1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out below and the 2004 comparatives have been restated, as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 26	Accounting and Reporting by Retirement Benefit Plans
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The adoption of new or revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37 and HKAS Int-27 did not result in substantial changes to the Group's accounting policies. In summary:

— HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37 and HKAS Int-27 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures as detailed in notes 19 and 30.

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The major effects on adoption of the other HKFRSs are summarised as follows:

Owner occupied leasehold interest in land

In previous years, owner-occupied leasehold land located outside Hong Kong was included in fixed assets as land use rights and measured using fair value which was determined by the directors based on independent valuation performed once every three years. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land use rights are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The unamortised prepaid lease payments for land use rights have been separately shown in the consolidated balance sheet. The adoption of HKAS 17 has an impact on the reclassification of land use rights from fixed assets to prepaid lease payments amounting to HK$4,892,000 under non-current assets and HK$114,000 under current assets as at 31 December 2004. The amortisation charges on these prepaid lease payments were HK$114,000 and HK$117,000 for the years ended 31 December 2004 and 2005 respectively. The carrying value of prepaid lease payments at 31 December 2005 was HK$5,031,000 after including an exchange gain on translation of HK$142,000. This carrying value was included as to HK$4,914,000 under non-current assets and HK$117,000 under current assets. The adoption of HKAS 17 resulted in an increase in accumulated losses of HK$673,000 and a decrease in properties revaluation reserves of HK$131,000 at 31 December 2003. The impact on basic earnings per share for the years ended 31 December 2004 and 2005 from the adoption of HKAS 17 was insignificant.

Financial instruments (HKAS 32 — Financial Instruments: Disclosure and Presentation and HKAS39 — Financial Instruments: Recognition and Measurement)

In the current year, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments for which fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method.

The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

The Group has not early adopted the following new standards or interpretations that have been issued but are net yet effective, to these financial statements. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operation and financial position.

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early adopted the following new or revised standards or interpretations that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) — Int 4	Determining Whether an Arrangement Contains a Lease

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (Collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention except that leasehold properties outside Hong Kong are stated at fair value.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

A subsidiary is a company in which the Group directly control more than one half of the voting power, or has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets

Properties represent interests in buildings outside Hong Kong are stated at fair value which is determined by the directors based on independent valuation performed once every three years. The valuations are on an open market basis related to individual properties. In the intervening years, the directors review the carrying value of the other properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other fixed assets, comprising leasehold land and buildings in Hong Kong, leasehold improvements, plant and machinery, furniture, fixtures and office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use.

(d) Prepaid lease payments

Prepaid lease payments on land use rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided using the straight-line basis over the period of the lease term of land use right.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss account, unless the relevant asset is carried at a revalued amount, in which cash the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Inventories

Inventories comprise raw materials (including spare parts), work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost of raw materials other than spare parts is calculated on the first-in, first-out basis by reference to invoiced value whereas cost of spare parts is calculated on the weighted average basis. Cost of work in progress and finished goods, calculated on the first-in, first-out basis, comprise materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the balance sheet date or to management estimates based on prevailing market conditions.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments

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

(i) Trade and other receivables

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

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulate gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(iv) Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(v) Trade and other payables

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

(i) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for those borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales, which are capitalised as part of the cost of that asset. During the year, all borrowing costs have been expensed.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) or other assets and liabilities in a transactions that affects neither the taxable profit nor the accounting profit. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(l) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are expressed in Hong Kong Dollars which is the functional currency of the company, and the presentation currency for the consolidated statements.

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Translation of foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in Hong Kong Dollars using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

(m) Employees' benefits

(i) 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 profit and loss account 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.

(ii) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Related parties

Two 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(o) Revenue recognition

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

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.

(p) Segment reporting

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, fixed assets, inventories, receivables and operating cash, and mainly exclude other investment and certain fixed assets. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to fixed assets *(note 12)*.

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

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of fabric processing, sale of fabrics, and garment manufacturing and trading. Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Fabric processing	**63,487**	78,910
Sale of fabrics	**62,787**	84,997
Sale of garments and accessories	**118,425**	45,194
	244,699	209,101
Other revenues		
Interest income	**347**	134
Scrap sales	**261**	—
Others	**201**	194
Gain on disposals of fixed assets	**124**	—
Management fee from a related company	**110**	—
	1,043	328
Total revenues	**245,742**	209,429

Primary report format — business segments

The Group is organised into three main business segments:

— Fabric processing — provision of fabric processing services

— Sale of fabrics — manufacture, wholesale and distribution of fabrics

— Sale of garments and accessories — manufacture, wholesale and distribution of garments and 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, sale of fabrics and garments

— Other countries (principally Bangladesh, Macau and Indonesia) — sale of garments and accessories

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary report format — business segments

	For the year ended 31 December 2005			
	Fabric processing *HK$'000*	Sale of fabrics *HK$'000*	Sale of garments and accessories *HK$'000*	Total *HK$'000*
Turnover	63,487	62,787	118,425	244,699
Segment results	(24,649)	(7,354)	8,932	(23,071)
Unallocated revenue				—
Unallocated costs				(3,192)
Operating loss				(26,263)
Finance costs				(3,697)
Loss before taxation				(29,960)
Taxation charge				(1,875)
Loss for the year				(31,835)
Segment assets	86,790	26,983	7,076	120,849
Unallocated assets				35,540
Total assets				156,389
Segment liabilities	20,322	2,997	6,151	29,470
Unallocated liabilities				57,588
Total liabilities				87,058
Capital expenditure	1,140	143	71	1,354
Depreciation and amortisation	10,037	1,562	96	11,695

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary report format — business segments

	For the year ended 31 December 2004			
	Fabric processing *HK$'000*	Sale of fabrics *HK$'000*	Sale of garments and accessories *HK$'000*	Total *HK$'000*
Turnover	78,910	84,997	45,194	209,101
Segment results	(5,172)	664	1,461	(3,047)
Unallocated revenue				—
Unallocated costs				(4,289)
Operating loss				(7,336)
Finance costs				(3,885)
Loss before taxation				(11,221)
Taxation credit				575
Loss for the year				(10,646)
Segment assets	105,533	27,264	5,737	138,534
Unallocated assets				47,249
Total assets				185,783
Segment liabilities	27,815	2,886	4,576	35,277
Unallocated liabilities				58,298
Total liabilities				93,575
Capital expenditure	1,745	146	51	1,942
Depreciation and amortisation	10,375	1,443	104	11,922

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary report format — geographical segments

	For the year ended 31 December 2005			
	Turnover *HK$'000*	**Segment results** *HK$'000*	**Segment assets** *HK$'000*	**Capital expenditure** *HK$'000*
Hong Kong	**91,961**	**(14,015)**	**48,422**	**100**
United States	**114,647**	**8,485**	**6,410**	**—**
The PRC	**24,678**	**(17,238)**	**101,137**	**1,254**
Other countries	**13,413**	**(303)**	**420**	**—**
	244,699	**(23,071)**	**156,389**	**1,354**
Unallocated revenue		**—**		
Unallocated costs		**(3,192)**		
Operating loss		**(26,263)**		
Total assets			**156,389**	

	For the year ended 31 December 2004			
	Turnover *HK$'000*	Segment results *HK$'000*	Segment assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong	126,526	(4,168)	62,578	79
United States	43,971	640	5,458	—
The PRC	21,929	(73)	116,680	1,863
Other countries	16,675	554	1,067	—
	209,101	(3,047)	185,783	1,942
Unallocated revenue		—		
Unallocated costs		(4,289)		
Operating loss		(7,336)		
Total assets			185,783	

4. OTHER OPERATING EXPENSES

	2005	2004
	HK$'000	HK$'000
Exchange losses	7,573	—
Bad debts written off and provision	1,992	999
Loss on write off and disposal of fixed assets	9	227
Others	10	261
	9,584	1,487

5. OPERATING LOSS

Operating loss is stated after charging the following:

	2005	2004
	HK$'000	HK$'000
Charging:		
Auditors' remuneration	509	526
Cost of inventories sold	153,691	96,461
Depreciation	11,578	11,808
Amortisation of prepaid lease payments	117	114
Loss on write off and disposal of fixed assets	9	227
Operating lease rentals in respect of land and buildings	969	1,247
Staff costs (excluding directors' remuneration)		
Salaries and allowances	18,032	17,352
Retirement benefit costs (excluding contributions to directors) *(note 10)*	302	283
and after crediting:		
Write back of provision for slow moving and obsolete inventories	157	84

6. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	2,421	2,445
Bank charges	981	1,194
Interest on finance lease	33	33
Interest on other loans	249	108
Others	13	105
	3,697	3,885

7. TAXATION

(a) The amount of taxation (charge)/credit to the consolidated profit and loss account represents:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong profits tax	**(845)**	(11)
PRC taxation	**(1,030)**	586
	(1,875)	575

(i) Provision for Hong Kong profits tax is calculated at 17.5% 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) There was no material unprovided deferred taxation for the year.

(b) The taxation charge/(credit) for the year can be reconciled to the loss as stated in the financial statements as follows:—

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(29,960)**	(11,221)
Taxation credit calculated at Hong Kong profits tax of 17.5%	**(5,243)**	(1,964)
Tax effect of expenses not deductible for taxation purpose	**523**	426
Tax effect of non-taxable items	**(4,832)**	(151)
Utilisation of previously unrecognised tax losses	**(4)**	(997)
Deferred tax assets not recognised	**10,224**	2,735
Effect of difference tax rates of subsidiaries operating in other jurisdictions	**362**	468
Under/(over) provision in prior year	**845**	(1,092)
Taxation charge/(credit) for the year	**1,875**	(575)

8. LOSS FOR THE YEAR

Loss attributable to shareholders dealt with in the accounts of the Company amounted to HK$24,911,000 (2004: loss of HK28,851,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK$31,832,000 (2004: HK$11,596,000) and on the weighted average number of 320,349,468 (2004: 320,349,468) ordinary shares in issue during the year.

Diluted loss per share is not presented as there are no (2004: Nil) diluted potential shares.

10. 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 is 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 makes monthly contribution at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to HK$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.

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

The aggregate amounts of remuneration payable to directors of the Company during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Fees	**180**	180
Other emoluments:		
Salaries and allowances	**1,650**	2,725
Contributions to pension schemes	**78**	89
	1,908	2,994

Directors' fees of HK$180,000 (2004: HK$180,000) were payable to independent non-executive directors during the year.

11. DIRECTORS' AND SENIOR MANAGEMENT's REMUNERATION *(Continued)*

(a) Directors' remuneration *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of individuals	
	2005	2004
HK$Nil — HK$1,000,000	**7**	5
HK$1,000,001 — HK$1,500,000	—	2
	7	7

(b) Directors' and senior management's remuneration

Details of emoluments of individual directors are set out as below:

	2005	2004
	HK$'000	*HK$'000*
Executive directors:		
Yiu Ching On	**756**	1,111
Yiu Kwok Ming, Tommy	**972**	1,482
Wong Kai Chun	—	—
Yiu Kwok Yung (resigned on 1 January 2005)	—	221
Independent non-executive directors:		
Lo Wai Kon	**60**	60
Wong Shiu Hoi	**60**	60
Cheung Wing Yiu	**60**	60
	1,908	2,994

(c) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group for the year include two (2004: two) directors whose remuneration are reflected in the analysis presented above. The remuneration payable to the remaining three (2004: three) highest paid individuals during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and allowances	**1,684**	1,689
Discretionary bonuses	**89**	57
Contributions to pension schemes	**36**	31
Severance payment	—	40
	1,809	1,817

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(Continued)*

(c) Five highest paid individuals *(Continued)*

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

	Number of individuals	
	2005	2004
HK$Nil — HK$1,000,000	**3**	3

During the year, no amount (2004: HK$40,000) has been paid by the Group to any of the five highest paid individuals as compensation for loss of office. No other payments have been paid the Group to the directors or the five highest paid individuals as an inducement or upon joining the Group.

12. FIXED ASSETS

	Group								
	Construction in progress	Land use rights outside Hong Kong	Leasehold land and buildings outside Hong Kong	Leasehold land and buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:									
At 31 December 2003									
— as previously reported	1,113	6,045	31,892	454	9,508	116,095	6,736	6,209	178,052
— reclassified to prepaid lease payments *(note 1)*	—	(6,045)	—	—	—	—	—	—	(6,045)
As restated	1,113	—	31,892	454	9,580	116,095	6,736	6,209	172,007
Additions, at cost	1,803	—	—	—	—	—	79	60	1,942
Disposals	—	—	—	—	(324)	(103)	(789)	—	(1,216)
At 31 December 2004	2,916	—	31,892	454	9,184	115,992	6,026	6,269	172,733
At 31 December 2004									
— as previously reported	2,916	6,045	31,892	454	9,184	115,992	6,026	6,269	178,778
— reclassified to prepaid lease payments *(note 1)*	—	(6,045)	—	—	—	—	—	—	(6,045)
As restated	2,916	—	31,892	454	9,184	115,992	6,026	6,269	172,733
Transfer to plant and machinery	(2,365)	—	—	—	—	2,365	—	—	—
Additions	748	—	—	—	—	506	100	—	1,354
Disposals/written off	—	—	—	—	—	—	(22)	(2,084)	(2,106)
Revaluation	—	—	(4,340)	—	—	—	—	—	(4,340)
Exchange adjustment	62	—	—	—	(531)	(5,506)	(287)	(219)	(6,481)
At 31 December 2005	**1,361**	**—**	**27,552**	**454**	**8,653**	**113,357**	**5,817**	**3,966**	**161,160**

12. FIXED ASSETS *(Continued)*

	Group								
	Construction in progress	Land use rights outside Hong Kong	Leasehold land and buildings outside Hong Kong	Leasehold land and buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation:									
At 31 December 2003									
— as previously reported	—	121	1,673	106	2,546	73,281	5,455	4,853	88,035
— reclassified to prepaid lease payments *(note 1)*	—	(121)	—	—	—	—	—	—	(121)
As restated	—	—	1,673	106	2,546	73,281	5,455	4,853	87,914
Charge for the year	—	—	1,673	9	384	8,730	409	603	11,808
Disposals/written off	—	—	—	—	(78)	(41)	(476)	—	(595)
At 31 December 2004	—	—	3,346	115	2,852	81,970	5,388	5,456	99,127
At 31 December 2004									
— as previously reported	—	242	3,346	115	2,852	81,970	5,388	5,456	99,369
— reclassified to prepaid lease payments *(note 1)*	—	(242)	—	—	—	—	—	—	(242)
As restated	—	—	3,346	115	2,852	81,970	5,388	5,456	99,127
Charge for the year	—	—	1,708	9	355	8,729	154	623	11,578
Disposals	—	—	—	—	—	—	(13)	(2,082)	(2,095)
Revaluation	—	—	(5,018)	—	—	—	—	—	(5,018)
Exchange adjustment	—	—	(36)	—	(340)	(6,437)	(287)	(228)	(7,328)
At 31 December 2005	—	—	—	124	2,867	84,262	5,242	3,769	96,264
Net book value:									
At 31 December 2005	1,361	—	27,552	330	5,786	29,095	575	197	64,896
At 31 December 2004, as restated	2,916	—	28,546	339	6,332	34,022	638	813	73,606

The analysis of the cost or valuation at 31 December 2005 of the above assets was as follows:

	Construction in progress	Land use rights outside Hong Kong	Leasehold land and buildings outside Hong Kong	Leasehold land and buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
At cost	1,361	—	—	454	8,653	113,357	5,817	3,966	133,608
At 2005 valuation	—	—	27,552	—	—	—	—	—	27,552
	1,361	—	27,552	454	8,653	113,357	5,817	3,966	161,160

The analysis of the cost or valuation at 31 December 2004 of the above assets was as follows:

	Construction in progress	Land use rights outside Hong Kong	Leasehold land and buildings outside Hong Kong	Leasehold land and buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
At cost	2,916	—	—	454	9,184	115,992	6,026	6,269	140,841
At 2002 valuation	—	—	31,892	—	—	—	—	—	31,892
As restated	2,916	—	31,892	454	9,184	115,992	6,026	6,269	172,733

12. FIXED ASSETS *(Continued)*

The balances in respect of land use rights outside Hong Kong as at 31 December 2003 and 2004 as previously reported under fixed assets are now disclosed separately as "Prepaid lease payments" under note 13.

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

(b) Leasehold land and buildings outside Hong Kong were revalued at 31 December 2002 and at 31 December 2005 on the basis of open market value in existing use carried out by RHL Appraisal Limited, an independent firm of chartered surveyors.

(c) The carrying amount of the leasehold land and buildings outside Hong Kong would have amounted to HK$12,633,000 (2004: HK$14,005,000) had they been stated at historical cost less accumulated depreciation.

(d) At 31 December 2005, the net book value of fixed assets pledged as securities for the Group's bank loans amounted to HK$31,582,000 (2004: HK$33,051,000).

(e) At 31 December 2005, the net book value of fixed assets held by the Group under a finance lease amounted to HK$102,000 (2004: HK$407,000).

13. 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 follow:

	Group
	HK$'000
Cost:	
At 31 December 2003	
— As previously reported	—
— Reclassified from fixed assets *(notes 1 & 12)*	6,045
As restated, and at 31 December 2004	6,045
Exchange adjustment	172
At 31 December 2005	6,217
Accumulated amortisation:	
At 31 December 2003	
— As previously reported	—
— Reclassified from fixed assets *(notes 1 & 12)*	925
As restated	925
Charge for the year	114
At 31 December 2004	1,039
Charge for the year	117
Exchange adjustment	30
At 31 December 2005	1,186
Net book value:	
At 31 December 2005	5,031
At 31 December 2004, as restated	5,006

13. PREPAID LEASE PAYMENTS *(Continued)*

	Group	
	2005	2004
	HK$'000	*HK$'000*
Prepaid lease payments classified as:		
Current assets	**117**	114
Non-current assets	**4,914**	4,892
Net book value as at 31 December	**5,031**	5,006

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

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**126,627**	126,627
Less: Provision	**(84,000)**	(60,000)
	42,627	66,627
Amounts due from subsidiaries	**54,086**	55,190
Less: Provisions	**(28,000)**	(28,000)
	26,086	27,190
	68,713	93,817

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

At 31 December 2005, 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 HK$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 HK$1 each 2 ordinary shares of HK$1 each	100%
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	10,000 ordinary shares of HK$1 each	65%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of HK$1 each	100%
Rich Tide (Ching Hing) International Ltd.	Hong Kong	Dormant	10,000 ordinary shares of HK$1 each	51%
Yiutung Fashion Co. Ltd.	Hong Kong	Dormant	15,001 ordinary shares of HK$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 in the United States	1,000,001 ordinary shares of HK$1 each	56%
South Field (Asia) International Limited	Hong Kong	Dormant	100,000 ordinary shares of HK$1 each	46%

14. 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)*				
Gold Base International Limited	The British Virgin Islands	Investment holding	1 ordinary shares of US$1 each	56%
Gold Base Inc.	United States	Dormant	10,000 ordinary shares of US$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 in Hong Kong	10,000 ordinary shares of HK$1 each	65%
Ching Hing Weaving (International) Limited (formerly Ching Hing (International) Limited)	Hong Kong	Dormant	2 ordinary shares of HK$1 each	100%
On Hing Weaving Factory Limited	Hong Kong	Dormant	10,000 ordinary shares of HK$1 each	100%
中山安興紡織有限公司 (Zhongzhan On Hing Weaving Limited)	The PRC	Dormant	Registered capital of HK$5,000,000 which had not yet been paid up at 31 December 2005	100%

15. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**10,117**	13,053
Work in progress	**1,875**	2,446
Finished goods	**3,463**	5,777
	15,455	21,276

At 31 December 2005, obsolete inventories of HK$2,372,000 (2004: HK$2,529,000) have been fully provided for. Other inventories amounting to HK$1,242,000 (2004: HK$1,358,000) were stated at net realisable value.

16. TRADE RECEIVABLES

Details of the aging analysis of trade receivables were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**20,903**	34,097
31-60 days	**9,241**	3,537
61-90 days	**2,354**	4,316
91-120 days	**1,503**	1,059
Over 120 days	**6,910**	4,762
	40,911	47,771
Less: Provision on doubtful debts	**(4,691)**	(3,608)
	36,220	44,163

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.

17. DEPOSITS WITH BANKS, BANK BALANCES AND CASH — GROUP

At 31 December 2005, HK$7,500,000 (2004: HK$10,800,000) of the Group's bank balances and cash 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 2005, time deposits of HK$17,371,000 (2004: HK$23,797,000) were pledged to banks to secure banking facilities of the Group.

18. TRADE PAYABLES

Details of the aging analysis of trade payables were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**9,254**	14,651
31-60 days	**7,722**	7,572
61-90 days	**4,892**	5,377
Over 90 days	**7,602**	7,678
	29,470	35,278

19. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest bearing at 5% to 7.5% p.a. (2004: 6% p.a.) and have no fixed term of repayments.

20. SHARE CAPITAL

	Authorised ordinary shares of HK$0.05 each	
	No. of shares	*HK$'000*
At 31 December 2004 and 2005	1,000,000,000	50,000

	Issued and fully paid ordinary shares of HK$0.05 each	
	No. of shares	*HK$'000*
At 31 December 2004 and 2005	320,349,468	16,017

21. SHARE OPTIONS

On 27 May 2002, the Company adopted a new share option scheme to replace the old one adopted on 29 December 1999. There were no significant changes on the aggregate of 23,800,000 share options granted by the Company on 13 June 2001 to certain employees including executive directors of the Company. The holders of the share options were entitled to subscribe for shares of HK$0.05 each at an exercise price of HK$0.36 per share. The options were exercisable at any time during the period from 13 June 2001 to 12 December 2004.

At 31 December 2004, all the remaining 19,900,000 share options had lapsed. No new options had been granted since then.

22. RESERVES

(a) Group

Statutory reserves represent the general reserve and enterprise expansion reserve fund set up by a PRC subsidiary by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. Pursuant to the "Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment", if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase capital and the enterprise expansion reserve fund can be used to increase capital.

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 The Stock Exchange of Hong Kong Limited.

(b) Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2003	51,574	123,754	(69,066)	106,262
Loss for the year *(note 8)*	—	—	(28,851)	(28,851)
At 31 December 2004	51,574	123,754	(97,917)	77,411
Loss for the year *(note 8)*	—	—	(24,911)	(24,911)
At 31 December 2005	**51,574**	**123,754**	**(122,828)**	**52,500**

22. RESERVES *(Continued)*

(b) Company *(Continued)*

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 accounts.

23. LONG-TERM LIABILITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bank loans wholly repayable within five years, secured *(note 24)*	**17,544**	14,450
	17,544	14,450
Current portion repayable within one year	**(17,544)**	(289)
	—	14,161

At 31 December 2005, the Group's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**39,847**	31,523
In the second to fifth years inclusive	**—**	14,161
	39,847	45,684

24. BANKING FACILITIES

At 31 December 2005, the Group's credit facilities amounting to HK$104,609,000 (2004: HK$98,142,000) granted by banks and a credit company were secured by the following:

(a) legal charges over the Group's properties *(note 12(e))* and prepaid lease payments on land use rights *(note 13)*;

24. BANKING FACILITIES *(Continued)*

(b) guarantees given by the Company and the minority shareholders of subsidiaries for HK$102,000,000 (2004: HK$124,000,000) and HK44,200,000 (2004: HK$64,200,000) respectively;

(c) charges over bank deposits of the Group (note 17); and

(d) personal guarantees of HK$10,601,000 (2004: HK$10,280,000) are given by one director and one ex-director of the Company.

25. OBLIGATION UNDER A FINANCE LEASE

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**230**	251	**200**	218
In the second to fifth years inclusive	**—**	230	**—**	200
	230	481	**200**	418
Less: Future finance charges	**30**	63		
Present value of lease obligation	**200**	418		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**200**	218
Amount due for settlement after 12 months			**—**	200

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3.5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

26. DEFERRED TAXATION

At 31 December 2005, the Group has unused tax losses of HK$106,745,000 (2004: HK$94,187,000) 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash (used in)/generated from operating activities

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(29,960)**	(11,221)
Adjustments for:		
Interest income	**(347)**	(134)
Loss on disposal of fixed assets	**9**	227
Depreciation charges	**11,578**	11,808
Amortisation of prepaid lease payments	**117**	114
Gain on disposal of fixed assets	**(124)**	—
Interest expenses	**2,670**	2,553
Finance lease charges	**33**	33
Loss from deemed disposal of a subsidiary	**—**	249
Revaluation on leasehold land and buildings	**(42)**	—
Exchange differences	**7,518**	—
Operating (loss)/profit before working capital changes	**(8,548)**	3,629
Decrease in inventories	**6,135**	1,966
Decrease in trade receivables, prepayments, deposits and other receivables	**4,806**	16,079
Decrease/(increase) in VAT and other tax recoverable	**4,964**	(1,390)
Decrease in trade payables, other payables and accrued charges	**(4,034)**	(6,116)
Increase in amount due to a director	**—**	3,825
Net cash generated from operations	**3,323**	17,993
PRC taxation paid	**(987)**	—
Tax refunded	**56**	—
Interest paid	**(2,670)**	(2,553)
Finance lease charges paid	**(33)**	(33)
Net cash (used in)/generated from operating activities	**(311)**	15,407

28. CONTINGENT LIABILITIES

At 31 December 2005, the Company had given guarantees of approximately HK$102,000,000 (2004: HK$124,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries.

Counter-indemnities in favour of the Company at an aggregate amount of HK$20,200,000 (2004: HK$10,800,000) were given by minority shareholders of subsidiaries in respect of certain guarantees given by the Company for the Group's banking facilities.

29. COMMITMENTS

(a) Capital commitments

At 31 December 2005, the Group had the following capital commitments:

	2005	2004
	HK$'000	*HK$'000*
Construction in progress	**217**	349
	217	349

(b) Operating lease commitments

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**847**	951
In the second to fifth years inclusive	**99**	700
	946	1,651

30. RELATED PARTY TRANSACTIONS

(i) In addition to notes 19 to the accounts, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2005	2004
	HK$'000	*HK$'000*
Rental paid to a related company *(note (i))*	840	840
Interest received from a related company *(note (ii))*	—	(5)
Interest paid to directors	249	102
Sales to a related company *(note (iii))*	674	—
Management fee from a related company *(note (iii))*	110	—

Notes:

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

(ii) Ms. Wong Kai Chun, Mr. Yiu Ching On, Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung (resigned on 1 January 2005), executive directors of the Company, beneficially own the related company.

(iii) Mr. Yiu Kwok Yung owns 70% shareholding of the company.

(ii) Members of key management during the year comprised only of the three executive directors whose remuneration is set out in note 11 to the accounts.

31. COMPARATIVE FIGURES

As further explained in note 1, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative accounts have been reclassified or restated to conform with the current year's presentation and accounting treatment.

32. FINANCIAL INSTRUMENTS

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree polices for managing each of these risks and they are summarised as follows:

(i) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. No other financial assets carry a significant expose to credit risk.

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, other liquid assets and the ability to close market positions. The Group maintains sufficient bank balances and cash at the balance sheet date.

(iv) Fair value and cash flow interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk from its short-term bank borrowings is minimal.

(b) Fair value estimation

The fair values of bank balances and cash, trade and other receivables, trade and other payables are not materially different from their carrying values.

The carrying values of short term interest-bearing bank borrowings are estimated to approximate their fair values based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.