Macau, Indonesia, Taiwan and Sri Lanka) — sale of fabrics and garments and accessories

4. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

Primary report format — business segments

	For the year ended 31 December 2007			
	Sale of fabrics *$'000*	Fabric processing *$'000*	Sale of garments and accessories *$'000*	Total *$'000*
Revenue	87,243	45,455	170,289	302,987
Segment results	(2,032)	(6,003)	11,841	3,806
Unallocated costs				(4,321)
Operating loss				(515)
Finance costs				(4,526)
Loss before taxation				(5,041)
Taxation				(1,829)
Loss for the year				(6,870)
Segment assets	45,660	76,821	4,252	126,733
Unallocated assets				77,781
Total assets				204,514
Segment liabilities	16,570	25,789	5,681	48,040
Unallocated liabilities				68,053
Total liabilities				116,093
Capital expenditure	1,321	765	78	2,164
Depreciation and amortisation	1,432	6,900	181	8,513

4. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

Primary report format — business segments *(continued)*

	For the year ended 31 December 2006			
	Sale of fabrics *$'000*	Fabric processing *$'000*	Sale of garments and accessories *$'000*	Total *$'000*
Revenue	92,008	45,912	119,561	257,481
Segment results	5,484	(5,193)	9,326	9,617
Unallocated costs				(3,368)
Operating profit				6,249
Finance costs				(4,030)
Profit before taxation				2,219
Taxation				(605)
Profit for the year				1,614
Segment assets	40,960	84,708	21,481	147,149
Unallocated assets				22,567
Total assets				169,716
Segment liabilities	14,652	22,583	10,139	47,374
Unallocated liabilities				51,350
Total liabilities				98,724
Capital expenditure	572	625	493	1,690
Depreciation and amortisation	1,827	9,282	133	11,242

4. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

Secondary report format — geographical segments

	For the year ended 31 December 2007			
	Turnover	Segment results	Segment assets	Capital expenditure
	$'000	*$'000*	*$'000*	*$'000*
Hong Kong	**77,278**	**(2,866)**	**95,409**	**1,810**
United States	**165,355**	**10,920**	**3,482**	**—**
The PRC	**36,410**	**(3,570)**	**102,616**	**354**
Other countries	**23,944**	**(678)**	**3,007**	**—**
	302,987	**3,806**	**204,514**	**2,164**
Unallocated costs		**(4,321)**		
Operating loss		**(515)**		
Total assets			**204,514**	

	For the year ended 31 December 2006			
	Turnover	Segment results	Segment assets	Capital expenditure
	$'000	*$'000*	*$'000*	*$'000*
Hong Kong	93,102	10,988	56,385	1,181
United States	116,655	8,761	6,873	—
The PRC	31,484	(11,579)	100,609	509
Other countries	16,240	1,447	5,849	—
	257,481	9,617	169,716	1,690
Unallocated costs		(3,368)		
Operating profit		6,249		
Total assets			169,716	

5. OTHER OPERATING EXPENSES

	2007	2006
	$'000	*$'000*
Write off and impairment of trade and other receivables	**1,779**	1,382
Exchange losses	**285**	185
Others	**67**	91
Share-based payment	**154**	38
Loss on deemed acquisition of interest of a subsidiary	**—**	2
Loss on write off and disposal of property, plant and equipment	**—**	1
	2,285	1,699

6. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging and crediting the following:

	2007	2006
	$'000	*$'000*
Charging:		
Auditors' remuneration		
Current year	**350**	560
Under-provision in previous year	**21**	78
Cost of inventories sold	**266,486**	180,849
Depreciation		
Owned assets	**7,828**	11,059
Assets under finance leases	**587**	65
Amortisation of prepaid lease payments	**98**	118
Loss on write off and disposal of property, plant and equipment	**—**	1
Operating lease rentals in respect of land and buildings	**1,089**	964
Staff costs (excluding directors' remuneration):		
Salaries and allowances	**21,641**	17,286
Retirement benefit costs	**424**	299
Share-based payment	**154**	38
and after crediting:		
Write back of provision for slow moving and obsolete inventories	**56**	1,235

7. FINANCE COSTS

	2007 $'000	2006 $'000
Interest on bank loans and overdrafts	**2,004**	2,645
Bank charges	**1,106**	938
Interest on other loans	**1,342**	391
Finance lease charges	**74**	56
	4,526	4,030

8. TAXATION

(a) The amount of taxation charge/(credit) to the consolidated income statement represents:

	2007 $'000	2006 $'000
Current tax — Hong Kong		
Provision for the year	**785**	—
Over provision in respect of prior year	**—**	(373)
	785	(373)
Current tax — Overseas		
Provision for the year	**1,044**	978
	1,829	605

(i) Hong Kong profits tax has been provided at the rate of 17.5% (2006: Nil) on the estimated assessable profits for the year.

(ii) Taxation on overseas profits is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(iii) Two subsidiaries established and operated in Zhongshan City, Guangdong Province, the PRC, are subjected to a preferential tax of 27% on their taxable income.

8. TAXATION *(CONTINUED)*

(b) Taxation charge for the year can be reconciled to the accounting (loss)/profit as follows:

	2007 **$'000**	2006 $'000
(Loss)/profit before taxation	**(5,041)**	2,219
Taxation (credit)/charge calculated at Hong Kong profits tax rate of 17.5%	**(882)**	388
Tax effect of expenses not deductible for taxation purpose	**4,413**	481
Tax effect of non-taxable items	**(2,865)**	(69)
Utilisation of previously unrecognised tax losses	**(156)**	(1,986)
Deferred tax assets not recognised	**1,538**	1,969
Effect of difference tax rates of subsidiaries operating in other jurisdictions	**(219)**	277
Under/(over) provision in prior year	**—**	(455)
Taxation charge for the year	**1,829**	605

9. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(Loss)/profit attributable to equity holders of the Company included a loss of $12,147,000 (2006: $1,199,000) which has been dealt with in the financial statements of the Company.

10. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the Group's (loss)/profit attributable to equity holders of the Company of $9,154,000 (2006: profit of $1,122,000) and on the weighted average number of 349,105,632 (2006: 320,349,468) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2007 has not been presented as the effect of any dilution is anti-dilutive.

The calculation of diluted earnings per share for 2006 is based on the profit for the year ended 31 December 2006 attributable to shareholders of the Company of $1,122,000, and the weighted average number of 320,349,468 ordinary shares in issue during the year, adjusted for the effects of all dilutive potential shares.

10. (LOSS)/EARNINGS PER SHARE *(CONTINUED)*

The weight average number of shares used in the calculation of diluted earnings per share for the year ended 31 December 2006 is calculated based on the 320,349,468 ordinary shares in issue during 2006 plus the weighted average number of 951,769 ordinary shares deemed to have been issued at no consideration as if all of the Company's outstanding share options had been exercised.

11. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the Occupational Retirement Scheme ("ORSO Scheme") and Mandatory Provident Fund Scheme ("MPF Scheme")) which are available to all full time employees in Hong Kong and employees who are registered residents of Nantou Town, Zhongshan City, the PRC. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the ORSO Scheme available to certain Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

For the MPF Scheme, the Group and its Hong Kong employees each make monthly contribution at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to $1,000 per month, as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) The emoluments paid or payable to each of directors of the Company during the year are as follows:

For the year ended 31 December 2007

Name of director	Fees $'000	Salary, allowances and benefit in kind $'000	Discretionary bonus $'000	MPF contributions $'000	Share-based payment $'000	Total $'000
Executive directors						
Mr. Yiu Ching On	—	1,040	—	48	32	1,120
Mr. Yiu Kwok Ming, Tommy	—	910	—	42	32	984
Mr. Leung Kwok Ip	—	681	—	12	32	725
Mr. Wong Wai Man	—	894	—	12	32	938
Ms. Wong Kai Chun *(resigned on 7 August 2007)*	—	—	—	—	—	—
	—	3,525	—	114	128	3,767
Independent non-executive directors						
Mr. Cheung Cho Yiu *(appointed on 7 August 2007)*	20	—	—	—	—	20
Mr. Chan Kin Wah, Billy *(appointed on 25 July 2007)*	20	—	—	—	—	20
Mr. Liang Jin An *(appointed on 25 July 2007)*	20	—	—	—	—	20
Mr. Cheung Wing Yui *(resigned on 25 July 2007)*	—	—	—	—	—	—
Mr. Wong Shui Hoi, Peter *(resigned on 25 July 2007)*	—	—	—	—	—	—
Mr. Lo Wai Kon *(resigned on 7 August 2007)*	—	—	—	—	—	—
	60	—	—	—	—	60
Total	60	3,525	—	114	128	3,827

During the year, there were no other emoluments payable to the independent non-executive directors.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(a) *(continued)*

For the year ended 31 December 2006

Name of director	Fees	Salary, allowances and benefit in kind	Discretionary bonus	MPF contributions	Share-based payment	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors						
Mr. Yiu Ching On	—	753	—	38	8	799
Mr. Yiu Kwok Ming, Tommy	—	908	—	43	8	959
Mr. Leung Kwok Ip	—	111	—	3	8	122
Mr. Wong Wai Man	—	192	—	3	8	203
Ms. Wong Kai Chun	—	—	—	—	—	—
	—	1,964	—	87	32	2,083
Independent non-executive directors						
Mr. Cheung Wing Yui	60	—	—	—	—	60
Mr. Wong Shiu Hoi, Peter	60	—	—	—	—	60
Mr. Lo Wai Kon	60	—	—	—	—	60
	180	—	—	—	—	180
Total	180	1,964	—	87	32	2,263

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group included four (2006: two) executive directors. Details of the remuneration of the remaining one (2006: three) highest paid employee during the year are as follows:

	2007 **$'000**	2006 $'000
Salaries and allowances	**597**	1,511
Discretionary bonuses	**—**	—
Contributions to pension schemes	**12**	30
	609	1,541

The remuneration of the above employees fell within the following band:

	2007 **Number**	2006 Number
$Nil — $1,000,000	**1**	3

During the year, no amount (2006: Nil) has been paid by the Group to any of the five highest paid individuals as compensation for loss of office. No payments have been paid by the Group to the five highest paid individuals as an inducement or upon joining the Group.

13. PROPERTY, PLANT AND EQUIPMENT

	Group							
	Construction in progress	Buildings outside Hong Kong	Buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 1 January 2006	1,361	27,552	454	8,653	113,357	5,817	3,966	161,160
Transfer to plant and machinery	(1,407)	—	—	—	1,407	—	—	—
Additions	360	—	—	19	149	115	1,047	1,690
Disposals/written off	—	—	—	—	(296)	(24)	(1,273)	(1,593)
Exchange adjustment	46	984	—	175	3,860	69	83	5,217
At 31 December 2006	360	28,536	454	8,847	118,477	5,977	3,823	166,474
Transfer to plant and machinery	(386)	—	—	—	386	—	—	—
Additions	—	—	—	—	—	236	1,928	2,164
Transfer to investment properties	—	(550)	—	—	—	—	—	(550)
Exchange adjustment	26	2,175	—	386	8,642	63	295	11,587
At 31 December 2007	—	30,161	454	9,233	127,505	6,276	6,046	179,675
Accumulated depreciation:								
At 1 January 2006	—	—	124	2,867	84,262	5,242	3,769	96,264
Charge for the year	—	1,474	9	352	8,843	119	327	11,124
Disposals/written off	—	—	—	—	(296)	(23)	(1,273)	(1,592)
Exchange adjustment	—	31	—	86	3,044	69	80	3,310
At 31 December 2006	—	1,505	133	3,305	95,853	5,407	2,903	109,106
Charge for the year	—	1,536	9	358	5,711	112	689	8,415
Transfer to investment properties	—	(14)	—	—	—	—	—	(14)
Exchange adjustment	—	172	—	209	6,948	403	218	7,950
At 31 December 2007	—	3,199	142	3,872	108,512	5,922	3,810	125,457
Net book value:								
At 31 December 2007	—	26,962	312	5,361	18,993	354	2,236	54,218
At 31 December 2006	360	27,031	321	5,542	22,624	570	920	57,368

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

The analysis of the cost or valuation at 31 December 2007 of the above assets was as follows:

	Group							
	Construction in progress *$'000*	Buildings outside Hong Kong *$'000*	Buildings in Hong Kong *$'000*	Leasehold improvements *$'000*	Plant and machinery *$'000*	Furniture, fixtures and office equipment *$'000*	Motor vehicles *$'000*	Total *$'000*
At cost	—	—	454	9,233	127,505	6,276	6,046	149,514
At 2005 valuation	—	30,161	—	—	—	—	—	30,161
	—	30,161	454	9,233	127,505	6,276	6,046	179,675

The analysis of the cost or valuation at 31 December 2006 of the above assets was as follows:

	Group							
	Construction in progress *$'000*	Buildings outside Hong Kong *$'000*	Buildings in Hong Kong *$'000*	Leasehold improvements *$'000*	Plant and machinery *$'000*	Furniture, fixtures and office equipment *$'000*	Motor vehicles *$'000*	Total *$'000*
At cost	360	—	454	8,847	118,477	5,977	3,823	137,938
At 2005 valuation	—	28,536	—	—	—	—	—	28,536
	360	28,536	454	8,847	118,477	5,977	3,823	166,474

(a) The Group's interests in buildings are under lease terms of between 10 to 50 years.

(b) The carrying amount of the buildings outside Hong Kong would have amounted to $9,889,000 (2006: $11,261,000) had they been stated at historical cost less accumulated depreciation.

(c) At 31 December 2007, the net book value of property, plant and equipment pledged as securities for the Group's bank loans amounted to $26,962,000 (2006: $30,905,000).

(d) At 31 December 2007, the net book value of property, plant and equipment held by the Group under finance leases amounted to $1,980,000 (2006: $839,000).

14. PREPAID LEASE PAYMENTS

Prepaid lease payments of the Group represent prepaid operating lease payments on land use rights in the PRC held on leases of between 50 to 64 years and their net book values are analysed as follows:

	Group *$'000*
Cost:	
At 1 January 2006	6,217
Exchange adjustment	212
At 31 December 2006	6,429
Transfer to investment properties	(1,825)
Exchange adjustment	469
At 31 December 2007	5,073
Accumulated amortisation:	
At 1 January 2006	1,186
Charge for the year	118
Exchange adjustment	43
At 31 December 2006	1,347
Charge for the year	98
Transfer to investment properties	(228)
Exchange adjustment	102
At 31 December 2007	1,319
Net book value:	
At 31 December 2007	3,754
At 31 December 2006	5,082

14. PREPAID LEASE PAYMENTS *(CONTINUED)*

	Group	
	2007	2006
	$'000	*$'000*
Prepaid lease payments classified as:		
Current assets	**101**	118
Non-current assets	**3,653**	4,964
Net book value as at 31 December	**3,754**	5,082

Prepaid lease prepayments on land use rights are pledged as securities for the Group's bank loans.

15. INVESTMENT PROPERTIES

	Group	
	2007	2006
	$'000	*$'000*
Transfer from building outside Hong Kong and prepaid lease payments	**3,079**	—
Net gain from a fair value adjustment	**5,176**	—
Exchange adjustment	**214**	—
Carrying amount at 31 December	**8,469**	—

The Group's investment properties are situated outside Hong Kong and are held under the following lease terms:

	2007	2006
	$'000	*$'000*
Long term leases	**7,475**	—
Medium term leases	**994**	—
	8,469	—

The Group's investment properties were revalued on 31 December 2007 by Asset Appraisal Limited, independent professionally qualified valuers, at RMB7,930,000 on an open market, existing use basis.

16. DEPOSIT PAID

Deposit paid of HK$2,000,000 is related to a railway catering project with reference to a joint venture agreement entered with a PRC partner on 4 December 2007. Pursuant to the joint venture agreement, the Group would contribute US$10,000,000 by instalment. The joint venture is still in the course of applying for the business licence as at the balance sheet date.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	$'000	*$'000*
Unlisted shares, at cost	**126,626**	126,626
Less: Impairment	**(84,000)**	(84,000)
	42,626	42,626
Due from subsidiaries	**56,344**	53,069
Less: Impairment	**(38,000)**	(28,000)
	18,344	25,069
Due to a subsidiary	**(9)**	(9)
	60,961	67,686

The amounts due from subsidiaries are unsecured, non-interest bearing and in substance represents the Company's investments in subsidiaries in the form of quasi-equity loans.

The amount due to the subsidiary is unsecured, non-interest bearing and no fixed terms of repayment.

At 31 December 2007, the Company held interests in the following subsidiaries:

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held directly:				
Ching Hing (BVI) Limited	The British Virgins Islands	Investment holding in Hong Kong	57,457,238 ordinary shares of $0.005 each	100%
Held indirectly:				
Ching Hing Weaving Dyeing & Printing Factory Limited	Hong Kong	Provision of fabric processing services and sale of fabrics in Hong Kong	55,000,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each	100%

(Expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held indirectly: *(continued)*				
中山正興紡織廠有限公司 (Zhongshan Ching Hing Weaving Factory Limited)	The PRC	Provision of fabric processing services and sale of fabrics in the PRC	US$9,500,000	100%
Ching On Textiles Limited	Hong Kong	Sale of fabrics in Hong Kong	1,010,001 ordinary shares of $1 each	100%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of $1 each	65%
Yiutung Fashion Co. Ltd.	Hong Kong	Investment holding	15,001 ordinary shares of $1 each	100%
中山市盈通服飾製衣有限公司 (Zhongshan Yiutung Clothing Manufacturing Co. Limited)	The PRC	Dormant	US$500,000	100%
South Field (Pacific) Limited	Hong Kong	Sale of garments and accessories	1,000,001 ordinary shares of $1 each	56%
Huge Victory Management Limited	Samoa	Property holding	3 ordinary shares of US$1 each	100%
Glamour International Limited	Samoa	Investment holding	3 ordinary shares of US$1 each	100%
Alpha Textile International Limited	Hong Kong	Sale of fabrics	10,000 ordinary shares of $1 each	65%
Ching Hing Weaving (International) Limited	Hong Kong	Investment holding	2 ordinary shares of $1 each	100%
Ching Hing (Holdings) Investment Limited	Hong Kong	Not yet commenced business	10,000 ordinary Shares of $1 each	100%
On Hing Weaving Factory Limited	Hong Kong	Dormant	10,000 ordinary shares of $1 each	100%
Onlink Textiles Limited	Hong Kong	Sale of fabrics	10,000 ordinary shares of $1 each	70%
Calvin Textiles Limited	Hong Kong	Not yet commenced business	10,000 ordinary shares of $1 each	100%

18. INVENTORIES

	Group 2007 $'000	2006 $'000
Raw materials	**15,019**	17,451
Work in progress	**1,592**	1,888
Finished goods	**5,176**	3,170
	21,787	22,509

At 31 December 2007, obsolete inventories of approximately $1,080,000 (2006: $1,136,000) have been fully provided for. Other inventories amounting to approximately $2,194,000 (2006: $658,000) were stated at net realisable value.

19. TRADE RECEIVABLES

	Group 2007 $'000	2006 $'000
Trade receivables	**53,324**	52,371
Impairment	**(5,959)**	(4,857)
	47,365	47,514

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas the sales from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Sales from trading of garments and accessories are mostly covered by letter of credits. 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.

19. TRADE RECEIVABLES *(CONTINUED)*

Details of the aging analysis of trade receivables, based on the invoice date and net of provision, were as follows:

	Group	
	2007	2006
	$'000	*$'000*
Current	**15,716**	20,887
31-60 days	**6,529**	11,954
61-90 days	**1,047**	6,866
Over 90 days	**24,073**	7,807
	47,365	47,514

At the balance sheet date, the fair values of trade receivables approximate to the carrying amounts.

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	$'000	*$'000*
At 1 January	**4,857**	4,691
Impairment losses recognised	**1,102**	166
At 31 December	**5,959**	4,857

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	$'000	*$'000*
Neither past due nor impaired	**16,188**	33,367
Less than 1 month past due	**14,427**	6,517
1 to 3 months past due	**8,767**	4,611
Over 3 months past due	**7,983**	3,019
	47,365	47,514

19. TRADE RECEIVABLES *(CONTINUED)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors have performed an assessment, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*
Other receivables	**3,994**	1,087	**200**	200
Prepayments and deposits	**1,174**	5,186	**145**	73
	5,168	6,273	**345**	273

At 31 December 2007, $638,000 (2006: Nil) of the Group's other receivables were stated after impairment of $638,000.

21. BANK DEPOSITS, CASH AND BANK BALANCES — GROUP

At 31 December 2007, approximately $4,921,000 (2006: $6,000,000) of the Group's cash and bank balances was denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2007, bank deposits of approximately $17,413,000 (2006: $16,156,000) were pledged to banks to secure banking facilities of the Group *(note 28)*.

22. TRADE PAYABLES

Details of the aging analysis of trade payables, based on the invoice date, were as follows:

	Group	
	2007	2006
	$'000	*$'000*
Current	**19,002**	29,869
31-60 days	**13,271**	3,805
61-90 days	**2,170**	5,326
Over 90 days	**13,596**	3,840
	48,039	42,840

23. DUE TO A DIRECTOR/SHAREHOLDER

The amount due to a director/shareholder is unsecured, interest bearing at 6.75% p.a. to 7.5% p.a. (2006: 7.5% p.a to 7.75% p.a) and has no fixed term of repayments.

24. SHARE CAPITAL

	Authorised ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 1 January 2006 and 31 December 2006	1,000,000,000	50,000
Shares created	4,000,000,000	200,000
At 31 December 2007	5,000,000,000	250,000

	Issued and fully paid ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 1 January 2006 and 31 December 2006	320,349,468	16,017
Shares issued	64,000,000	3,200
At 31 December 2007	384,349,468	19,217

On 12 July 2007, 64,000,000 shares were placed and allotted to independent investors at $0.36 per share. The proceeds of about $23,000,000 was used as general working capital of the Company.

On 12 December 2007, the authorised share capital was increased from $50,000,000 divided into 1,000,000,000 shares to $250,000,000 divided into 5,000,000,000 shares by the creation of 4,000,000,000 new shares.

25. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme ("2002 Share Option Scheme") which was adopted on 27 May 2002. For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Group believes that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in general meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2007, the total number of shares available for issue under the 2002 Share Option Scheme was 16,634,950 shares, which represented approximately 4.3% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (Including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

On 26 September 2006, a total of 15,400,000 share options were granted to and accepted by executive directors and employees of the Group. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.07 per share. The exercisable period for these options is from 30 November 2007 *(note 1)* to 25 September 2016.

(Expressed in Hong Kong dollars unless otherwise stated)

25. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(CONTINUED)*

Name of participants	At 1 January 2007	Exercised during the year	Cancelled during the year	At 31 December 2008
Executive Directors				
Mr. Yiu Ching On	3,200,000	—	—	3,200,000
Mr. Yiu Kwok Ming, Tommy	3,200,000	—	—	3,200,000
Mr. Leung Kwok Ip	3,200,000	—	—	3,200,000
Mr. Wong Wai Man	3,200,000	—	—	3,200,000
Subtotal	12,800,000	—	—	12,800,000
Other eligible employees	2,600,000	—	—	2,600,000
Total	15,400,000	—	—	15,400,000

Notes:

(1) At a special general meeting of the Company held on 30 November 2007, an ordinary resolution was passed for approving the change of the vesting date from 26 September 2010 to 30 November 2007.

(2) No share option was granted, exercised or cancelled during the year.

Employee share option expenses related to the above grants of share option were valued at $614,984 and are charged to the consolidated income statement over the vesting period of four years. Such expenses were determined by the Company based on the Black-Scholes valuation model with the following assumptions:

Date of grant	26 September 2006
Value per option	HK$0.04
Price per share at date of grant	HK$0.07
Exercise price per share	HK$0.07
Standard deviation	0.7338
Annual risk-free interest rate	3.69%
Life of options	10 years
Vesting period	4 years

26. RESERVES

(a) Group

(i) Statutory reserves

In accordance with the PRC Companies Law, the Company's subsidiaries in the PRC were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies) and a percentage of not less than 5% as determined by management of the profit after tax to public welfare fund. With the amendment of the PRC Companies Law which was effective from 1 January 2007, enterprises in the PRC are no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2006 would be transferred to the statutory surplus reserve. The statutory surplus reserve is non-distributable. According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(ii) Capital reserves

Capital reserves represent the amount of a subsidiary's share capital converted into non-voting deferred shares in pursuant to the Group reorganisation in 1999 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(b) Company

	Share premium $'000	Contributed surplus $'000	Employee share-based reserves $'000	Accumulated losses $'000	Total $'000
At 1 January 2006	51,574	123,754	—	(122,828)	52,500
Loss for the year	—	—	—	(1,199)	(1,199)
At 31 December 2006	51,574	123,754	—	(124,027)	51,301
Issue of shares	19,574	—	—	—	19,574
Equity settled share-based transactions	—	—	192	—	192
Loss for the year	—	—	—	(12,147)	(12,147)
At 31 December 2007	71,148	123,754	192	(136,174)	58,920

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the Group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium financial statements.

27. BANK BORROWINGS (SECURED)

	Group	
	2007	2006
	$'000	*$'000*
Bank overdrafts, secured	**3,171**	5,366
Interest-bearing bank borrowings, secured	**32,513**	25,810
Trust receipt loans, secured	**11,495**	8,561
Total bank borrowings — repayable within one year	**47,179**	39,737

Bank borrowings bore annual interest ranging from 5.85% to 10% (2006: from 4.43% to 10.17%).

Bank loans of approximately $16,019,000 (2006: $18,115,000) at fixed interest rates expose the Group to fair value interest rate risk. Other bank borrowings of approximately $31,160,000 (2006: $21,622,000) at floating rates expose the Group to cash flow interest rate risk.

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

As at 31 December 2007	**Hong Kong dollar** ***$'000***	**United States dollar** ***$'000***	**Renminbi** ***$'000***	**Total** ***$'000***
Bank overdrafts, secured	**3,171**	**—**	**—**	**3,171**
Interest-bearing bank borrowings, secured	**16,494**	**—**	**16,019**	**32,513**
Trust receipt loans, secured	**—**	**11,495**	**—**	**11,495**
	19,665	**11,495**	**16,019**	**47,179**

As at 31 December 2006	Hong Kong dollar *$'000*	United States dollar *$'000*	Renminbi *$'000*	Total *$'000*
Bank overdrafts, secured	5,366	—	—	5,366
Interest-bearing bank borrowings, secured	7,695	—	18,115	25,810
Trust receipt loans, secured	—	8,561	—	8,561
	13,061	8,561	18,115	39,737

28. BANKING FACILITIES

At 31 December 2007, the Group's credit facilities amounting to $99,478,000 (2006: $96,115,000) granted by banks and a credit company were secured by the following:

(a) legal charges over the Group's properties *(note* 13*)* and prepaid lease payments *(note 14)*;

(b) guarantees given by the Company and the minority shareholders of subsidiaries for $139,208,000 (2006: $107,000,000) and $74,992,000 (2006: $52,450,000) respectively;

(c) charges over bank deposits of the Group *(note 21)*; and

(d) personal guarantees of $1,000,000 given by one director (2006: $5,000,000 given by one director) of the Company.

29. FINANCE LEASES PAYABLES

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*
Amounts payable under finance leases:				
Within one year	**658**	335	**563**	293
In the second to fifth years inclusive	**1,367**	596	**1,128**	499
	2,025	931	**1,691**	792
Less: Future finance charges	**(334)**	(140)		
Present value of lease obligations	**1,691**	791		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(563)**	(293)
Amount due for settlement after 12 months			**1,128**	499

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 2 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

30. DEFERRED TAXATION

At 31 December 2007, the Group has unused tax losses of $106,151,000 (2006: $93,833,000) available to offset future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to net cash inflow/(outflow) from operating activities

	2007 **$'000**	2006 $'000
(Loss)/profit before taxation	**(5,041)**	2,219
Adjustments for:		
Interest income	**(1,350)**	(736)
Depreciation	**8,415**	11,124
Amortisation of prepaid lease payments	**98**	118
Loss on disposal of property, plant and equipment	**—**	1
Gain on disposal of property, plant and equipment	**—**	(420)
Interest expenses	**3,346**	3,036
Finance lease charges	**74**	56
Loss from deemed disposal of a subsidiary	**—**	2
Revaluation gain on leasehold land and buildings	**(5,176)**	—
Share-based payment	**154**	38
Operating profit before working capital changes	**520**	15,438
Decrease/(increase) in inventories	**1,875**	(7,054)
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits	**2,064**	(12,689)
Increase in trade payables, other payables and accruals	**6,832**	13,175
(Decrease)/increase in VAT tax payable	**(49)**	4
Effect of foreign exchange rate changes	**(2,966)**	(2,189)
Net cash generated from operations	**8,276**	6,685
PRC taxation paid	**(815)**	(1,921)
Hong Kong profits tax refunded	**—**	390
Hong Kong profits tax paid	**(630)**	(3,356)
Interest paid	**(3,346)**	(3,036)
Finance lease charges paid	**(74)**	(56)
Net cash inflow/(outflow) from operating activities	**3,411**	(1,294)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(b) Non-cash transactions

Additions to motor vehicles during the year amounting to approximately $1,350,000 (2006: $1,020,000) were financed by finance leases.

32. CONTINGENT LIABILITIES

At 31 December 2007, the Company had given guarantees of approximately $139,208,000 (2006: $107,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries.

Counter-indemnities in favour of the Company at an aggregate amount of $24,400,000 (2006: $22,450,000) were given by minority shareholders of subsidiaries in respect of certain guarantees given by the Company for the Group's banking facilities.

33. COMMITMENTS

(a) Capital commitments

At 31 December 2007, the Group had the following capital commitments:

	2007 ***$'000***	2006 *$'000*
Construction in progress	**—**	41

(b) Operating lease commitments

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007 ***$'000***	2006 *$'000*
Within one year	**1,251**	799
In the second to fifth years inclusive	**993**	—
	2,244	799

34. RELATED PARTY TRANSACTIONS

(a) In addition to notes 23 and 28 to the financial statements, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2007	2006
	$'000	*$'000*
Rental paid to a related company *(note (i))*	**840**	840
Interest paid to a director/shareholder *(note (ii))*	**397**	391
Sales to a related company *(note (iii))*	**—**	37

Notes:

i. Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company.

ii. Ms. Wong Kai Chun resigned on 7 August 2007.

iii. Mr. Yiu Kwok Yung, who is the son of Mr. Yiu Ching On and the brother of Mr. Yiu Kwok Ming, Tommy owns 70% of the company.

(b) Members of key management during the year comprised only five (2006: five) executive directors whose remuneration is set out in note 12 to the financial statements.

35. POST BALANCE SHEET EVENTS

(a) Pursuant to a placing agreement dated 6 October 2007 (the "Placing Agreement") as amended by a letter agreement dated 11 October 2007 (the "Supplemental Placing Agreement" together with the Placing Agreement, the "Placing Agreements"), both entered into between the Company and OSK Asia Securities Limited (the "Placing Agent"), the Placing Agent agreed to place up to a maximum of 800,000,000 new shares of HK$0.05 each in the capital of the Company (the "Placing Shares") at a price of HK$0.55 per Placing Share during the period commencing on 1 December 2007 (being the date immediately following the date of fulfillment of the conditions precedent to the Placing Agreements) and expiring 3 months following such date to independent third parties (the "Placing Period").

Up to 29 February 2008 (being the end of the Placing Period), none of the Placing Shares had been placed by the Placing Agent. Accordingly, the Placing Agreements has expired and ceased after 29 February 2008.

35. POST BALANCE SHEET EVENTS *(CONTINUED)*

(b) Pursuant to a subscription agreement dated 6 October 2007 (the "Subscription Agreement") as amended by a letter agreement dated 11 October 2007 (the "Supplemental Subscription Agreement" together with the Subscription Agreement, the "Subscription Agreements"), both entered into between the Company and Happy Joy Limited ("Happy Joy") and Cotton Row Limited ("Cotton Row" and together with Happy Joy, the "Subscribers"), the Company agreed to allot and issue, and the Subscribers in equal shares agreed to subscribe for up to a maximum of 800,000,000 new shares of HK$0.05 each in the capital of the Company (the "Subscription Shares") at a price of HK$0.55 per Subscription Share during the period commencing on 1 December 2007 (being the date immediately following the date of fulfillment of the conditions precedent to the Placing Agreements as in (a) above) and expiring 3 months following such date (the "Subscription Period").

Up to 29 February 2008 (being the end of the Subscription Period), none of the Placing Shares had been placed by the Placing Agent. Accordingly, the Subscription Agreements has expired and ceased after 29 February 2008.

(c) During the year, Ching Hing (Holdings) Investments Limited ("Ching Hing Investments") paid deposit of HK$2,000,000 which is related to a railway catering project with reference to a joint venture agreement entered with a PRC partner on 4 December 2007. Pursuant to the joint venture agreement, Ching Hing Investments would contribute US$10,000,000 by instalment. The joint venture is still in the course of applying for the business licence as at the balance sheet date.

Subsequent to the balance sheet date, pursuant to a letter confirmation dated 31 March 2008 (the "Confirmation"), the PRC partner agreed with Ching Hing Investments that the due date for Ching Hing Investments making capital contribution to the joint venture is uplifted. According to the Confirmation, Ching Hing Investments may contribute the required equity contribution in any time.

36. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	Loan and receivable	
	2007	2006
	$'000	*$'000*
Trade receivables		
— third parties	**47,365**	47,511
— a related company	**—**	3
Other receivables, prepayments and deposits	**5,168**	6,273
Deposits with banks	**37,694**	20,855
Bank balances and cash	**23,469**	9,479
	113,696	84,121

36. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Financial liabilities

	Financial liabilities at amortised cost	
	2007	2006
	$'000	*$'000*
Bank overdrafts, secured	**3,171**	5,366
Interest bearing bank borrowings, secured	**32,513**	25,810
Trust receipt loans, secured	**11,495**	8,561
Trade payables	**48,039**	42,840
Other payables and accruals	**9,008**	5,610
Due to a director	**—**	6,213
Due to a shareholder	**6,213**	—
Finance leases payables	**1,691**	792
	112,130	95,192

37. FINANCIAL RISK MANAGMENET OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise trust receipt loans 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 no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are 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. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

37. FINANCIAL RISK MANAGMENET OBJECTIVES AND POLICIES *(CONTINUED)*

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's trust receipt loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax $'000	Increase/ (decrease) in equity $'000
2007			
Hong Kong dollar	**1%**	**278**	**278**
	(1%)	**(278)**	**(278)**
2006			
Hong Kong dollar	1%	374	374
	(1%)	(374)	(374)

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi (RMB), United States Dollars ("USD") and Hong Kong dollar ("HKD"). Approximately 74.5% (2006: 57.5%) of the Group's sales are denominated in currencies other than the functional currency of the operating units marking the sales, and almost 94.1% (2006: 90.3%) of costs are denominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in and USD and HKD, of which the exchange rate of USD was quite stable during the years ended 31 December 2006 and 2007.

37. FINANCIAL RISK MANAGMENET OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk *(Continued)*

Sensitively at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax $'000
2007		
If Hong Kong dollar weakens against RMB	**5.0%**	**1,397**
If Hong Kong dollar strengthens against RMB	**(5.0%)**	**(1,397)**
If Hong Kong dollar weakens against USD	**1%**	**65**
If Hong Kong dollar strengthens against USD	**(1%)**	**(65)**
2006		
If Hong Kong dollar weakens against RMB	5.0%	472
If Hong Kong dollar strengthens against RMB	(5.0%)	(472)
If Hong Kong dollar weakens against USD	1%	22
If Hong Kong dollar strengthens against USD	(1%)	(22)

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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investment, other receivables and certain derivative instruments, 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. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

37. FINANCIAL RISK MANAGMENET OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand *$'000*	Less than 3 months *$'000*	3 to less than 12 months *$'000*	1 to 5 years *$'000*	Total *$'000*
2007					
Bank overdrafts, secured	**3,171**	**—**	**—**	**—**	**3,171**
Interest bearing bank borrowings, secured	**—**	**16,494**	**16,019**	**—**	**32,513**
Trust receipt loans, secured	**—**	**11,495**	**—**	**—**	**11,495**
Trade payables	**—**	**48,039**	**—**	**—**	**48,039**
Other payables and accruals	**—**	**9,008**	**—**	**—**	**9,008**
Due to a shareholder	**—**	**6,213**	**—**	**—**	**6,213**
Finance leases payables	**—**	**141**	**987**	**563**	**1,691**
	3,171	**91,390**	**17,006**	**563**	**112,130**
2006					
Bank overdrafts, secured	5,366	—	—	—	5,366
Interest bearing bank borrowings, secured	—	7,695	18,115	—	25,810
Trust receipt loans, secured	—	8,561	—	—	8,561
Trade payables	—	42,840	—	—	42,840
Other payables and accruals	—	5,610	—	—	5,610
Due to a director	—	6,213	—	—	6,213
Finance leases payables	—	73	220	499	792
	5,366	70,992	18,335	499	95,192

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. As at the balance sheet date, the Group has not significant equity price risk.

37. FINANCIAL RISK MANAGMENET OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank overdrafts, interest bearing bank borrowings, trust receipt loans, trade payables, other payables and accruals, VAT and tax payable, due to a director, due to a shareholder finance leases payables, taxation payable, less bank deposits and cash and bank balances. Capital includes equity attributable to equity shareholders of the Company.

	Group	
	2007	2006
	$'000	*$'000*
The gearing ratios as at the balance sheet dates were as follows:		
Bank overdrafts, secured	**3,171**	5,366
Interest bearing bank borrowings, secured	**32,513**	25,810
Trust receipt loans, secured	**11,495**	8,561
Trade payables	**48,039**	42,840
Other payables and accruals	**9,008**	5,610
VAT and other tax payable	**1,259**	1,259
Due to a director	**—**	6,213
Due to a shareholder	**6,213**	—
Finance leases payables	**1,691**	792
Taxation payable	**2,704**	2,227
Less:		
Bank deposits	**(37,694)**	(20,855)
Cash and bank balances	**(23,469)**	(9,479)
Net debt	**54,930**	68,344
Total capital	**85,640**	70,498
Capital and net debt	**140,570**	138,842
Gearing ratio	**39%**	49%

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2008.

Other Financial Information

FIVE YEARS FINANCIAL SUMMARY

	2007	2006	2005	2004	2003
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
RESULTS					
Revenue	**302,987**	257,481	244,699	209,101	238,543
(Loss)/profit before tax	**(5,041)**	2,219	(29,960)	(10,071)	(43,609)
Tax	**(1,829)**	(605)	(1,875)	(575)	(825)
(Loss)/profit for the year	**(6,870)**	1,614	(31,835)	(10,646)	(44,434)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**204,514**	169,716	156,389	185,783	218,075
Total liabilities	**(116,093)**	(98,724)	(87,058)	(93,575)	(114,543)
Minority Interests	**(2,781)**	(494)	(8)	(11)	(158)
	85,640	70,498	69,323	92,197	103,374