

Notes to the Financial Statements

31 December 2004

1. CORPORATION INFORMATION AND GROUP REORGANISATION

Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Upon incorporation, the Company had an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. No transactions were carried out by the Company during the period from 26 November 2003 (date of incorporation) to 31 December 2003. Accordingly, the Company had not recorded any assets or liabilities as at 31 December 2003, nor profits or losses for the period then ended.

The principal place of business of the Company is located at Units 5-9, 8/F, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company is Exceed Standard Limited ("Exceed Standard"), which is incorporated in the British Virgin Islands (the "BVI").

Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 August 2004 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Joint Result Holdings Limited ("Joint Result"), a company incorporated in the BVI, which is, as at the date of this report, the intermediate holding company of the subsidiaries set out in note 15 to the financial statements, in consideration of and in exchange for (i) the allotment and issue of 1,000,000 ordinary shares of HK\$0.1 each in the Company, credited as fully paid; and (ii) the 1,000,000 shares of HK\$0.1 each previously allotted and issued nil paid being credited as fully paid.

Further details of the Group Reorganisation are set out in note 24 to the financial statements and in the Company's prospectus dated 14 September 2004.

The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 September 2004.

Notes to the Financial Statements

31 December 2004

2. BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 27, "Accounting for group reconstructions", as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2003 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impact of recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the "New HKFRSs", which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted the New HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of the New HKFRSs but is not yet in a position to state whether the New HKFRSs would have a significant impact on its results of operations and financial position.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include SSAPs and Interpretations) issued by the HKICPA, 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.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

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

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery, and furniture and fixtures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Accounts receivable

Accounts receivable, which generally have credit terms of up to 60 days (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days) are recognised and carried at the original invoiced amount, less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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 lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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 profit and loss account.

Income tax

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

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.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) from the rendering of services, when the relevant services are rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

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

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

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

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

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

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments (continued)

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to the Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group's business segments as over 90% of the Group's revenue and assets are related to the manufacture and sale of finished knitted fabrics.

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

- (a) Singapore;
- (b) Taiwan;
- (c) Hong Kong; and
- (d) Others

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers, and where segment revenue from external customers or segment assets are 10% or more of the Group's total amount. The Group's asset-based geographical segments are Singapore, Hong Kong, the PRC (other than Hong Kong and Macau) and Others.

Notes to the Financial Statements

31 December 2004

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers

Group – 2004

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	720,614	244,028	124,620	226,388	1,315,650
Other revenue	3,066	–	2,592	66	5,724
Total	<u>723,680</u>	<u>244,028</u>	<u>127,212</u>	<u>226,454</u>	<u>1,321,374</u>
Segment results	<u>130,364</u>	<u>45,087</u>	<u>22,798</u>	<u>40,928</u>	<u>239,177</u>
Interest and other unallocated income					905
Unallocated expenses					<u>(98,229)</u>
Profit from operating activities					141,853
Finance costs					<u>(15,870)</u>
Profit before tax					125,983
Tax					<u>(20,221)</u>
Net profit from ordinary activities attributable to shareholders					<u>105,762</u>
Segment assets	<u>115,057</u>	<u>5,993</u>	<u>46,684</u>	<u>25,700</u>	193,434
Unallocated assets					<u>992,151</u>
					<u>1,185,585</u>

Notes to the Financial Statements

31 December 2004

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers *(continued)*

Group – 2004 *(continued)*

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment liabilities	3,569	516	69,836	102,956	176,877
Unallocated liabilities					404,598
					581,475
Other segment information:					
Depreciation-unallocated					34,829
Capital expenditure-unallocated					261,131
Gain on disposal of fixed assets – unallocated					(3,165)
Bad debts written off	–	–	418	–	418
Provision for doubtful debts	800	–	18	926	1,744
Write back of provision for doubtful debts	(1,540)	–	–	–	(1,540)
Write back of provision for other receivables – unallocated					(200)

Notes to the Financial Statements

31 December 2004

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers *(continued)*

Group – 2003

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	641,637	177,027	125,366	157,551	1,101,581
Other revenue	1,142	315	290	280	2,027
Total	642,779	177,342	125,656	157,831	1,103,608
Segment results	122,337	40,490	25,169	31,635	219,631
Interest and other unallocated income					1,166
Unallocated expenses					(95,306)
Profit from operating activities					125,491
Finance costs					(10,357)
Profit before tax					115,134
Tax					(18,778)
Net profit from ordinary activities attributable to shareholders					96,356
Segment assets	104,736	12,982	36,214	12,857	166,789
Unallocated assets					644,087
					810,876

Notes to the Financial Statements

31 December 2004

4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers *(continued)*

Group – 2003 *(continued)*

	Singapore HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment liabilities	371	530	80,056	85,797	166,754
Unallocated liabilities					332,003
					498,757
Other segment information:					
Depreciation-unallocated					27,375
Capital expenditure-unallocated					127,867
Gain on disposal of fixed assets					
– unallocated					(68)
Provision for inventories					
– unallocated					2,739
Bad debts written off	–	–	386	–	386
Provision for doubtful debts	1,581	600	–	538	2,719
Write back of provision for doubtful debts	(326)	–	(10)	(8)	(344)

(ii) Geographical segments based on the location of assets

Group – 2004

	Singapore HK\$'000	Hong Kong HK\$'000	PRC (other than Hong Kong and Macau) HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	547	306,661	877,020	1,357	1,185,585
Capital expenditure	54	5,388	255,200	489	261,131

Notes to the Financial Statements

31 December 2004

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments based on the location of assets *(continued)*

Group – 2003

	Singapore HK\$'000	Hong Kong HK\$'000	PRC (other than Hong Kong and Macau) HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	851	247,541	562,484	–	810,876
Capital expenditure	325	1,754	125,788	–	127,867

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and fee income from knitting and dyeing services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	1,309,780	1,090,190
Fee income from knitting and dyeing services	5,870	11,391
	1,315,650	1,101,581
Other revenue		
Fee income from freight handling services	5,724	2,027
Interest income	253	377
Others	652	789
	6,629	3,193
	1,322,279	1,104,774

Notes to the Financial Statements

31 December 2004

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	998,248	817,230
Cost of services provided	3,467	5,695
Auditors' remuneration	1,030	650
Research and development costs	2,617	1,738
Depreciation	34,829	27,375
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	61,197	47,798
Pension schemes contributions	1,801	1,507
Total staff costs	62,998	49,305
Minimum lease payments under operating leases in respect of land and buildings	728	1,158
Gain on disposal of fixed assets	(3,165)	(68)
Provision for inventories	–	2,739
Bad debts written off	418	386
Provision for doubtful debts	1,744	2,719
Write back of provision for doubtful debts	(1,540)	(344)
Write back of provision for other receivables	(200)	–
Exchange gains, net	(4,594)	(1,664)

Cost of inventories sold includes HK\$60,770,000 for the year ended 31 December 2004 (2003: HK\$51,101,000) in respect of depreciation, staff costs and provision for inventories, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK\$796,000 for the year ended 31 December 2004 (2003: HK\$614,000) in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2003: Nil).

Notes to the Financial Statements

31 December 2004

7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	13,249	8,403
Interest on finance leases	2,621	1,954
	<u>15,870</u>	<u>10,357</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	180	—
Other emoluments:		
Salaries, allowances and benefits in kind	3,211	3,634
Discretionary bonuses *	2,225	1,726
Pension scheme contributions	71	89
	<u>5,507</u>	<u>5,449</u>
	<u>5,687</u>	<u>5,449</u>

* Certain executive directors of the Company are entitled to discretionary bonuses which are limited to 5% of the consolidated profit after tax of the Group.

Notes to the Financial Statements

31 December 2004

8. DIRECTORS' REMUNERATION (continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
2004					
Executive directors:					
Tai Chin Chun	–	1,379	1,104	20	2,503
Tai Chin Wen	–	957	772	20	1,749
Cheung So Wan	–	457	155	12	624
Wong Siu Yuk	–	418	194	10	622
Independent non-executive directors:					
Chong Chau Lam	60	–	–	3	63
Chu Hak Ha, Mimi	60	–	–	3	63
Chan Yuk Tong	60	–	–	3	63
Total	180	3,211	2,225	71	5,687
2003					
Executive directors:					
Tai Chin Chun	–	1,834	908	34	2,776
Tai Chin Wen	–	976	642	33	1,651
Cheung So Wan	–	456	44	12	512
Wong Sin Yuk	–	368	132	10	510
Total	–	3,634	1,726	89	5,449

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

Notes to the Financial Statements

31 December 2004

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees during the year are set out below:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,035	2,055
Discretionary bonuses	379	234
Pension scheme contributions	32	36
	3,446	2,325

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
	3	3

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year, 2,500,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements.

Notes to the Financial Statements

31 December 2004

10. TAX

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current tax – Hong Kong		
Charge for the year	15,072	12,243
Underprovision in respect of prior years	272	–
Current tax – Elsewhere		
Charge for the year	5,914	6,513
Underprovision/(overprovision) in respect of prior years	(967)	5
Deferred tax charge/(credit) (note 23)	(70)	17
Total tax charge for the year	20,221	18,778

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2003: 17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Panyu Kam Hing Textile Dyeing Co. Ltd. ("Panyu KH Textile"), a wholly-owned PRC subsidiary of the Company, is entitled to be exempted from enterprise income tax in the PRC for the first two profit-making years followed by a 50% reduction in enterprise income tax for the succeeding three years.

According to a confirmation obtained by Panyu KH Textile from the PRC tax bureau, 2001 was the first profit-making year of Panyu KH Textile for enterprise income tax purpose. For the years ended 31 December 2003 and 2004, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

Notes to the Financial Statements

31 December 2004

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		Singapore		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>82,443</u>		<u>12</u>		<u>43,528</u>		<u>125,983</u>	
Tax at the statutory tax rate	14,427	17.5	3	22.0	14,364	33.0	28,794	22.9
Lower tax rate for specific provinces or local authority	–	–	–	–	(3,918)	(9.0)	(3,918)	(3.1)
Adjustments in respect of current tax of previous years	272	0.3	–	–	(967)	(2.2)	(695)	(0.6)
Lower tax rate due to tax holiday	–	–	–	–	(3,974)	(9.1)	(3,974)	(3.2)
Income not subject to tax	(224)	(0.3)	(1)	(8.3)	(600)	(1.4)	(825)	(0.6)
Expenses not deductible for tax	792	1.0	5	41.7	20	–	817	0.6
Tax losses not recognised	–	–	–	–	22	–	22	–
	<u>–</u>		<u>–</u>		<u>–</u>		<u>–</u>	
Tax charge at the Group's effective rate	<u>15,267</u>	18.5	<u>7</u>	58.3	<u>4,947</u>	11.3	<u>20,221</u>	16.0

Notes to the Financial Statements

31 December 2004

10. TAX (continued)

Group – 2003

	Hong Kong		Singapore		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	69,307		166		45,661		115,134	
Tax at the statutory tax rate	12,129	17.5	36	22.0	15,068	33.0	27,233	23.7
Lower tax rate for specific provinces or local authority	–	–	–	–	(4,109)	(9.0)	(4,109)	(3.6)
Adjustments in respect of current tax of previous years	–	–	5	3.0	–	–	5	–
Lower tax rate due to tax holiday	–	–	–	–	(5,479)	(12.0)	(5,479)	(4.8)
Income not subject to tax	(32)	–	(19)	(11.4)	–	–	(51)	–
Expenses not deductible for tax	146	0.2	13	7.8	1,020	2.2	1,179	1.0
Tax charge at the Group's effective rate	12,243	17.7	35	21.4	6,500	14.2	18,778	16.3

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$11,538,000 (period from 26 November 2003 (date of incorporation) to 31 December 2003: Nil) (note 26(b)).

12. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Proposed final – HK1.6 cents per ordinary share (2003: Nil)	10,240	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements

31 December 2004

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$105,762,000 (2003: HK\$96,356,000) and the weighted average of 523,716,000 (2003: 480,000,000) shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2003 includes the pro forma issued share capital of the Company of 480,000,000 shares, comprising (i) the 1,000,000 shares of the Company allotted and issued nil paid on 17 February 2004 (note 24(c)); (ii) the 1,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Joint Result on 24 August 2004 (note 24(d)); and (iii) the capitalisation issue of 478,000,000 shares (note 24(e)). The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2004 includes the weighted average of 43,716,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 23 September 2004 in addition to the aforementioned 480,000,000 ordinary shares.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit attributable to shareholders for the year of HK\$105,762,000. The weighted average number of shares used in the calculation is the 523,716,000 shares deemed to have been in issue during the year as used in the basic earnings per share calculation, and the weighted average of 543,000 shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

There was no potential dilutive shares in existence for the year ended 31 December 2003 and, accordingly, no diluted earnings per share amount has been presented.

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:						
As at 1 January 2004	60,499	288,801	12,372	8,297	99,109	469,078
Additions	2,128	98,155	5,332	4,401	151,115	261,131
Disposals	–	(7,072)	(39)	–	–	(7,111)
Transfers	83,271	23,470	2,816	–	(109,557)	–
As at 31 December 2004	145,898	403,354	20,481	12,698	140,667	723,098
Accumulated depreciation:						
As at 1 January 2004	10,080	119,852	8,384	5,274	–	143,590
Charge for the year	3,772	27,490	2,300	1,267	–	34,829
Disposals	–	(6,916)	(30)	–	–	(6,946)
As at 31 December 2004	13,852	140,426	10,654	6,541	–	171,473
Net book value:						
As at 31 December 2004	132,046	262,928	9,827	6,157	140,667	551,625
As at 31 December 2003	50,419	168,949	3,988	3,023	99,109	325,488

The Group's leasehold land and buildings were held under the following lease terms:

	2004 HK\$'000	2003 HK\$'000
Medium term leases		
– in Hong Kong	2,308	1,572
– outside Hong Kong	129,738	48,847
	132,046	50,419

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS *(continued)*

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery and motor vehicles were as follows:

	2004 HK\$'000	2003 HK\$'000
Plant and machinery	146,391	75,843
Motor vehicles	2,165	1,475
	<u>148,556</u>	<u>77,318</u>

Title certificates in respect of three factory buildings with net book value of approximately HK\$0.7 million as at 31 December 2004 as included in the leasehold land and buildings have not been obtained by the Group. Since the relevant documents required by the relevant government authority for the reissuance of the title certificates cannot be located by the Group and it is expected that it will take a significant amount of time and effort for the application process, the directors consider that the title certificates will not be granted by the relevant government authority in the sooner foreseeable future.

In addition, the Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction works permit in respect of a six-storey factory building under construction currently, with net book value of approximately HK\$4 million as at 31 December 2004.

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures are considered illegal or unauthorised, the relevant government authorities may order rectification steps by remodeling the structures of the buildings, or for more severe measures, order demolition or forfeiture of such buildings/structures and payment of fines. The aforesaid buildings and structures accounted for approximately 1% of the Group's total fixed assets as at 31 December 2004 and are used for/intended to be used for warehousing purposes. Accordingly, the directors consider that the above buildings are not crucial to the operation of the Group and the potential impact as a result of any action taken by the government as aforesaid on the business or production of the Group is expected to be minimal. In addition, each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures (note 31(d)).

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS *(continued)*

During the year ended 31 December 2004, staff quarters of a net book value amounting to HK\$7.6 million as included in the leasehold land and buildings were transferred from construction in progress upon completion. Application for the Building Ownership Certificates in respect of these staff quarters are still in progress and have not been obtained by the Group as at the date of this report. The directors do not expect any problem in obtaining the Building Ownership Certificates.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted investments, at cost	402,207	—

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Joint Result	BVI/Hong Kong	US\$10,000	100	Investment holding
Indirectly held:				
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$1,000,010 (Note (a))	100	Trading of finished fabrics
Kam Hing International Shipping Limited	Hong Kong	HK\$100,000	100	Provision of air and ocean freight services

Notes to the Financial Statements

31 December 2004

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: <i>(continued)</i>				
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000 <i>(Note (a))</i>	100	Provision of knitting and dyeing services and trading of finished fabrics
Kam Hing Enterprise Limited	BVI/Hong Kong	US\$1,000	100	Investment holding
Kam Hing Piece Works (S) Pte Limited*	Singapore	S\$100,000	100	Provision of customer services
Panyu KH Textile*	PRC	US\$50,705,275 <i>(Note (b))</i>	100	Manufacture and trading of knitted and dyed fabrics
KH Macau	Macau	Pataca 100,000	100	Provision of knitting and dyeing services and trading of finished fabrics
Guangzhou Kam Sing Textile and Dyeing Company Limited ("Kam Sing")*	PRC	HK\$6,000,000 <i>(Note (c))</i>	100	Manufacture and trading of knitted and dyed fabrics

Notes to the Financial Statements

31 December 2004

15. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

- (a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Piece Works and KH Textile. The holders of the non-voting deferred shares are not entitled to any dividends of KH Piece Works and KH Textile. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Piece Works and KH Textile, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK\$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Piece Works and KH Textile.
- (b) Panyu KH Textile is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992. The registered capital of Panyu KH Textile amounted to US\$90,000,000. The remaining balance of US\$39,294,725 is required to be paid up prior to 29 November 2007 (note 30).
- (c) Kam Sing is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004. The registered capital of Kam Sing amounted to HK\$6,000,000, which has been fully paid up.
- * Ernst & Young Hong Kong and other Ernst & Young International member firms are not the statutory auditors of these subsidiaries.

16. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	241,286	200,127
Work in progress	37,065	13,161
Finished goods	26,510	23,010
	<u>304,861</u>	<u>236,298</u>

No inventories were carried at net realisable value at 31 December 2004 (2003: Nil).

Notes to the Financial Statements

31 December 2004

17. ACCOUNTS AND BILLS RECEIVABLE

An aged analysis of the Group's accounts and bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	2004 HK\$'000	2003 HK\$'000
Within 30 days	74,741	63,021
31 to 60 days	45,969	49,486
61 to 90 days	26,617	24,091
Over 90 days	46,107	30,191
	<u>193,434</u>	<u>166,789</u>

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		103,870	27,061	344	—
Time deposits		20,957	30,651	—	—
		<u>124,827</u>	<u>57,712</u>	<u>344</u>	<u>—</u>
Less: Time deposits pledged for short term banking facilities	21	(7,948)	(30,651)	—	—
Cash and cash equivalents		<u>116,879</u>	<u>27,061</u>	<u>344</u>	<u>—</u>

As at 31 December 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$5,964,000 (2003: HK\$4,494,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to the Financial Statements

31 December 2004

19. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	2004 HK\$'000	2003 HK\$'000
Within 90 days	152,608	131,216
91 to 180 days	16,702	24,341
181 to 365 days	2,522	10,560
	<u>171,832</u>	<u>166,117</u>

20. INTEREST-BEARING BANK BORROWINGS

	Group 2004 HK\$'000	2003 HK\$'000
Bank overdrafts, unsecured	<u>237</u>	<u>—</u>
Bank loans:		
Secured	44,998	114,425
Unsecured	<u>235,044</u>	<u>104,762</u>
	<u>280,042</u>	<u>219,187</u>
	<u>280,279</u>	<u>219,187</u>

Notes to the Financial Statements

31 December 2004

20. INTEREST-BEARING BANK BORROWINGS (continued)

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts repayable on demand	237	—
Bank loans repayable:		
Within one year	226,575	114,410
In the second year	14,004	15
In the third to fifth years, inclusive	39,463	104,762
	280,042	219,187
	280,279	219,187
Portion classified as current liabilities	(226,812)	(114,410)
Long term portion	53,467	104,777

21. BANKING FACILITIES

As at 31 December 2004, the Group's banking facilities were secured by pledged bank deposits of the Group of approximately HK\$7,948,000 (note 18), and supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

Subsequent to the balance sheet date, the pledge over the bank deposits was released.

Notes to the Financial Statements

31 December 2004

22. FINANCE LEASE PAYABLES

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

At 31 December 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	37,396	20,124	36,552	19,431
In the second year	30,244	20,252	28,664	18,962
In the third to fifth years, inclusive	14,419	13,694	13,343	13,039
Total minimum finance lease payments	82,059	54,070	78,559	51,432
Future finance charges	(3,500)	(2,638)		
Total net finance lease payables	78,559	51,432		
Portion classified as current liabilities	(36,552)	(19,431)		
Long term portion	42,007	32,001		

At 31 December 2004, the finance lease payables were supported by corporate guarantees executed by the Company and/or certain subsidiaries of the Company.

Notes to the Financial Statements

31 December 2004

23. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year were as follows:

Deferred tax assets

	Provision for doubtful debts	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	—	—
Deferred tax credited to the profit and loss account during the year (note 10)	76	—
At 31 December	76	—

Deferred tax liabilities

	Accelerated depreciation allowances	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	17	—
Deferred tax charged to the profit and loss account during the year (note 10)	6	17
At 31 December	23	17
Net deferred tax assets/(liabilities) at 31 December	53	(17)

There is no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

Notes to the Financial Statements

31 December 2004

24. SHARE CAPITAL

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 (2003: 1,000,000) ordinary shares of HK\$0.1 each	200,000	100
Issued and fully paid:		
640,000,000 ordinary shares of HK\$0.1 each (2003: Nil)	64,000	—

The following changes in the Company's authorised and issued share capital took place during the period from 26 November 2003 (date of incorporation) to 31 December 2004:

	Notes	Number of ordinary shares of HK\$0.1 each	Nominal value of ordinary shares HK\$'000
Authorised:			
Upon incorporation and as at 31 December 2003	(a)	1,000,000	100
Increase in authorised share capital	(b)	1,999,000,000	199,900
As at 31 December 2004		2,000,000,000	200,000
Issued:			
Upon incorporation		—	—
Allotted and issued nil paid	(c)	1,000,000	—
On acquisition of Joint Result			
– new issue of shares	(d)	1,000,000	100
– nil paid shares credited as fully paid	(d)	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(e)	478,000,000	—
Pro forma share capital as at 31 December 2003		480,000,000	200
Capitalisation of the share premium account as set out above	(e)	—	47,800
New issue of shares	(f)	160,000,000	16,000
As at 31 December 2004		640,000,000	64,000

Notes to the Financial Statements

31 December 2004

24. SHARE CAPITAL *(continued)*

Notes:

- (a) Upon incorporation of the Company, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each.
- (b) Pursuant to the resolutions passed on 24 August 2004, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of 1,999,000,000 additional shares of HK\$0.1 each.
- (c) On 17 February 2004, an aggregate of 1,000,000 shares of HK\$0.1 each were allotted and issued nil paid.
- (d) Pursuant to the same resolutions in (b) above passed on 24 August 2004 and the Group Reorganisation, 1,000,000 new shares of HK\$0.1 each in the Company were allotted and issued, credited as fully paid, and the existing 1,000,000 shares of HK\$0.1 each were credited as fully paid at par, in consideration of and in exchange for the acquisition of the entire issued share capital of Joint Result.
- (e) Pursuant to the resolutions passed on 25 August 2004, a total of 478,000,000 shares of HK\$0.1 each in the Company were allotted and issued as fully paid at par, by way of capitalisation of the sum of HK\$47,800,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (f) below.
- (f) In connection with the Company's initial public offering, 160,000,000 shares of HK\$0.1 each were issued at a price of HK\$1.26 per share for a total cash consideration, before expenses, of HK\$201,600,000. Dealings in these shares on the Stock Exchange commenced on 23 September 2004.

Notes to the Financial Statements

31 December 2004

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company’s shareholders, and any minority shareholder in the Company’s subsidiaries. The Scheme became effective on 25 August 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company’s shares; (ii) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

Notes to the Financial Statements

31 December 2004

25. SHARE OPTION SCHEME (continued)

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

	Number of share options						Exercise price	Price of Company's
Name or category of participant	At 1 January 2004	Granted during the year	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	of share options**	shares at grant date of options***
							HK\$	HK\$
Directors								
Tai Chin Chun	–	3,000,000	–	3,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Tai Chin Wen	–	2,000,000	–	2,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Cheung So Wan	–	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Wong Siu Yuk	–	1,000,000	–	1,000,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Subtotal	–	7,000,000	–	7,000,000				
Non-director employees								
In aggregate	–	18,908,000	(302,000)	18,606,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Others								
In aggregate	–	1,260,000	–	1,260,000	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Total	–	27,168,000	(302,000)	26,866,000				

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

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

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Notes to the Financial Statements

31 December 2004

25. SHARE OPTION SCHEME *(continued)*

At the balance sheet date, the Company had 26,866,000 share options outstanding under the Scheme, which represented approximately 4.2% of the Company's shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 26,866,000 additional ordinary shares of the Company and additional share capital of HK\$2,686,600 and share premium of HK\$31,701,880 (before issue expenses).

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The capital reserve of the Group represents (i) the premium arising from the issue of shares by Joint Result for settlement of the amounts due to directors, of HK\$93,378,000; and (ii) the excess of the nominal value of the share capitals of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements, over the nominal value of the 1,000,000 shares of HK\$0.1 each of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par.

In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against the accumulated losses of the respective subsidiary.

Notes to the Financial Statements

31 December 2004

26. RESERVES (continued)

(b) Company

	Share premium account HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Upon incorporation and at 1 January 2004	—	—	—	—
Arising on Group Reorganisation	—	402,007	—	402,007
Issue of shares for cash consideration	185,600	—	—	185,600
Share issue expenses	(15,371)	—	—	(15,371)
Capitalisation issue	(47,800)	—	—	(47,800)
Net profit during the year	—	—	11,538	11,538
Proposed final dividend	—	—	(10,240)	(10,240)
At 31 December 2004	122,429	402,007	1,298	525,734

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group has the following major non-cash transactions during the year:

- During the year, the Group Reorganisation involved the acquisition of the entire issued share capital of Joint Result by the issue of shares of the Company, further details of which are set out in notes 1 and 24 to the financial statements.
- During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$55,431,000 (2003: HK\$28,406,000).

Notes to the Financial Statements

31 December 2004

28. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for were as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bills discounted with recourse	106,374	62,425

As at 31 December 2004, the banking and other credit facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$429 million.

- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,706,000 as at 31 December 2004 (2003: HK\$1,633,000), as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	558	447
In the second to fifth years, inclusive	233	—
	791	447

Notes to the Financial Statements

31 December 2004

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	2004 HK\$'000	2003 HK\$'000
Contracted, but not provided for:		
Purchase of machinery	12,488	15,892
Construction in progress	23,205	19,786
	<u>35,693</u>	<u>35,678</u>
Authorised, but not contracted for:		
Purchase of machinery	61,000	—
	<u>96,693</u>	<u>35,678</u>

At 31 December 2004, the Group had a commitment in respect of a capital contribution to Panyu KH Textile of approximately US\$39,294,725 (approximately HK\$306,499,000), due on 29 November 2007 (note 15).

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

Notes to the Financial Statements

31 December 2004

31. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2004 HK\$'000	2003 HK\$'000
Sales of goods to Wing Hing Knitting (H.K.) Limited ("Wing Hing")	(i)	—	20,034
Fee income from knitting and dyeing services received from Wing Hing	(i)	—	8,371
Rental expenses on directors' quarters paid to Goldwille Investments Limited ("Goldwille"), a company controlled by Mr. Tai Chin Chun	(ii)	369	540
Rental expenses on office premises paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	(iii)	180	—

Notes:

- (i) The directors consider that these transactions were effected on prices and terms similar to those offered to/granted by other unrelated customers/suppliers of the Group. Wing Hing was disposed of by Mr. Tai Chin Chun and Madam Cheung So Wan, directors of the Company, to independent third parties during the year ended 31 December 2003 and ceased to be a related company of the Group accordingly. As a result, transactions with Wing Hing subsequent to its disposal by the directors are not disclosed above.
- (ii) The rental expense was charged at a fixed amount of HK\$45,000 per month in accordance with the terms specified in the rental agreement entered into in prior year. On 1 April 2004, the Group entered into a new tenancy agreement with Goldwille for the same properties at a monthly rental charge of HK\$26,000 for a term of one year, based on the prevailing market rentals.
- (iii) On 1 April 2004, the Group entered into a tenancy agreement with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of office premises at a monthly rental charge of HK\$20,000 for a term of one year, based on the prevailing market rentals.

Notes to the Financial Statements

31 December 2004

31. RELATED PARTY TRANSACTIONS *(continued)*

- (b) During the year ended 31 December 2003, other loans advanced by a director of a subsidiary, who is also the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, which amounted to HK\$37,166,000 as at 31 December 2002, were fully settled.
- (c) The Group's banking and other credit facilities were secured by charges over assets owned and guarantees executed by certain of the Company's directors and/or related companies, which were released and replaced by corporate guarantees executed by the Company and/or other members of the Group during the year ended 31 December 2004.
- (d) Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of certain buildings and structures of the Group as detailed in note 14 to the financial statements.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2005.