Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The applicable HKFRSs are set out below.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK (IFRIC) — Int 4	Determining Whether an Arrangement Contains Lease

The adoption of the above new and revised standards and interpretations has had no material effect on these financial statements except for the adoption of HKAS21 Amendment:

(a) HKAS 21 (Amendment) "The effects of changes in foreign exchange rate — net investment in a foreign operation"

Prior to 1 January 2006, exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation were recognised in a separate component of equity in the consolidated financial statements only when (1) the monetary item was denominated in the functional currency of either the reporting entity or the foreign operation; and (2) the monetary item arose directly between the reporting entity and the foreign operation. Following the adoption of HKAS 21 (Amendment), such treatment is also required in respect of exchange differences arising on balances between group entities which are denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The adoption of this amendment has no effect on the amounts reported for prior years.

Accordingly, an exchange loss of $6,453,000 arising on balances between group entities has been recognised in exchange reserve in the consolidated financial statements and the Group's profit for the period has been increased by $6,453,000.

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

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

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The adoption of this amendment has had no effect on these financial statements.

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

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

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

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

The Group has not early adopted the following new HKFRSs, that have been issued but are not yet effective, to these financial statements.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new and amended disclosure, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except that leasehold properties outside Hong Kong are stated at fair value.

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(c) Consolidation *(continued)*

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the profit for the year between minority interests and the equity shareholders of the Company.

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. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

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.

(d) 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 assumed in a business combination are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated profit and loss account.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(e) Subsidiaries

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Property, plant and equipment

Properties represent interests in buildings outside Hong Kong are stated at fair value which is determined by the directors based on independent valuations 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 property, plant and equipment, 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 any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to consolidated profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

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%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

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

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss. 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 property, plant and equipment when it is completed and ready for its intended use.

(g) 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 rights.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 consolidated profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(h) Impairment of assets *(continued)*

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 consolidated profit and 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.

(i) 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 consolidated profit and loss account on a straight-line basis over the lease periods.

(j) 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's or Company's balance sheet when a group company or the Company 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 consolidated profit and loss account 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 date, 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial instruments *(continued)*

(ii) Investments *(continued)*

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 consolidated profit and loss account 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.

Impairment losses recognised in the consolidated profit and loss account 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.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial instruments *(continued)*

(v) Trade and other payables

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

(vi) Equity instruments

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

(l) Borrowing costs

All borrowing costs are charged to the consolidated 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.

(m) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(n) 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 profit and loss account 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 is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 realised. Deferred tax is charged or credited to the consolidated profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(o) 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 (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded 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.

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, in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated profit and loss account 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 translation reserve. Such translation differences are recognised in the consolidated profit and loss account in the period in which the foreign operation is disposed of.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(p) 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 consolidated 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.

(iii) Share based payments

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(q) 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.

(r) Revenue recognition

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

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

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.

(s) 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, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and certain property, plant and equipment. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2006 **$'000**	2005 $'000
Turnover		
Sale of fabrics	**92,008**	62,787
Fabric processing	**45,912**	63,487
Sale of garments and accessories	**119,561**	118,425
	257,481	244,699
Other revenues		
Interest income	**736**	347
Gain on disposal of property, plant and equipment	**420**	124
Scrap sales	**151**	261
Others	**35**	201
Management fee from a related company	**—**	110
	1,342	1,043
Total revenues	**258,823**	245,742

Primary report format — business segments

The Group is organised into three main business segments:

— Sale of fabrics — wholesale and distribution of fabrics
— Fabric processing — provision of fabric processing services
— Sale of garments and accessories — 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, Indonesia, Taiwan and Sri Lanka) — sales of garments and accessories

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

Primary report format — business segments

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

Primary report format — business segments *(continued)*

	For the year ended 31 December 2005			
	Sale of fabrics *$'000*	Fabric processing *$'000*	Sale of garments and accessories *$'000*	Total *$'000*
Turnover	62,787	63,487	118,425	244,699
Segment results	(7,354)	(24,649)	8,932	(23,071)
Unallocated costs				(3,192)
Operating loss				(26,263)
Finance costs				(3,697)
Loss before taxation				(29,960)
Taxation				(1,875)
Loss for the year				(31,835)
Segment assets	29,154	86,790	16,359	132,303
Unallocated assets				24,086
Total assets				156,389
Segment liabilities	4,868	20,322	9,986	35,176
Unallocated liabilities				51,882
Total liabilities				87,058
Capital expenditure	143	1,140	71	1,354
Depreciation and amortisation	1,562	10,037	96	11,695

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

Secondary report format — geographical segments

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

	For the year ended 31 December 2005			
	Turnover $'000	Segment results $'000	Segment assets $'000	Capital expenditure $'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 costs		(3,192)		
Operating loss		(26,263)		
Total assets			156,389	

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

4. OTHER OPERATING EXPENSES

	2006	2005
	$'000	*$'000*
Bad debts written off and provision	**1,382**	1,992
Exchange losses	**185**	7,573
Others	**91**	10
Share-based payment	**38**	—
Loss on deemed acquisition of interest of a subsidiary	**2**	—
Loss on write off and disposal of property, plant and equipment	**1**	9
	1,699	9,584

5. OPERATING PROFIT/(LOSS)

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

	2006	2005
	$'000	*$'000*
Charging:		
Auditor's remuneration		
Current year	**560**	463
Under-provision in previous year	**78**	46
Cost of inventories sold	**180,849**	153,691
Depreciation	**11,124**	11,578
Amortisation of prepaid lease payments	**118**	117
Loss on write off and disposal of property, plant and equipment	**1**	9
Operating lease rentals in respect of land and buildings	**964**	969
Staff costs (excluding directors' remuneration):		
Salaries and allowances	**17,286**	18,032
Retirement benefit costs	**299**	302
Share-based payment	**38**	—
and after crediting:		
Write back of provision for slow moving and obsolete inventories	**1,235**	157

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	2006 $'000	2005 $'000
Interest on bank loans and overdrafts	**2,645**	2,421
Bank charges	**938**	981
Interest on other loans	**391**	249
Finance lease charges	**56**	33
Others	**—**	13
	4,030	3,697

7. TAXATION

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

	2006 $'000	2005 $'000
Current tax — Hong Kong		
(Over)/under provision in respect of prior year	**(373)**	845
	(373)	845
Current tax — Overseas		
Provision for the year	**978**	1,030
	605	1,875

(i) No provision has been made for Hong Kong profits tax as the tax losses brought forward from previous years exceed the estimated assessable profits for the year.

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION *(CONTINUED)*

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

	2006 $'000	2005 $'000
Profit/(loss) before taxation	**2,219**	(29,960)
Taxation charge/(credit) calculated at Hong Kong profits tax rate of 17.5%	**388**	(5,243)
Tax effect of expenses not deductible for taxation purpose	**481**	523
Tax effect of non-taxable items	**(69)**	(4,832)
Utilisation of previously unrecognised tax losses	**(1,986)**	(4)
Deferred tax assets not recognised	**1,969**	10,224
Effect of difference tax rates of subsidiaries operating in other jurisdictions	**277**	362
Under/(over) provision in prior year	**(455)**	845
Taxation charge for the year	**605**	1,875

8. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) attributable to equity holders of the Company included a loss of $1,199,000 (2005: $24,911,000) which has been dealt with in the financial statements of the Company.

9. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the Group's profit attributable to equity holders of the Company of $1,122,000 (2005: loss of $31,832,000) and on the weighted average number of 320,349,468 (2005: 320,349,468) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the profit for the year attributable to shareholders of the Company of $1,122,000 (2005: loss of $31,832,000), and the weighted average number of 320,349,468 (2005: 320,349,468) ordinary shares in issue during the year, adjusted for the effects of all dilutive potential shares.

The weight average of number of shares used in the calculation of diluted earnings per share is calculated based on the 320,349,468 (2005: 320,349,468) ordinary shares in issue during the year plus the weighted average of 951,769 (2005: Nil) ordinary shares deemed to have been issued at no consideration as if all of the Company's outstanding share options had been exercised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

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

For the year ended 31 December 2006

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

\# *appointed on 26 September 2006*

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

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

For the year ended 31 December 2005

Name of director	Fees	Salary, allowances and benefit in kind	Discretionary bonus	MPF contributions	Share-based payment	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors						
Mr. Yiu Ching On	—	720	—	36	—	756
Mr. Yiu Kwok Ming, Tommy	—	930	—	42	—	972
Ms. Wong Kai Chun	—	—	—	—	—	—
Mr. Yiu Kwok Yung##	—	—	—	—	—	—
	—	1,650	—	78	—	1,728
Independent non-executive directors						
Mr. Cheung Wing Yui	60	—	—	—	—	60
Mr. Wong Shiu Hoi, Peter	60	—	—	—	—	60
Mr. Lo Wai Kon	60	—	—	—	—	60
	180	—	—	—	—	180
Total	180	1,650	—	78	—	1,908

\## *resigned on 1 January 2005*

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group included two (2005: two) executive directors. Details of the remuneration of the remaining three (including the remuneration of Mr. Leung Kwok Ip and Mr. Wong Wai Man to 26 September 2006 when they were appointed as executive directors of the Company) (2005: two) highest paid employees during the year is as follows:

	2006 **$'000**	2005 *$'000*
Salaries and allowances	**1,511**	1,684
Discretionary bonuses	**—**	89
Contributions to pension schemes	**30**	36
	1,541	1,809

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

	2006 **Number**	2005 Number
$Nil — $1,000,000	**3**	2

During the year, no amount (2005: Nil) has been paid by the Group to any of the five highest paid individuals as compensation for loss of office. No payments have been paid by the Group to the five highest paid individuals as an inducement or upon joining the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

12. PROPERTY, PLANT AND EQUIPMENT

	Group							
	Construction in progress	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
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 31 December 2004	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
Transfer to plant and machinery	(1,407)	—	—	—	1,407	—	—	—
Additions	360	—	—	19	149	115	1,047	1,690
Disposals/written of	—	—	—	—	(296)	(24)	(1,273)	(1,593)
Exchange adjustment	46	984	—	175	3,860	69	83	5,217
At 31 December 2006	360	28,536	454	8,847	118,477	5,977	3,823	166,474
Accumulated depreciation:								
At 31 December 2004	—	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
Charge for the year	—	1,474	9	352	8,843	119	327	11,124
Disposals/written off	—	—	—	—	(296)	(23)	(1,273)	(1,592)
Exchange adjustment	—	31	—	86	3,044	69	80	3,310
At 31 December 2006	—	1,505	133	3,305	95,853	5,407	2,903	109,106
Net book value:								
At 31 December 2006	360	27,031	321	5,542	22,624	570	920	57,368
At 31 December 2005	1,361	27,552	330	5,786	29,095	575	197	64,896

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

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

	Group							
	Construction in progress	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
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At cost	360	—	454	8,847	118,477	5,977	3,823	137,938
At 2005 valuation	—	28,536	—	—	—	—	—	28,536
	360	28,536	454	8,847	118,477	5,977	3,823	166,474

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

	Group							
	Construction in progress	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
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
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

(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 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 $11,261,000 (2005: $12,633,000) had they been stated at historical cost less accumulated depreciation.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

(d) At 31 December 2006, the net book value of property, plant and equipment pledged as securities for the Group's bank loans amounted to $30,905,000 (2005: $31,582,000) *(note 24)*.

(e) At 31 December 2006, the net book value of property, plant and equipment held by the Group under finance leases amounted to $839,233 (2005: $102,000).

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 follows:

	Group *$'000*
Cost:	
At 31 December 2004	6,045
Exchange adjustment	172
At 31 December 2005	6,217
Exchange adjustment	212
At 31 December 2006	6,429
Accumulated amortization:	
At 31 December 2004	1,039
Charge for the year	117
Exchange adjustment	30
At 31 December 2005	1,186
Charge for the year	118
Exchange adjustment	43
At 31 December 2006	1,347
Net book value:	
At 31 December 2006	5,082
At 31 December 2005	5,031

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

13. PREPAID LEASE PAYMENTS *(CONTINUED)*

	Group 2006 $'000	Group 2005 $'000
Prepaid lease payments classified as:		
Current assets	**118**	117
Non-current assets	**4,964**	4,914
Net book value as at 31 December	**5,082**	5,031

Prepaid lease prepayments on land use rights are pledged as securities for the Group's bank loans *(note 24)*.

14. INVESTMENTS IN SUBSIDIARIES

	Company 2006 $'000	Company 2005 $'000
Unlisted shares, at cost	**126,626**	126,627
Less: Provision	**(84,000)**	(84,000)
	42,626	42,627
Amounts due from subsidiaries	**53,069**	54,086
Less: Provisions	**(28,009)**	(28,000)
	25,060	26,086
	67,686	68,713

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

At 31 December 2006, the Company held interests in the following subsidiaries:

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held directly:				
Ching Hing (BVI) Limited	The British Virgins Islands	Investment holding in Hong Kong	57,457,238 ordinary shares of $0.005 each	100%
Held indirectly:				
Ching Hing Weaving Dyeing & Printing Factory Limited	Hong Kong	Provision of fabric processing services and sale of fabrics in Hong Kong	55,000,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each	100%
中山正興紡織廠有限公司 (Zhongshan Ching Hing Weaving Factory Limited)	The PRC	Provision of fabric processing services and sale of fabrics in the PRC	US$9,500,000	100%
Ching On Textiles Limited	Hong Kong	Sale of fabrics in Hong Kong	1,010,001 ordinary shares of $1 each	100%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of $1 each	100%
Yiutung Fashion Co. Ltd.	Hong Kong	Dormant	15,001 ordinary shares of $1 each	100%
中山市盈通服飾製衣有限公司 (Zhongshan Yiutung Clothing Manufacturing Co. Limited)	The PRC	Dormant	US$500,000	100%
South Field (Pacific) Limited	Hong Kong	Sale of garments and accessories	1,000,001 ordinary shares of $1 each	56%
Huge Victory Management Limited	Samoa	Property holding	3 ordinary shares of US$1 each	100%
Glamour International Limited	Samoa	Investment holding	3 ordinary shares of US$1 each	100%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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)*				
Alpha Textile International Limited	Hong Kong	Sale of fabrics	10,000 ordinary shares of $1 each	65%
Ching Hing Weaving (International) Limited	Hong Kong	Investment holding	2 ordinary shares of $1 each	100%
On Hing Weaving Factory Limited	Hong Kong	Dormant	10,000 ordinary shares of $1 each	100%
中山安興紡織有限公司 (Zhongzhan On Hing Weaving Limited)	The PRC	Dormant	Registered capital of $5,000,000 which had not yet been paid up at 31 December 2006	100%
Calvin Textiles Limited	Hong Kong	Dormant	10,000 ordinary shares of $1 each	100%

15. INVENTORIES

	Group	
	2006	2005
	$'000	*$'000*
Raw materials	**17,451**	10,117
Work in progress	**1,888**	1,875
Finished goods	**3,170**	3,463
	22,509	15,455

At 31 December 2006, obsolete inventories of $1,136,000 (2005: $2,372,000) have been fully provided for. Other inventories amounting to $658,000 (2005: $1,242,000) were stated at net realisable value.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

16. TRADE RECEIVABLES

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

	Group	
	2006	2005
	$'000	*$'000*
Current	**33,367**	20,903
31-60 days	**6,517**	9,241
61-90 days	**4,611**	2,354
91-120 days	**745**	1,503
Over 120 days	**7,131**	6,910
	52,371	40,911
Less: Provision on doubtful debts	**(4,857)**	(4,691)
	47,514	36,220

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 2006, approximately $6,000,000 (2005: $7,500,000) 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 2006, time deposits of $16,156,276 (2005: $17,371,000) were pledged to banks to secure banking facilities of the Group *(note 24)*.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

18. TRADE PAYABLES

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

	Group	
	2006	2005
	$'000	*$'000*
Current	**29,869**	9,254
31-60 days	**3,805**	7,722
61-90 days	**5,326**	4,892
Over 90 days	**3,840**	7,602
	42,840	29,470

19. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest bearing at 7.5% to 7.75% p.a. (2005: 5% p.a to 7.5% p.a) and has no fixed term of repayments.

20. SHARE CAPITAL

	Authorised ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 31 December 2005 and 2006	1,000,000,000	50,000

	Issued and fully paid ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 31 December 2005 and 2006	320,349,468	16,017

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

21. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in Annual General Meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2006, the total number of shares available for issue under the 2002 Share Option Scheme was 16,634,950 shares, which represented approximately 5.2% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (Including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

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

On 26 September 2006, a total of 15,400,000 share options were granted to and accepted by executive directors and employees of the Group. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.07 per share. The exercisable period for these options is from 26 September 2010 to 25 September 2016.

Name of participants	At 1 January 2006	Granted during the year	Cancelled during the year	At 31 December 2006
Executive Directors				
Mr. Yiu Ching On	—	3,200,000	—	3,200,000
Mr. Yiu Kwok Ming, Tommy	—	3,200,000	—	3,200,000
Mr. Leung Kwok Ip *(i)*	—	3,200,000	—	3,200,000
Mr. Wong Wai Man *(i)*	—	3,200,000	—	3,200,000
Subtotal	—	12,800,000	—	12,800,000
Other eligible employees	—	2,600,000	—	2,600,000
Total	—	15,400,000	—	15,400,000

(i) appointed on 26 September 2006

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

22. RESERVES

(a) Group

(i) Statutory reserves

In accordance with the PRC Companies Law, the Company's subsidiaries in the PRC were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies) and a percentage of not less than 5% as determined by management of the profit after tax to public welfare fund. With the amendment of the PRC Companies Law which was effective from 1 January 2006, enterprises in the PRC are no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2005 would be transferred to the statutory surplus reserve. The statutory surplus reserve is non-distributable. According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(ii) Capital reserves

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

(b) Company

	Share premium *$'000*	**Contributed surplus** *$'000*	**Accumulated losses** *$'000*	**Total** *$'000*
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
Loss for the year *(note 8)*	—	—	(1,199)	(1,199)
At 31 December 2006	51,574	123,754	(124,027)	51,301

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

23. BANK BORROWINGS (SECURED)

	Group	
	2006	2005
	$'000	*$'000*
Bank overdrafts	**5,366**	6,327
Short-term bank loans	**25,810**	8,849
Trust receipt loans	**8,561**	7,127
Bank loans wholly repayable within five years, secured *(note 24)*	**—**	17,544
Total bank borrowings — repayable within one year	**39,737**	39,847

Bank borrowings bore annual interest ranging from 4.43% to 10.17% (2005: from 3.11% to 9.05%).

Bank loans of $18,115,000 (2005: $17,517,000) at fixed interest rates expose the Group to fair value interest rate risk. Other bank borrowings of $21,622,000 (2005: $22,330,000) at floating rates expose the Group to cash flow interest rate risk.

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

As at 31 December 2006	**Hong Kong dollar** ***$'000***	**United States dollar** ***$'000***	**Renminbi** ***$'000***	**Total** ***$'000***
Bank overdrafts	**5,366**	**—**	**—**	**5,366**
Bank loans	**7,695**	**8,561**	**18,115**	**34,371**
	13,061	**8,561**	**18,115**	**39,737**

As at 31 December 2005	Hong Kong dollar *$'000*	United States dollar *$'000*	Renminbi *$'000*	Total *$'000*
Bank overdrafts	6,327	—	—	6,327
Bank loans	9,436	6,567	17,517	33,520
	15,763	6,567	17,517	39,847

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

24. BANKING FACILITIES

At 31 December 2006, the Group's credit facilities amounting to $96,115,000 (2005: $104,609,000) granted by banks and a credit company were secured by the following:

(a) legal charges over the Group's properties *(note 12(d))* and prepaid lease payments *(note 13)*;

(b) guarantees given by the Company and the minority shareholders of subsidiaries for $107,000,000 (2005: $102,000,000) and $52,450,000 (2005: $44,200,000) respectively;

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

(d) personal guarantees of $5,000,000 given by one director (2005: $10,601,000 given by one director and one ex-director) of the Company.

25. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Amounts payable under finance leases:				
Within one year	**335**	230	**293**	200
In the second to fifth years inclusive	**596**	—	**499**	—
	931	230	**792**	200
Less: Future finance charges	**(140)**	(30)		
Present value of lease obligations	**791**	200		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(293)**	(200)
Amount due for settlement after 12 months			**499**	—

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

26. DEFERRED TAXATION

At 31 December 2006, the Group has unused tax losses of $93,833,000 (2005: $106,745,000) 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

(a) Reconciliation of profit/(loss) before taxation to net cash used in operating activities

	2006	2005
	$'000	*$'000*
Profit/(loss) before taxation	**2,219**	(29,960)
Adjustments for:		
Interest income	**(736)**	(347)
Depreciation	**11,124**	11,578
Amortisation of prepaid lease payments	**118**	117
Loss on disposal of property, plant and equipment	**1**	9
Gain on disposal of property, plant and equipment	**(420)**	(124)
Interest expenses	**3,036**	2,670
Finance lease charges	**56**	33
Loss from deemed disposal of a subsidiary	**2**	—
Revaluation gain on leasehold land and buildings	**—**	(42)
Share-based payment	**38**	—
Operating profit/(loss) before working capital changes	**15,438**	(16,066)
(Decrease)/increase in inventories	**(7,054)**	6,135
(Decrease)/increase in trade receivables, other receivables, deposits and prepayments	**(12,689)**	4,806
Decrease in VAT and other tax recoverable	**4**	4,964
Increase/(decrease) in trade payables, other payables and accrued charges	**13,175**	(4,034)
Effect of foreign exchange rate changes	**(2,189)**	7,518
Net cash generated from operations	**6,685**	3,323
PRC taxation paid	**(1,921)**	(987)
Hong Kong profits tax refunded	**390**	56
Hong Kong profits tax paid	**(3,356)**	—
Interest paid	**(3,036)**	(2,670)
Finance lease charges paid	**(56)**	(33)
Net cash used in operating activities	**(1,294)**	(311)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

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

(b) Non-cash transactions

Additions to motor vehicles during the year amounting to approximately $1,020,000 (2005: Nil) were financed by finance leases.

28. CONTINGENT LIABILITIES

At 31 December 2006, the Company had given guarantees of approximately $107,000,000 (2005: $102,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries.

Counter-indemnities in favour of the Company at an aggregate amount of $22,450,000 (2005: $20,200,000) 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 2006, the Group had the following capital commitments:

	2006	2005
	$'000	*$'000*
Construction in progress	**41**	217

(b) Operating lease commitments

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	$'000	*$'000*
Within one year	**799**	847
In the second to fifth years inclusive	**—**	99
	799	946

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

30. RELATED PARTY TRANSACTIONS

(a) In addition to note 19 to the financial statements, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2006 **$'000**	2005 $'000
Rental paid to a related company *(note (i))*	**840**	840
Interest paid to a director	**391**	249
Sales to a related company *(note (ii))*	**37**	674
Management fee from a related company *(note (ii))*	**—**	110

Notes:

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

ii. Mr. Yiu Kwok Yung owns 70% of the company.

(b) Members of key management during the year comprised only the five (2005: three) executive directors whose remuneration is set out in note 11 to the financial statements.

31. 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 policies 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise stated)

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

(a) Financial risk factors *(continued)*

(ii) Foreign exchange risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. The management closely monitors the foreign currency risk on a regular basis.

(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) 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.

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements

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

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the company's assets and liabilities within the next financial year are discussed below.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/written back in the period in which the estimate has been changed.

Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.