1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9th June, 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its holding company is Powerlink Industries Limited, a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are set out in the section headed "Corporate Information" of the annual report.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 40.

The consolidated financial statements are presented in Hong Kong Dollars, which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new IFRS") issued by International Accounting Standards Board, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new IFRSs had no material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented.

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRS 8	Operating Segments[2]
IFRIC 7	Applying the Restatement Approach under IAS29 Financial Reporting in Hyperinflationary Economies[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of Embedded Derivatives[5]
IFRIC 10	Interim Financial Reporting and Impairment[6]
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions[7]
IFRIC 12	Service Concession Arrangements[8]

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

The directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

A discount on acquisition arising on an acquisition represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

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

Sales of goods are recognised when goods are shipped from the Group's warehouse or the relevant port, as appropriate, and the risks and rewards of ownership have passed.

Service income is recognised when services are provided.

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

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

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

Leasing

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges 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.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Retirement benefits costs

Payments to state-managed retirement benefit scheme and Mandatory Provident Fund Scheme are charged as expenses when employees have rendered the service entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Intangible assets - club debentures

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable values represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For intangible assets with indefinite useful lives, they are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each of the category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

Available-for-sale financial assets

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, other receivables, deposits, amounts due from related companies and pledged bank deposits, fixed bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instrument are set out below.

Financial liabilities

Financial liabilities include trade and other payables, bills payable, amount due to a director, amount due to a related party, bank borrowings and obligations under finance lease which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instrument

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, bill receivables, other receivables, deposits, amounts due from related companies, trade and other payables, bills payables, amount due to a related company, obligations under finance leases and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31st December, 2006, Group had a concentration of credit risk in its five largest customers which compromised approximately HK$26,758,000 of the Group's trade receivables.

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade receivables, trade payables, bank balances and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to fixed-rate borrowings which have regular repricing dates (see Note 29). It is the Group's policy to have regular repricing dates so as to minimize the fair value interest rate risk.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold excluding of value added taxes, less returns and allowances by the Group to outside customers during the year.

An analysis of the Group's revenue for the year is as follows:

	2006 HK$'000	2005 HK$'000
Production and sale of cotton yarn	65,442	49,716
Production and sale of knitted sweaters	450,538	356,627
Production and sale of dyed yarns	354,340	393,663
Provision of dyeing services	36,105	31,392
Trading of cotton and yarns	19,464	69,084
	925,889	900,482

6. SEGMENT INFORMATION

Business segments

For management purpose, the Group is currently organised into the following five operating divisions. These divisions are the basis on which the Group reports its primary segment information:

An analysis of the Group's revenue and contribution to operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December, 2006

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Elimination HK$'000	Total HK$'000
REVENUE							
External	65,442	450,538	354,340	36,105	19,464	—	925,889
Inter-segment sales	74,802	—	346,544	10,141	168,470	(599,957)	—
	140,244	450,538	700,884	46,246	187,934	(599,957)	925,889
RESULTS							
Segment results	8,442	34,157	31,241	7,034	(7,692)	—	73,182
Discount on acquisition of subsidiaries							23,422
Interest income							2,527
Rental Income							1,127
Unallocated corporate expense							(8,378)
Finance costs							(18,889)
Profit before taxation							72,991
Taxation							(6,801)
Profit for the year							66,190

Inter segment sales were charged at cost plus margin basis.

As at 31st December, 2006

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Elimination HK$'000	Total HK$'000
ASSETS							
Segment assets	126,893	368,617	309,672	25,930	47,951		879,063
Unallocated corporate assets							103,878
CONSOLIDATED TOTAL ASSETS							982,941
LIABILITIES							
Segment liabilities	18,144	51,291	61,128	4,121	12,989		147,673
Unallocated corporate liabilities							310,266
CONSOLIDATED TOTAL LIABILITIES							457,939

6. SEGMENT INFORMATION - continued

For the year ended 31st December, 2006

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Unallocated HK$'000	Total HK$'000
OTHER INFORMATION:							
Capital expenditure	7,356	135,312	3,537	192	344	—	146,741
Allowance for bad and doubtful debts	241	—	2,915	282	565	—	4,003
Depreciation of property, plant and equipment	6,516	7,688	16,261	1,577	764	—	32,806
Depreciation of investment properties	—	—	—	—	—	198	198
Amortisation of prepaid lease payments	220	191	562	83	—	—	1,056
Loss (gain) on disposal of property, plant and equipment	358	—	(234)	—	—	—	124
Gain on disposal of investment properties	—	—	—	—	—	835	835

For the year ended 31st December, 2005

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Elimination HK$'000	Total HK$'000
REVENUE							
External	49,716	356,627	393,663	31,392	69,084	—	900,482
Inter - segment sales	63,344	167,529	364,839	2,471	123,508	(721,691)	—
	113,060	524,156	758,502	33,863	192,592	(721,691)	900,482
RESULTS							
Segment results	3,931	46,186	57,891	5,014	(3,173)	—	109,849
Interest income							1,926
Rental income							1,011
Unallocated corporate expense							(6,389)
Finance costs							(23,051)
Profit before taxation							83,346
Taxation							(7,929)
Profit for the year							75,417

Inter segment sales were charged at cost plus margin basis.

6. SEGMENT INFORMATION - continued

As at 31st December, 2005

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Total HK$'000
ASSETS						
Segment assets	117,971	184,575	315,673	24,207	57,775	700,201
Unallocated corporate assets						140,457
CONSOLIDATED TOTAL ASSETS						840,658
LIABILITIES						
Segment liabilities	12,895	27,249	51,497	3,109	9,873	104,623
Unallocated corporate liabilities						274,986
CONSOLIDATED TOTAL LIABILITIES						379,609

For the year ended 31st December, 2005

	Production and sale of cotton yarn HK$'000	Production and sale of knitted sweaters HK$'000	Production and sale of dyed yarns HK$'000	Provision of dyeing services HK$'000	Trading of cotton and yarns HK$'000	Unallocated HK$'000	Total HK$'000
OTHER INFORMATION:							
Capital expenditure	5,372	4,942	6,237	416	130	—	17,097
Allowance for bad and doubtful debts	—	—	1,513	—	—	—	1,513
Depreciation of property, plant and equipment	6,288	6,385	17,356	1,536	944	—	32,509
Depreciation of investment properties	—	—	—	—	—	215	215
Amortisation of prepaid lease payments	192	136	319	282	—	—	929
Loss on disposal of property, plant and equipment	—	—	15	—	—	—	15

Geographical segments

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods.

	Turnover by geographical market 2006 HK$'000	2005 HK$'000
PRC	277,671	209,781
Hong Kong	192,824	214,403
Other Asian countries	19,025	131,223
Europe	404,966	319,476
North America	31,403	25,599
	925,889	900,482

6. SEGMENT INFORMATION - continued

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets	
	2006 HK$'000	2005 HK$'000
PRC	467,254	418,337
Hong Kong	260,631	281,025
The Kingdom of Cambodia	150,762	—
Macau	416	839
	879,063	700,201

	Additions to property, plant and equipment	
	2006 HK$'000	2005 HK$'000
PRC	22,328	16,479
Hong Kong	1,776	600
The Kingdom of Cambodia	122,634	—
Macau	3	18
	146,741	17,097

7. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	18,256	19,231
Bank borrowings wholly repayable over five years	193	139
Finance lease	440	581
Imputed interest expense on amount due to a shareholder	—	3,100
	18,889	23,051

8. TAXATION

	2006 HK$'000	2005 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
- Current year	3,334	9,275
Taxation in PRC	380	290
Deferred taxation (note 20)	3,087	(1,636)
	6,801	7,929

Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profits for the year.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from the PRC enterprise income tax for the following three years. The first profit-making year of these PRC subsidiaries is the year of 2002 to 2006. Accordingly, the tax relief period of these PRC subsidiaries will expire in 2007 to 2011.

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Applicable tax rate *(Hong Kong Statutory tax rate)*	17.5%	17.5%
Profit before taxation	72,991	83,346
Taxation at the applicable tax rate	12,773	14,586
Effect of tax exemption granted to PRC subsidiaries	(6,582)	(6,863)
Tax effect of income not taxable in determining taxable profit	(4,618)	(726)
Tax effect of expenses not deductible in determining taxable profit	845	707
Tax effect of unrecognised tax losses	2,492	53
Utilisation of tax losses not previously recognised	(112)	—
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	86	172
Tax effect of adjustment to tax base in calculation of deferred taxation	1,917	—
Taxation charge for the year	6,801	7,929

9. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 10)	6,412	4,852
Other staff costs	86,165	66,409
Retirement benefits scheme contributions, excluding directors	2,812	2,120
Total staff costs	95,389	73,381
Allowance for bad and doubtful debts	4,003	1,513
Amortisation of prepaid lease payments	1,056	929
Auditors' remuneration	2,913	2,253
Cost of inventories expensed	683,196	643,111
Depreciation of property, plant and equipment	32,806	32,509
Depreciation of investment properties	198	215
Impairment loss recognised in respect of available for sale investments included in administrative expenses	1,000	—
Exchange loss	777	1,501
Loss on disposal/write off of property, plant and equipment	124	15
and after crediting:		
Interest income	2,527	1,926
Gain on disposal of investment properties	835	—
Gross rental income from investment properties	1,127	1,011
Less: direct operating expenses from investment properties that generated rental income during the year	(274)	(299)
	853	712

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of 9 (2005: 9) directors were as follows:

For the year ended 31st December, 2006

	Dr. Sung Chung Kwun HK$'000	Mr. Wong Chiu Hong HK$'000	Ms. Mok Pui Mei HK$'000	Mr. Ip Siu Lam HK$'000	Ms. Sung Lam Ching HK$'000	Mr. Lau Gary Q HK$'000	Mr. Chan Tsz Fu, Jacky HK$'000	Mr. Ng Man Kin HK$'000	Professor Cai Xiu Ling HK$'000	Total HK$'000
Directors										
- fees	—	—	—	—	—	144	144	144	144	576
- salaries and other benefits	1,800	1,320	900	506	540	—	—	—	—	5,066
- bonus	200	211	133	85	53	—	—	—	—	682
- retirement benefit scheme contributions	12	12	12	12	12	7	7	7	7	88
	2,012	1,543	1,045	603	605	151	151	151	151	6,412

No directors waived any emoluments for the years ended 31st December, 2006 and 31st December, 2005.

For the year ended 31st December, 2005

	Dr. Sung Chung Kwun HK$'000	Mr. Wong Chiu Hong HK$'000	Ms. Mok Pui Mei HK$'000	Mr. Ip Siu Lam HK$'000	Ms. Sung Lam Ching HK$'000	Mr. Lau Gary Q HK$'000	Mr. Chan Tsz Fu, Jacky HK$'000	Mr. Ng Man Kin HK$'000	Professor Cai Xiu Ling HK$'000	Total HK$'000
Directors										
- fees	—	—	—	—	—	48	48	48	48	192
- salaries and other benefits	1,400	986	700	402	380	—	—	—	—	3,868
- bonus	200	227	150	97	50	—	—	—	—	724
- retirement benefit scheme contributions	12	12	12	12	12	2	2	2	2	68
	1,612	1,225	862	511	442	50	50	50	50	4,852

The bonus payment for the year is determined at the discretion of the board of directors.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Employees		
- salaries and other benefits	1,650	1,475
- bonus	140	—
- retirement benefit scheme contributions	24	24
	1,814	1,499

Their emoluments were within the following band:

	2006 No. of employees	2005 No. of employees
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	1	—

During the year ended 31st December, 2006 and 31st December, 2005, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Proposed final dividend of HK3.3 cents (2005: HK4.7 cents) per share	13,200	18,800

A final dividend of 2005 year of HK4.7 cents per share amounting to HK$18,800,000 was paid to shareholders during the current year.

The directors have resolved to recommend the payment of a final dividend of approximately HK$13,200,000 (2005: HK$18,800,000) representing HK3.3 cents (2005: HK4.7 cents) per share in respect of the year ended 31st December, 2006. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the parent of HK$66,196,000 (2005: HK$75,413,000) and on the weighted average number of 400,000,000 (2005: 324,109,589) shares.

No diluted earnings per share is presented as the Company had no potential dilutive shares outstanding during both years.

14. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1st January, 2005 and 31st December, 2005	11,673
Disposals	(5,660)
At 31st December, 2006	6,013
ACCUMULATED DEPRECIATION	
At 1st January, 2005	2,859
Provided for the year	215
At 31st December, 2005	3,074
Provided for the year	198
Eliminated on disposals	(1,242)
At 31st December, 2006	2,030
NET BOOK VALUES	
At 31st December, 2006	3,983
At 31st December, 2005	8,599

The fair value of the Group's investment properties at 31st December, 2006 was HK$6,490,000 (2005: HK$10,972,000). The fair value has been arrived at based on a valuation carried out by Vigers Appraisal & Consulting Limited, independent valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

The above investment properties are depreciated on a straight-line basis at a rate of 1.6% to 2% per annum, which is based on the relevant lease term.

All investment properties are situated in a land with medium term lease with the following locations shown above comprises:

	2006 HK$'000	2005 HK$'000
Hong Kong	3,573	8,179
Outside Hong Kong	410	420
	3,983	8,599

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1st January, 2005	246	101,561	275,996	14,482	18,261	14,238	424,784
Exchange adjustments	—	1,567	4,767	61	173	274	6,842
Additions	—	2,014	4,784	781	370	9,148	17,097
Transfer	—	1,531	2,585	—	—	(4,116)	—
Written off	—	—	(58)	—	(345)	—	(403)
At 31st December, 2005	246	106,673	288,074	15,324	18,459	19,544	448,320
Exchange adjustments	—	3,360	10,398	137	325	781	15,001
Additions	—	624	40,812	677	988	20,729	63,830
Acquired on acquisition of subsidiaries	—	50,257	24,083	607	845	7,119	82,911
Transfer	—	5,495	5,978	—	—	(11,473)	—
Disposals	(246)	(275)	(5,427)	—	(400)	—	(6,348)
At 31st December, 2006	—	166,134	363,918	16,745	20,217	36,700	603,714
DEPRECIATION							
At 1st January, 2005	98	17,430	96,503	10,965	14,833	—	139,829
Exchange adjustments	—	175	1,906	39	138	—	2,258
Provided for the year	148	3,923	24,757	1,242	2,439	—	32,509
Eliminated on written off	—	—	(12)	—	(376)	—	(388)
At 31st December, 2005	246	21,528	123,154	12,246	17,034	—	174,208
Exchange adjustments	—	510	4,553	110	280	—	5,453
Provided for the year	—	4,376	26,307	1,054	1,069	—	32,806
Eliminated on disposals	(246)	(42)	(2,581)	—	(400)	—	(3,269)
At 31st December, 2006	—	26,372	151,433	13,410	17,983	—	209,198
CARRYING VALUES							
At 31st December, 2006	—	139,762	212,485	3,335	2,234	36,700	394,516
At 31st December, 2005	—	85,145	164,920	3,078	1,425	19,544	274,112

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the term of the lease of 25 years
Buildings	Over the term of the lease of 25 to 62 years
Plant and machinery	10% - 20%
Furniture and fixtures	4% - 30%
Motor vehicles	30%

The carrying value of plant and machinery of approximately HK$13,528,000 (2005: HK$20,082,000) is in respect of assets held under finance leases.

15. PROPERTY, PLANT AND EQUIPMENT - continued

The carrying value of the Group's buildings comprises:

	2006 HK$'000	2005 HK$'000
Properties in the PRC held under land use rights		
- short term	846	925
- medium term	80,035	74,954
Properties held under medium terms lease in Hong Kong	8,553	9,266
Properties held under medium terms lease outside Hong Kong	50,328	—
	139,762	85,145

16. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	6,458	6,844
Leasehold land outside Hong Kong:		
Medium-term lease	38,577	31,815
Short lease	363	396
	45,398	39,055
Analysed for reporting purposes as:		
Current asset	1,080	955
Non-current asset	44,318	38,100
	45,398	39,055

17. AVAILABLE FOR SALE INVESTMENTS

The available-for-sale investment represents an investment in a 15% equity interest in a company which was incorporated in Hong Kong and commenced its business in early 2006. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year ended 31st December, 2006, the directors of the Company reviewed the fair value of available-for-sale investment by considering the present value of estimated cash inflows discounted at the effective interest rate of 9% per annum. Management of the Group determined that there were impairment loss and HK$1,000,000 has been recognised in the consolidated income statement.

18. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

The amount represented the deposit paid for the acquisition of land use rights and property, plant and equipment.

19. CLUB DEBENTURES

The club debenture represents the club membership of Aberdeen Marine Club. The directors are of opinion that there is no impairment of the club debentures since the market price are higher than its carrying value.

20. DEFERRED TAX ASSETS/LIABILITIES

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the year:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Unrealised loss on inventory HK$'000	Total HK$'000
At 1st January, 2005	2,407	(568)	2,195	4,034
(Credit) charge to consolidated income statement for the year	(569)	81	(1,148)	(1,636)
At 31st December, 2005	1,838	(487)	1,047	2,398
Charge to consolidated income statement for the year	2,098	82	907	3,087
At 31st December, 2006	3,936	(405)	1,954	5,485

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

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	5,890	2,885
Deferred tax assets	(405)	(487)
	5,485	2,398

At the balance sheet dates, the Group's unused tax losses available for offset against future profits were as follows:

	2006 HK$'000	2005 HK$'000
Unused tax losses		
- Recognised as deferred tax asset	2,315	2,783
- Unrecognised tax losses *(Note)*	17,071	3,473
	19,386	6,256

Included in unused tax losses as at 31st December, 2006 is an amount of HK$2,660,000 (2005: HK$3,128,000) which will expire between 2009 to 2010; all other unused tax losses can be carried forward indefinitely.

Note: Deferred tax asset has not been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams.

21. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	149,615	135,171
Work in progress	39,057	25,500
Finished goods	28,371	24,712
	217,043	185,383

22. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group generally allows an average credit period of 30 days to 120 days to its trade customers.

Included in trade receivables, bills receivables and other receivables, deposits and prepayment are trade receivable of HK$111,309,000 and bills receivables of HK$60,174,000 (31.12. 2005: HK$162,551,000 and HK$9,840,000 respectively) and their aged analysis is follows:

	2006 HK$'000	2005 HK$'000
Aged:		
0 - 30 days	73,492	85,390
31 - 60 days	61,046	37,656
61 - 90 days	19,928	19,799
91 - 120 days	4,363	14,324
Over 120 days	12,654	15,222
	171,483	172,391
Other receivables, deposits and prepayments	20,231	21,775
	191,714	194,166

22. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS - continued

The amount of the Group's trade receivables denominated other than the functional currency of the relevant group entities are set out below:

	US Dollar	Euro	Total
	HK$'000	HK$'000	HK$'000
At 31st December, 2006			
Trade receivables	45,937	1,501	47,438
At 31st December, 2005			
Trade receivables	73,543	—	73,543

The fair value of the Group's trade receivables, bill receivables, other receivables and deposits at 31st December, 2006 and 31st December, 2005 approximated to the corresponding carrying amount.

Note: Included in trade receivable is bills receivables of approximately HK$51,687,000 (2005: HK$1,793,000) representing bills discounted with recourse with maturity period of 0 to 90 days.

23. AMOUNTS DUE FROM RELATED COMPANIES

Details of amounts due from related companies are as follows:

	Notes	2006	2005
		HK$'000	HK$'000
Anford Trading Limited	(i)	37	—
China Light Investment Limited	(ii)	10	—
P.T. Shinetama Interfashion ("P.T. Shinetama")	(iii)	—	1,573
Soundyet Enterprises Limited	(ii)	5	—
Wai Yee Knitting Factory Limited	(iii)	542	1,011
		594	2,584

The amounts due from related companies are unsecured, non-interest bearing and are repayable on demand. The fair value of the Group's amounts due from related companies at balance sheet date approximate the corresponding carrying amount.

Note:

(i) Dr. Sung Chung Kwun, Wong Chiu Hong and Mok Pui Mei, being directors of the Company, have beneficial interest in the company.

(ii) Dr. Sung Chung Kwun, Wong Chiu Hong, Sung Kim Ping and Sung Kim Wa have beneficial interest in this company. Sung Kim Ping and Sung Kim Wa are the sons of Dr. Sung Chung Kwun.

(iii) Details of the relationship of the above companies with the Group are set out in note 39.

24. PLEDGED BANK DEPOSITS/FIXED BANK DEPOSITS

The amount represents bank deposits pledged to banks to secure bank overdraft and trust receipts loans facilities granted to the Group and therefore are classified as current asset. The amount bears interest at approximately 3% to 5% per annum (2005: 1% to 5% per annum). The fair value of the Group's pledged bank deposits approximate its carrying value. During the year, HK$15,316,000 pledged bank deposits were released and the amounts were transferred to fixed bank deposits with maturity for a period of six months.

Fixed bank deposits are short-term bank deposits with an original maturity of six months period. During the year, other than the amounts transferred from pledged bank deposits, additional fixed bank deposits of approximately HK$10,267,000 were placed to bank to generate higher interest income.

25. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of the Group's bank balances approximate their fair value. The amount carries interest at ranged from 2% - 3% per annum (2005: 2% - 3% per annum).

Included in the bank balances and cash at at 31st December, 2006 was an amount in Renminbi approximately of RMB32,880,000 (2005: RMB21,373,000). Renminbi is not freely convertible into other currencies.

The amount of the Group's bank balances and cash denominated other than the functional currency of the relevant group entities are set out below:

	US Dollar
	HK$'000
At 31st December, 2006	
Bank balances and cash	6,085
At 31st December, 2005	
Bank balances and cash	18,755

26. TRADE AND OTHER PAYABLES

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

	2006 HK$'000	2005 HK$'000
Aged:		
0 - 60 days	20,323	21,762
61 - 90 days	2,866	2,686
Over 90 days	7,566	6,106
	30,755	30,554
Other payables and accruals	73,707	47,138
	104,462	77,692

The amount of the Group's trade payables denominated other than the functional currency of the relevant group entities are set out below:

	US Dollar HK$'000
At 31st December, 2006	
Trade payables	2,638
At 31st December, 2005	
Trade payables	1,981

The fair value of the Group's trade and other payables approximate its corresponding carrying amount.

27. BILLS PAYABLE

The amounts carry interest ranging from 1% to 6% per annum (2005: 1% to 6% per annum) and are repayable on demand or within three months. The fair value of the Group's bills payable approximate the corresponding carrying amount.

28. AMOUNT DUE TO A RELATED COMPANY/A DIRECTOR

The amounts are unsecured, non-interest bearing and repayable on demand. The amount due to a director is fully repaid during the year. The fair value of the Group's amount due to a related company/a director approximate the corresponding carrying amount.

29. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Bank overdrafts	8,814	20,624
Bank loans	207,018	125,607
Trust receipt loans	82,557	107,836
	298,389	254,067
Analysed by:		
Secured	3,203	172,346
Unsecured	295,186	81,721
	298,389	254,067
The bank borrowings are repayable as follows:		
On demand or within one year	227,716	243,987
In more than one year but not more than two years	36,126	3,817
In more than two years but not more than three years	14,252	2,970
In more than three years but not more than four years	7,166	1,446
In more than four years but not more than five years	6,992	485
In more than five years	6,137	1,362
	298,389	254,067
Less: Amounts due within one year shown under current liabilities	(227,716)	(243,987)
Shown under non-current liabilities	70,673	10,080

Bank overdrafts are repayable on demand. Trust receipt loans are repayable within one year. The bank borrowings were secured by the Group's certain property, plant and equipment and bank deposits.

29. BANK BORROWINGS - continued

The amounts of the Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	US Dollars	Euro	Total
	HK$'000	HK$'000	HK$'000
As at 31st December, 2006			
Bank loans	10,142	51,928	62,070
Trust receipt loans	67,630	—	67,630
	77,772	51,928	129,700
As at 31st December, 2005			
Bank loans	14,912	—	14,912
Trust receipt loans	57,799	—	57,799
	72,711	—	72,711

The average variable interest rate ranged from 3% to 6% for the bank overdraft for the year ended 31st December, 2005 and 31st December, 2006. Interest is repriced every three months.

The average variable interest rate ranged from 5% to 8% for the bank loans for the year ended 31st December, 2005 and year ended 31st December, 2006. Interest is repriced every three months.

The average variable interest rate ranged from 6% to 9% for trust receipt loans for the year ended 31st December, 2005 and 6% to 7% for the year ended 31st December, 2006 respectively. Interest is repriced every three months.

The fair value of the above Group's bank borrowings approximate its carrying amount.

30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its plant and machinery and furniture and fixtures under finance leases. The average lease term is three years. The average effective interest rate is 5% (2005: 3%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments As at 31st December,		Present value of minimum lease payments As at 31st December,	
	2006 HK'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Amounts payable under finance leases:				
Within one year	4,327	4,992	4,150	4,546
In more than one year but not more than two years	361	4,319	359	4,148
In more than two years but not more than three years	—	358	—	357
	4,688	9,669	4,509	9,051
Less: future finance charges	(179)	(618)	—	—
Present value of lease obligations	4,509	9,051	4,509	9,051
Less: Amount due for settlement within one year and shown under current liabilities			(4,150)	(4,546)
Amount due for settlement after one year			359	4,505

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The fair value of the Group's finance lease obligations, determined based on the net present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet approximates their carrying amount.

31. SHARE CAPITAL

	Number of share	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised share capital:		
At 1st January, 2005	30,000,000	300
Increase in authorised share capital	9,970,000,000	99,700
At 31st December, 2005 and 31st December, 2006	10,000,000,000	100,000
Ordinary shares of HK$0.01 each		
Issued and fully paid:		
At 1st January, 2005	1,000,000	—
Credit as fully paid the 1,000,000 ordinary shares issued to Dr. Sung Chung Kwun for nil consideration	—	10
Issue of shares on Group Reorganisation	19,000,000	190
Issue of shares by capitalisation of share premium account	280,000,000	2,800
Issue of shares for placing and public offer	100,000,000	1,000
At 31st December, 2005 and 31st December, 2006	400,000,000	4,000

32. BALANCE SHEET OF THE COMPANY

The Company's balance sheet at the balance sheet dates are as follows:

	2006 HK$'000	2005 HK$'000
Total assets		
Interests in subsidiaries	160,803	160,803
Amounts due from subsidiaries	263,518	282,088
Prepayments	—	145
	424,321	443,036
Total liability		
Amount due to a subsidiary	(233)	—
	424,088	443,036
Capital and reserves		
Share capital	4,000	4,000
Reserves *(Note)*	420,088	439,036
	424,088	443,036

Note:

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2005	—	—	—	—
Issue of shares by capitalisation of share premium account	(2,800)	—	—	(2,800)
Issue of shares for placing and public offer	100,000	—	—	100,000
Share issue expenses	(7,794)	—	—	(7,794)
Surplus arising from Group Reorganisation	—	349,668	—	349,668
Loss for the year	—	—	(38)	(38)
At 31st December, 2005	89,406	349,668	(38)	439,036
Loss for the year	—	—	(148)	(148)
Dividend paid	—	(18,800)	—	(18,800)
At 31st December, 2006	89,406	330,868	(186)	420,088

The contributed surplus of the Company represents (i) the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Altantic Limited, over the nominal value of the share capital of the Company issued in exchange thereof and (ii) less dividend paid.

33. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 29th August, 2005 (the “Scheme”) for the primary purpose of providing incentives to directors, eligible employees and consultants and adviser (“Eligible Persons”) of the Group.

Pursuant to the terms of the Scheme which will expire on 28th August, 2015, the board of directors of the Company may grant options to Eligible Persons to subscribe for shares in the Company at a consideration of HK$1 per grant. Options granted are exercisable at any time during a period to be notified by the board of directors of the Company but limited to a maximum period of ten years after the date the options are granted.

No options were outstanding at 31st December, 2006 and 31st December, 2005 under the Scheme. No options were granted, exercised, cancelled or lapsed during the year.

34. ACQUISITION OF SUBSIDIARIES

On 7th July, 2006 and 23rd October, 2006, the Group acquired the 100% interest in River Rich Textile Limited (“River Rich”) and 100% interest in Winner Knitting Factory Limited (“Winner”) for a consideration of approximately HK$48,269,000 and HK$39,392,000 respectively. The two newly acquired subsidiaries are incorporated in the Kingdom of Cambodia and engaged in the business of manufacturing and trading of knitted clothes, hat, gloves, socks and scarves. These transactions have been accounted for using the purchase method.

34. ACQUISITION OF SUBSIDIARIES - continued

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	River Rich			Winner			
	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Acquiree's carrying amount before combination	Fair value adjustments	Fair value	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net assets acquired:							
Property, plant and equipment	35,412	11,710	47,122	23,615	12,174	35,789	82,911
Inventory	12,675	—	12,675	9,472	—	9,472	22,147
Trade and other receivables	58	—	58	7,091	—	7,091	7,149
Bank balances and cash	2,376	—	2,376	4,552	—	4,552	6,928
Trade and other payables	(3,766)	—	(3,766)	(4,286)	—	(4,286)	(8,052)
Amounts due to subsidiaries of Addchance Holdings Limited (Note)	(42,028)	—	(42,028)	(25,059)	—	(25,059)	(67,087)
	4,727	11,710	16,437	15,385	12,174	27,559	43,996
Discount on acquisition			(10,196)			(13,226)	(23,422)
Total consideration			6,241			14,333	20,574
Total consideration satisfied by:							
Cash			6,241			6,581	12,822
Other payables			—			7,752	7,752
			6,241			14,333	20,574
Trade receivables (Note)			42,028			25,059	67,087
			48,269			39,392	87,661
Net cash outflow arising on acquisition:							
Cash consideration paid			(6,241)			(6,581)	(12,822)
Cash and cash equivalents acquired			2,376			4,552	6,928
			(3,865)			(2,029)	(5,894)

The discount on acquisition was a result of losses incurred by River Rich and Winner and because of additional capital required to expand the production facilities of these companies.

River Rich and Winner itself incurred revenue of HK$22,760,000 (being the sales made to the fellow subsidiaries), cost of sales of HK$12,275,000, selling and distribution costs of HK$1,516,000 and administrative expenses of HK$2,239,000 for the period between the date of acquisition and the balance sheet date.

Note: The amount represented the trade payables due to the Group by River Rich and Winner before the acquisition. In accordance with the terms of the agreements, such trade payables due to the Group (i.e. the Group's trade receivables due from River Rich and Winner) were deducted from the consideration payables due to the vendors.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases:

	2006 HK$'000	2005 HK$'000
Office premises	292	301

At the balance sheet dates, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	217	187
In the second to fifth years inclusive	196	16
Over five years	—	4
	413	207

Operating lease payment represents rentals payable by the Group for its office premises. Lease terms ranged for two to five years with fixed rental.

The Group as lessor

Property rental income earned was HK$1,127,000 (2005: HK$1,011,000). All of the properties held have committed tenants for the next five year.

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31st December,	
	2006 HK$'000	2005 HK$'000
Within one year	469	629
In the second to fifth years inclusive	664	408
	1,133	1,037

36. PLEDGE OF ASSETS

At the balance sheet dates, the Group pledged the following assets to banks for the credit facilities granted to the Group:

	2006 HK$'000	2005 HK$'000
Property, plant and equipment	16,242	37,576
Bank deposit	5,950	21,266
	22,192	58,842

37. COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	24,601	5,363

38. PENSION/RETIREMENT BENEFITS SCHEME

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

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

39. RELATED PARTY DISCLOSURES

Details of the balance with related companies are set out in notes 23 and 28.

During the year, the Group entered into the following transactions with related companies/parties:

Company	Relationship	Nature of transactions	2006 HK$'000	2005 HK$'000
Dr. Sung Chung Kwun	(Note 1)	Sales proceeds of investment properties	5,390	—
		Sales proceeds of property, plant and equipment	400	—
		Rental expense paid	240	180
P.T. Shinetama	(Note 2)	Sales of cotton	—	24,790
		Purchases of cotton yarn	73,783	43,951
Harvest Cosmos Textile Limited	(Note 3)	Sales of dyed yarn	—	88
		Subcontracting fee	7	—
Wai Yee Knitting Factory Limited ("Wai Yee")	(Note 4)	Sales of raw white and dyed yarn	2,626	4,024
		Sales of sweater	—	785
		Purchases of raw and dyed yarn	—	294
		Subcontracting fee	1	1,289
		Rental income	200	120
Chung Fai Knitwear Fty., Ltd ("Chung Fai Knitting")	(Note 5)	Dyeing expenses	—	892
		Sales of dyed yarn	—	6,624
Winner Knitting Factory Limited ("Winner Knitting")	(Note 5)	Knitting expenses	—	3,806
		Packaging expenses	—	239
		Transportation expenses	—	764
Dinghu Yongsheng Textiles Fty., Ltd.	(Note 6)	Purchases of raw white yarn	963	287

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Group and the related parties.

(Note 1) Dr. Sung Chung Kwun is a director and substantial shareholder of the Group.

(Note 2) Sung Chung Man, a brother of Dr. Sung Chung Kwun has beneficial interests in this company.

(Note 3) Sung Kim Wa and Sung Kim Ping, sons of Dr. Sung Chung Kwun, have beneficial interest in this company.

(Note 4) Sung Kit Ching and Wong Chun Fong, a daughter and daughter-in-law of Dr. Sung Chung Kwun, have beneficial interest in this Company.

(Note 5) Dr. Sung Chung Kwun has beneficial interest in these companies up to 28th March, 2005 and ceased to be a shareholder of these companies thereafter.

(Note 6) Sung Liang Hua, a brother of Dr. Sung Chung Kwun, has beneficial interest in this company.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31st December, 2006 are as follows:

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company Directly	Indirectly	Principal activities
Interlink Atlantic Limited	(i)	British Virgin Islands 24th November, 1999	Ordinary share US$1	100%	—	Investment holding
Addchance Limited	(i)	Hong Kong 2nd October, 1981	Ordinary shares HK$1,500,000	—	100%	Manufacturing and trading of dyed yarn, provision of yarn-dyeing services, trading of cotton raw white yarn and fancy yarn and property holding
Chinakey (Hong Kong) Limited	(i)	Hong Kong 22nd October, 1997	Ordinary shares HK$1,000,000	—	100%	Manufacturing and trading of knitted sweaters
Sky Emperor International Limited	(i)	Hong Kong 12th March, 1997	Ordinary shares HK$10,000	—	100%	Trading of knitted sweaters
Sure Win International Textiles Limited	(i)	Hong Kong 15th July, 1993	Ordinary share HK$15,000	—	100%	Provision of knitting services
Charm Shine (Macau) Wool Yarn Industrial Limited	(i)	Macau 15th September, 1987	MOP$500,000	—	100%	Trading of dyed yarn and raw white yarn
Mei Pan Dyeing Factory Limited	(i)	Hong Kong 1st May, 1987	Ordinary shares HK$1,240,000 Ordinary Shares A HK$760,000	—	100%	Investment holding
張家港互益染整有限公司 Zhangjiagang Addchance Dyeing & Finishing Co., Ltd.	(ii)	PRC 9th March, 2001	Registered capital US$12,000,000	—	100%	Manufacturing of dyed yarn and provision of dyeing services
羅定互益染廠有限公司 Luoding Addchance Dyeing Factory Ltd.	(ii)	PRC 6th November, 1986	Registered capital US$5,044,000	—	100%	Provision of yarn dyeing services
羅定市美鵬染廠有限公司 Luoding Mei Pan Dyeing Factory Ltd.	(ii)	PRC 10th June, 1993	Registered capital US$8,000,000	—	100%	Provision of yarn dyeing services

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company Directly	Indirectly	Principal activities
安慶市宿松互益紡織有限公司 Anqing Su Song Addchance Textiles Co., Ltd.	(ii)	PRC 9th September, 2002	Registered capital US$10,000,000	—	100%	Manufacturing of cotton yarn
羅定忠益織造廠有限公司 Luoding Addchance Knitting Factory Ltd.	(ii)	PRC 8th November, 1999	Registered capital US$10,000,000	—	100%	Provision of knitting services
張家港互益紡織有限公司 Zhangjiagang Addchance Spinnery Co., Ltd.	(ii)	PRC 12th December, 2003	Registered capital US$12,000,000 Paid up capital US$2,567,851	—	100%	Incorporated for the purpose of fabric dyeing but operation not yet commenced
廣西岑溪互益紡織有限公司 Cenxi Addchance Textile Factory Ltd.	(ii)	PRC 27th September, 2003	Registered capital US$2,000,000	—	100%	Provision of knitting services
羅定市誠益織造有限公司 Luoding Honour Rich Textile Factory Ltd.	(ii)	PRC 11th August, 2003	Registered capital US$1,080,000	—	100%	Provision of knitting services
廣西梧州互益紡織有限公司 Wu Zhou Addchance Textile Factory Limited	(ii)	PRC 16th December, 2005	Registered capital US$3,500,000 Paid up capital US$1,248,301	—	100%	Manufacturing of knitted sweaters
安慶市宿松互益精紡有限公司 An Qing Su Song Addchance Spinning Company Limited	(ii)	PRC 14th April, 2006	Registered capital US$10,000,000	—	100%	Incorporated for the purpose of manufacturing of cotton yarn but operation not yet commenced
River Rich Textile Limited	(i)	Kingdom of Cambodia 13th August, 2004	Registered capital US$1,000,000	—	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves
Winner Knitting Factory Limited	(i)	Kingdom of Cambodia 3rd April, 1997	Registered capital US$1,000,000	—	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

Notes:

(i) These companies are limited liability companies.

(ii) These companies are wholly-foreign owned enterprise.

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

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