Notes to Financial Statements

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1. CORPORATE INFORMATION

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

The principal place of business of the Company is located at Units 1-9, 8/F, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of an outside shareholder not held by the Group in the results and net assets of a Company's subsidiary.

Notes to Financial Statements

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

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

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

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

(i) Amendment for financial guarantee contracts

In prior years, financial guarantees provided by the Company to various banks in connection with the bank loans and other banking facilities granted to its subsidiaries were disclosed as contingent liabilities. Upon the adoption of this amendment, the scope of HKAS 39 has been revised to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The Group had assessed all the relevant financial guarantee contracts and concluded that this amendment has had no material impact on these financial statements.

Notes to Financial Statements

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(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 or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

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

This 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 transactions, 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. The Group had reassessed all the relevant arrangements and concluded that this interpretation has had no material impact on these financial statements.

Notes to Financial Statements

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

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

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risk arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. The standard will supersede HKAS 14 *Segment Reporting*.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Company or its holding company;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any impairment losses. The cost of investment properties comprises their purchase price, including transaction costs.

Depreciation is calculated on the straight-line basis to write off the cost of each of the investment properties to its residual value over its estimated useful lives at an annual rate of 5%.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss – include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts receivable, an allowance for doubtful debts is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Financial liabilities including accounts and other payables, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the rendering of services, when the relevant services have been rendered;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(v) dividend income, when the shareholders' right to receive payment has been established.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 27 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005.

Employment Ordinance long service payments

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

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

Pension schemes and other retirement benefits

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Carrying value of leasehold land element in relation to the entire leasehold land and buildings

The Group determines that the carrying value of the land element of the leasehold land and buildings held in Hong Kong in relation to the value of the entire lease is insignificant and cannot be reliably allocated. Accordingly, the leasehold land and buildings held in Hong Kong was treated as a single unit and accounted for under HKAS 16 *Property, plant and equipment*.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation at the balance sheet date which may cause an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowance for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of accounts and bills receivable. Allowances are applied to accounts and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of accounts and bills receivable and doubtful debt expenses in the year in which such estimate has been changed.

Notes to Financial Statements

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4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group's business segments as over 90% of the Group's revenue and assets are related to the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services.

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

(a) Singapore;

(b) Taiwan;

(c) Hong Kong;

(d) The People's Republic of China (other than Hong Kong and Macau) (the "PRC"); and

(e) Others

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

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4. SEGMENT INFORMATION *(continued)*

(i) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group – 2006

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Sales to external customers	1,135,710	192,602	285,736	186,349	213,492	2,013,889
Other income	1,248	5	2,546	218	58	4,075
Total	1,136,958	192,607	288,282	186,567	213,550	2,017,964
Segment results	190,770	32,817	52,081	32,027	36,558	344,253
Interest and other unallocated income and gain						5,206
Unallocated expenses						(186,832)
Finance costs						(40,821)
Profit before tax						121,806
Tax						(20,659)
Profit for the year						101,147
Assets and liabilities						
Segment assets	175,138	17,850	60,392	90,036	23,980	367,396
Unallocated assets						1,628,837
Total assets						1,996,233
Segment liabilities	70,776	13,060	140,226	184,772	61,619	470,453
Unallocated liabilities						727,045
Total liabilities						1,197,498

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(continued)*

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

Group – 2006 *(continued)*

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						69,960
Depreciation of investment properties, unallocated						377
Amortisation of prepaid land lease payments, unallocated						949
Capital expenditure, unallocated						180,207
Loss on disposal of items of property, plant and equipment, unallocated						480
Allowance for doubtful debts	–	–	69	–	–	69
Write back of allowance for doubtful debts	(377)	–	(925)	(62)	(129)	(1,493)

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(continued)*

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

Group – 2005

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Sales to external customers	769,444	181,027	173,587	149,731	225,614	1,499,403
Other income	1,052	9	3,022	96	95	4,274
Total	770,496	181,036	176,609	149,827	225,709	1,503,677
Segment results	124,275	32,974	33,794	27,362	41,112	259,517
Interest and other unallocated income						4,192
Unallocated expenses						(147,366)
Finance costs						(26,081)
Profit before tax						90,262
Tax						(11,312)
Profit for the year						78,950
Assets and liabilities						
Segment assets	134,164	42,255	47,998	81,718	6,495	312,630
Unallocated assets						1,350,758
Total assets						1,663,388
Segment liabilities	76,011	40,448	79,075	72,640	58,061	326,235
Unallocated liabilities						659,919
Total liabilities						986,154

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION *(continued)*

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

Group – 2005 *(continued)*

	Singapore *HK$'000*	Taiwan *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Other segment information:						
Depreciation of items of property, plant and equipment, unallocated						55,860
Depreciation of investment properties, unallocated						376
Amortisation of prepaid land lease payments, unallocated						449
Capital expenditure, unallocated						294,187
Gain on disposal of items of property, plant and equipment, unallocated						(160)
Allowance for doubtful debts	12,109	–	854	–	67	13,030
Write back of allowance for doubtful debts	(131)	–	(16)	–	–	(147)

(ii) Geographical segments based on the location of assets

The following tables present certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group – 2006

	Singapore ***HK$'000***	**Hong Kong** ***HK$'000***	**PRC** ***HK$'000***	**Others** ***HK$'000***	**Consolidated** ***HK$'000***
Segment assets	**476**	**437,880**	**1,534,135**	**23,742**	**1,996,233**
Capital expenditure	**–**	**1,568**	**165,965**	**12,674**	**180,207**
Group – 2005					
Segment assets	1,066	402,286	1,259,271	765	1,663,388
Capital expenditure	33	6,077	288,077	–	294,187

Notes to Financial Statements

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5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered by the Group. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the revenue, other income and gain is as follows:

	Note	**2006** **HK$'000**	2005 HK$'000
Revenue			
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services		**2,013,889**	1,499,403
Other income			
Fee income from freight handling services		**4,075**	4,274
Bank interest income		**888**	671
Gross rental income		**1,372**	1,347
Others		**2,883**	2,120
		9,218	8,412
Gain			
Fair value gain on equity investments at fair value through profit or loss	7	**63**	54
		9,281	8,466

6. FINANCE COSTS

	Group **2006** **HK$'000**	2005 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**34,238**	21,379
Interest on finance leases	**4,983**	3,702
Amortisation of bank charges on a syndicated loan	**1,600**	1,000
	40,821	26,081

Notes to Financial Statements

31 December 2006

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2006 *HK$'000*	2005 *HK$'000*
Cost of inventories sold and services provided	**1,618,023**	1,161,055
Auditors' remuneration	**1,350**	1,180
Research and development costs	**4,107**	5,006
Depreciation of items of property, plant and equipment	**69,960**	55,860
Depreciation of investment properties	**377**	376
Amortisation of prepaid land lease payments	**949**	449
Employee benefits expense (excluding directors' remuneration – note 8):		
Wages and salaries	**98,502**	73,829
Equity-settled share option expenses	**–**	3,010
Pension scheme contributions	**6,601**	3,962
	105,103	80,801
Minimum lease payments under operating leases in respect of land and buildings	**1,931**	2,049
Loss/(gain) on disposal of items of property, plant and equipment	**480**	(160)
Allowance for doubtful debts	**69**	13,030
Write back of allowance for doubtful debts	**(1,493)**	(147)
Fair value gain on equity investments at fair value through profit or loss	**(63)**	(54)
Foreign exchange differences, net	**8,385**	481

Cost of inventories sold and services provided includes depreciation and staff costs of HK$124,352,000 for the year ended 31 December 2006 (2005: HK$90,112,000), which is also included in the respective total amounts disclosed separately above.

Research and development costs include depreciation and staff costs of HK$3,462,000 for the year ended 31 December 2006 (2005: HK$3,172,000), which is also included in the respective total amounts disclosed separately above.

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**480**	510
Other emoluments:		
Salaries, allowances and benefits in kind	**5,613**	4,198
Discretionary bonuses*	**4,906**	2,036
Employee share option benefits	**–**	1,290
Pension scheme contributions	**84**	79
	10,603	7,603
	11,083	8,113

* Certain executive directors of the Company are entitled to discretionary bonuses which in aggregate are limited to 5% (2005: 5%) of the consolidated profit after tax of the Group.

Notes to Financial Statements

31 December 2006

8. DIRECTORS' REMUNERATION *(continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Employee share option benefits *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
2006						
Executive Directors:						
Tai Chin Chun	**–**	**1,643**	**2,304**	**–**	**12**	**3,959**
Tai Chin Wen	**–**	**1,311**	**1,650**	**–**	**12**	**2,973**
Cheung So Wan	**–**	**537**	**432**	**–**	**12**	**981**
Wong Siu Yuk	**–**	**537**	**432**	**–**	**12**	**981**
Chong Chau Lam	**–**	**1,585**	**88**	**–**	**12**	**1,685**
Independent non-executive Directors:						
Chu Hak Ha, Mimi	**180**	**–**	**–**	**–**	**9**	**189**
Chan Yuk Tong, Jimmy	**180**	**–**	**–**	**–**	**9**	**189**
Ku Shiu Kuen, Anthony	**120**	**–**	**–**	**–**	**6**	**126**
Total	**480**	**5,613**	**4,906**	**–**	**84**	**11,083**
2005						
Executive Directors:						
Tai Chin Chun	–	1,342	1,121	553	12	3,028
Tai Chin Wen	–	1,068	665	369	12	2,114
Cheung So Wan	–	504	110	184	12	810
Wong Siu Yuk	–	504	110	184	12	810
Chong Chau Lam	–	780	30	–	6	816
Independent non-executive Directors:						
Chong Chau Lam	90	–	–	–	4	94
Chu Hak Ha, Mimi	180	–	–	–	9	189
Chan Yuk Tong, Jimmy	180	–	–	–	9	189
Ku Shiu Kuen, Anthony	60	–	–	–	3	63
Total	510	4,198	2,036	1,290	79	8,113

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

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: three) directors (two of whom the remuneration were the same), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: two) non-director, highest paid employee for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,082**	1,768
Discretionary bonuses	**63**	75
Employee share option benefits	**–**	268
Pension scheme contributions	**12**	14
	1,157	2,125

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	2
	1	2

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

Notes to Financial Statements

31 December 2006

10. TAX

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**10,243**	6,014
Overprovision in prior years	**(1,227)**	(1,178)
Current tax – Elsewhere		
Charge for the year	**9,547**	8,439
Underprovision in respect of prior years	**–**	121
Deferred tax charge/(credit) *(note 25)*	**2,096**	(2,084)
Total tax charge for the year	**20,659**	11,312

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 17.5% (2005: 17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Panyu Kam Hing Textile Dyeing Co. Ltd. ("Panyu KH Textile"), a wholly-owned PRC subsidiary of the Company, is entitled to a 50% reduction in the corporate income tax in the PRC. The applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

The Group has tax losses arising in Hong Kong of HK$2,565,000 (2005: HK$2,017,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries. No deferred tax assets has been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

Notes to Financial Statements

31 December 2006

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

	Hong Kong		PRC		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	40,711		82,127		(1,032)		121,806	
Tax at the statutory tax rate	7,124	17.5	27,102	33.0	(96)	9.3	34,130	28.0
Lower tax rate for specific provinces or local authority	–	–	(16,896)	(20.6)	–	–	(16,896)	(13.9)
Adjustments in respect of current tax of prior years	(1,227)	(3.0)	–	–	–	–	(1,227)	(1.0)
Lower tax rate due to tax holiday	–	–	–	–	111	(10.8)	111	0.1
Income not subject to tax	(286)	(0.7)	(761)	(0.9)	(15)	1.5	(1,062)	(0.9)
Expenses not deductible for tax	5,349	13.1	102	0.1	–	–	5,451	4.5
Tax losses not recognised	152	0.4	–	–	–	–	152	0.1
Tax charge at the Group's effective rate	11,112	27.3	9,547	11.6	–	–	20,659	16.9

Notes to Financial Statements

31 December 2006

10. TAX *(continued)*

Group – 2005

	Hong Kong		PRC		Others		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	21,389		69,417		(544)		90,262	
Tax at the statutory tax rate	3,743	17.5	22,907	33.0	(120)	22.0	26,530	29.4
Lower tax rate for specific provinces or local authority	–	–	(6,247)	(9.0)	–	–	(6,247)	(6.9)
Adjustments in respect of current tax of previous years	(1,178)	(5.5)	121	0.2	–	–	(1,057)	(1.2)
Lower tax rate due to tax holiday	–	–	(8,255)	(12.0)	–	–	(8,255)	(9.1)
Income not subject to tax	(275)	(1.3)	(173)	(0.2)	–	–	(448)	(0.5)
Expenses not deductible for tax	479	2.2	207	0.3	98	(18.0)	784	0.8
Tax losses not recognised	5	–	–	–	–	–	5	–
Tax charge/(credit) at the Group's effective rate	2,774	12.9	8,560	12.3	(22)	4.0	11,312	12.5

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$25,688,000 (2005: HK$19,586,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK4.0 cents per ordinary share (2005: HK3.1 cents)	**25,600**	19,840

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

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$101,125,000 (2005: HK$78,959,000) and the weighted average of 640,000,000 (2005: 640,000,000) ordinary shares deemed to have been in issue during the year.

Diluted earnings per share for the years ended 31 December 2006 and 2005 has not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2006						
Cost:						
At 1 January 2006	147,358	587,914	40,944	13,763	175,388	965,367
Additions	8,632	31,388	2,386	856	128,421	171,683
Disposals	–	(1,019)	(128)	(261)	–	(1,408)
Transfers	–	43,742	550	–	(44,292)	–
Exchange realignment	7,226	32,692	1,510	372	12,976	54,776
At 31 December 2006	163,216	694,717	45,262	14,730	272,493	1,190,418
Accumulated depreciation:						
At 1 January 2006	17,341	184,230	15,256	6,844	–	223,671
Charge for the year	6,995	54,249	6,656	2,060	–	69,960
Disposals	–	–	(128)	(109)	–	(237)
Exchange realignment	1,176	11,629	722	248	–	13,775
At 31 December 2006	25,512	250,108	22,506	9,043	–	307,169
Net book value:						
At 31 December 2006	137,704	444,609	22,756	5,687	272,493	883,249

Notes to Financial Statements

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2005						
Cost:						
At 1 January 2005	123,880	403,354	20,481	12,698	140,667	701,080
Additions	–	73,288	6,925	2,703	190,545	273,461
Disposals	–	–	–	(1,638)	–	(1,638)
Transfers	31,014	111,272	13,538	–	(155,824)	–
Transfer to investment properties	(7,536)	–	–	–	–	(7,536)
At 31 December 2005	147,358	587,914	40,944	13,763	175,388	965,367
Accumulated depreciation:						
At 1 January 2005	11,816	140,426	10,654	6,541	–	169,437
Charge for the year	5,589	43,804	4,636	1,831	–	55,860
Disposals	–	–	(34)	(1,528)	–	(1,562)
Transfer to investment properties	(64)	–	–	–	–	(64)
At 31 December 2005	17,341	184,230	15,256	6,844	–	223,671
Net book value:						
At 31 December 2005	130,017	403,684	25,688	6,919	175,388	741,696

Notes to Financial Statements

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Medium-term leases		
– in Hong Kong	**2,025**	2,167
– outside Hong Kong	**135,679**	127,850
	137,704	130,017

The net book value of the Group's items of property, plant and equipment held under finance leases included in the total amount of plant and machinery, furniture, fixtures and office equipment and motor vehicles were as follows:

	2006	2005
	HK$'000	*HK$'000*
Plant and machinery	**193,265**	189,972
Furniture, fixtures and office equipment	**105**	–
Motor vehicles	**1,240**	1,136
	194,610	191,108

Title certificates in respect of three factory buildings with net book value of approximately HK$0.7 million (2005: HK$0.7 million) as at 31 December 2006 as included in buildings have not been obtained by the Group. Since the relevant documents required by the relevant government authority for the reissuance of the title certificates cannot be located by the Group and it is expected that it will take a significant amount of time and effort for the application process, the directors consider that the title certificates will not be granted by the relevant government authority in the sooner foreseeable future.

In addition, the Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction works permit in respect of a six-storey factory building under construction currently, with net book value of approximately HK$3 million (2005: HK$3 million) as at 31 December 2006.

Notes to Financial Statements

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures is considered illegal or unauthorised, the relevant government authorities may order rectification steps by remodeling the structures of the buildings, or for more severe measures, order demolition or forfeiture of such buildings/structures and payment of fines. The aforesaid buildings and structures accounted for less than 1% of the Group's total property, plant and equipment as at 31 December 2006 and are used for/intended to be used for warehousing purposes. Accordingly, the directors consider that the above buildings are not crucial to the operation of the Group and the potential impact as a result of any action taken by the government as aforesaid on the business or production of the Group is expected to be minimal. In addition, each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures (note 33(c)).

15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**7,096**	–
Transfer from owner-occupied property	**–**	7,472
Charge for the year	**(377)**	(376)
Exchange realignment	**336**	–
Net book value as at 31 December	**7,055**	7,096

The Group's investment properties are held under medium-term leases and are situated outside Hong Kong. As the Group considers the fair values of investment properties are not reliably determinable on a continuing basis since comparable market transactions are infrequent and alternative reliable estimates of fair value are not available, investment properties are therefore measured at cost less accumulated depreciation and any impairment losses.

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**40,259**	19,982
Prepaid during the year	**8,524**	20,726
Amortised during the year	**(949)**	(449)
Exchange realignment	**2,280**	–
Carrying amount at 31 December	**50,114**	40,259
Current portion included in prepayments, deposits and other receivables	**(1,124)**	(864)
Non-current portion	**48,990**	39,395

The Group's prepaid land lease payments comprise:

Land outside Hong Kong:		
Long-term lease	**1,110**	–
Medium-term leases	**47,880**	39,395
	48,990	39,395

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**402,207**	402,207

The amount due from and to subsidiaries included in the Company's current assets and current liabilities of HK$217,027,000 (2005: HK$212,011,000) and HK$4,500,000 (2005: HK$612,000), respectively, are unsecured, interest-free and have no fixed terms of repayments. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Joint Result Holdings Limited ("Joint Result")*	BVI/Hong Kong	US$10,000	100	Investment holding
Indirectly held:				
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$1,000,010 *(Note (a))*	100	Trading of finished fabrics
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000,000 *(Note (a))*	100	Investment holding
Kam Hing Piece Works (S) Pte Limited*	Singapore	S$100,000	100	Provision of customer services
Panyu KH Textile*	PRC/Mainland China	US$70,553,000 *(Note (b))*	100	Manufacture and trading of knitted and dyed fabrics
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	100	Provision of knitting and dyeing services and trading of finished fabrics
Guangzhou Kam Sing Textile and Dyeing Company Limited ("Kam Sing")*	PRC/Mainland China	HK$6,000,000 *(Note (c))*	100	Manufacture and trading of knitted and dyed fabrics

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: *(continued)*				
En Ping Kam Hing Textile and Dyeing Co. Ltd ("En Ping KH")*	PRC/Mainland China	US$8,000,000 *(Note (d))*	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited ("Sparkle Logistics")	Hong Kong	HK$3,800,000 *(Note (e))*	92 *(Note (e))*	Provision of air and ocean freight services
Kam Hing Global Garment Company Limited#	Hong Kong	HK$1	100	Trading of garment products
Kam Hing Madagascar*#	Madagascar	MGA10,000,000	100	Manufacture and trading of garment products
錦興國際貨運代理(廣州)有限公司 ("錦興貨運")*#	PRC/Mainland China	RMB5,000,000 *(Note (f))*	100	Provision of air and ocean freight services
Highkeen Enterprises Limited ("Highkeen")*#	BVI	US$1,000 *(Note (g))*	100	Investment holding

Notes:

(a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Piece Works and KH Textile. The holders of the non-voting deferred shares are not entitled to any dividends of KH Piece Works and KH Textile. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Piece Works and KH Textile, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Piece Works and KH Textile.

(b) Panyu KH Textile is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992. The registered capital of Panyu KH Textile amounted to US$90,000,000. The remaining balance of US$19,447,000 (equivalent to approximately HK$151,298,000) is required to be paid up by 29 November 2007 (note 32).

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(c) Kam Sing is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004. The registered capital of Kam Sing amounted to HK$6,000,000, which has been fully paid up in the year ended 31 December 2004.

(d) En Ping KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 27 April 2005. The registered capital of En Ping KH amounted to US$60,000,000. The remaining unpaid capital contribution of US$52,000,000 (equivalent to approximately HK$404,560,000) is required to be paid up by 27 April 2010 (note 32).

(e) Through the subscription of 3,230,000 new ordinary shares of HK$1 each in Sparkle Logistics, the Company's equity interest in Sparkle Logistics increased to 92% as at 31 December 2006 (2005: 70%) (note 29(c)).

(f) 錦興貨運 is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 16 June 2006. The registered capital of 錦興貨運 amounted to RMB5,000,000, which has been fully paid up during the current year.

(g) On 27 December 2006, Highkeen has entered into a joint venture agreement with an independent third party to establish a joint venture (the "JV Agreement"), Kam Wing International Textile Company Limited ("Kam Wing"), in Hong Kong. Pursuant to the JV Agreement, Highkeen is required to contribute HK$64,500,000 prior to 31 March 2008 (note 32 and 35(b)).

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Subsidiaries incorporated/established during the current 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 net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**324,429**	275,039
Work in progress	**80,399**	69,046
Finished goods	**78,519**	37,017
	483,347	381,102

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19. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are generally on credit with terms of up to 60 days and are non-interest-bearing (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days). Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**138,659**	100,747
31 to 60 days	**100,241**	83,392
61 to 90 days	**83,166**	51,530
Over 90 days	**45,330**	76,961
	367,396	312,630

The carrying amounts of the Group's accounts and bills receivable approximate to their fair values.

Included in the above accounts and bills receivable as at 31 December 2006, HK$85,796,000 (2005: HK$104,894,000) was discounted to banks in exchange for cash and included as "Bank advances for discounted bills" on the face of the consolidated balance sheet.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Equity investments listed outside Hong Kong, at market value	**1,382**	497

The above equity investments were classified as held for trading at 31 December 2006 and 2005.

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21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**193,076**	158,757	**8,034**	286
Time deposits	**–**	13,414	**–**	–
Cash and cash equivalents	**193,076**	172,171	**8,034**	286

As at 31 December 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$35,715,000 (2005: HK$15,763,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**322,382**	174,573
91 to 180 days	**50,865**	29,861
181 to 365 days	**11,322**	16,565
Over 365 days	**88**	342
	384,657	221,341

The accounts and bills payable are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of the Group's accounts and bills payable approximate to their fair values.

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006 Effective interest rate (%)	2006 Maturity	2006 HK$'000	2005 Effective interest rate (%)	2005 Maturity	2005 HK$'000
Current						
Finance lease payables *(note 24)*	**3.5 – 11.2**	**2007**	**33,615**	3.5 – 10.9	2006	42,731
Bank overdrafts – unsecured	**–**	**–**	**–**	6.5	On demand	480
Bank loans – unsecured	**Weighted average of HIBOR/LIBOR/SIBOR + 0.7 to 1.25**	**2007**	**442,105**	Weighted average of HIBOR/LIBOR/SIBOR + 0.7 to 1.25	2006	210,245
			475,720			253,456
Non-current						
Finance lease payables *(note 24)*	**3.5 – 11.2**	**2008 – 2010**	**36,747**	3.5 – 10.9	2007 – 2010	48,872
Bank loans – unsecured	**HIBOR + 0.7**	**2008**	**151,700**	HIBOR + 0.7	2007 – 2008	311,892
			188,447			360,764
			664,167			614,220

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	Group	
	2006	2005
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**442,105**	210,725
In the second year	**151,700**	160,192
In the third to fifth years, inclusive	**–**	151,700
	593,805	522,617
Finance lease payables:		
Within one year or on demand	**33,615**	42,731
In the second year	**23,877**	26,171
In the third to fifth years, inclusive	**12,870**	22,701
	70,362	91,603
	664,167	614,220

As at 31 December 2006, the Group's banking facilities were secured by the carrying amounts of the Group's pledged bank deposits of HK$2,152,000 (2005: HK$2,146,000) which approximate to their fair values, and were supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

Notes to Financial Statements

31 December 2006

23. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**1,044**	**69,318**	915	90,688
Bank overdrafts – unsecured	**–**	**–**	480	–
Bank loans – unsecured	**–**	**593,805**	–	522,137

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease payables	**36,747**	48,872	**36,747**	48,872
Floating rate bank loans – unsecured	**151,700**	311,892	**153,490**	333,280
	188,447	360,764	**190,237**	382,152

Notes to Financial Statements

31 December 2006

24. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and office equipment and motor vehicles for its business operation (note 14). These leases are classified as finance leases and have remaining lease terms ranging from two to five years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**36,551**	46,536	**33,615**	42,731
In the second year	**25,241**	28,073	**23,877**	26,171
In the third to fifth years, inclusive	**13,107**	23,610	**12,870**	22,701
Total minimum finance lease payments	**74,899**	98,219	**70,362**	91,603
Future finance charges	**(4,537)**	(6,616)		
Total net finance lease payables	**70,362**	91,603		
Portion classified as current liabilities *(note 23)*	**(33,615)**	(42,731)		
Non-current portion *(note 23)*	**36,747**	48,872		

At 31 December 2006, the finance lease payables were secured by corporate guarantees executed by the Company and/or certain subsidiaries of the Company and the underlying property, plant and equipment.

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25. DEFERRED TAX

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

Deferred tax assets

	Allowance for doubtful debts	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**2,137**	76
Deferred tax credited/(charged) to the income statement during the year *(note 10)*	**(2,096)**	2,061
At 31 December	**41**	2,137

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	
	2006	2005
	HK$'000	*HK$'000*
At 1 January	**–**	23
Deferred tax credited to the income statement during the year	**–**	(23)
At 31 December	**–**	–
Net deferred tax assets at 31 December	**41**	2,137

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

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26. SHARE CAPITAL

	Company	
	2006	2005
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
640,000,000 (2005: 640,000,000) ordinary shares of HK$0.1 each	**64,000**	64,000

27. SHARE OPTION SCHEME

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

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

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

Notes to Financial Statements

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27. SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

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

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

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

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares at grant date of options*** HK$ per share
Directors								
Tai Chin Chun	3,000,000	–	–	**3,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Tai Chin Wen	2,000,000	–	–	**2,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Cheung So Wan	1,000,000	–	–	**1,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Wong Siu Yuk	1,000,000	–	–	**1,000,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Subtotal	7,000,000	–	–	**7,000,000**				
Non-director employees								
In aggregate	15,746,000	–	(1,543,000)	**14,203,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Others								
In aggregate	1,260,000	–	–	**1,260,000**	6 October 2004	6 October 2005 to 5 October 2014	1.28	1.24
Total	24,006,000	–	(1,543,000)	**22,463,000**				

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

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

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

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27. SHARE OPTION SCHEME *(continued)*

During the year, no new share options were granted by the Company.

All share options outstanding as at 31 December 2006 were vested in prior years. The fair values of these share options at the date of grant of HK$5,300,000 was estimated using the Black-Scholes option pricing model (the "Model") and was fully recognised in the share option reserve upon the adoption of HKFRS 2 "Share-based Payment" during the year ended 31 December 2005. Details of the underlying inputs to the Model was disclosed in the annual report of the Company for the year ended 31 December 2005.

The 22,463,000 share options outstanding as at 31 December 2006 under the Scheme, represented approximately 3.5% of the Company's shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 22,463,000 additional ordinary shares of the Company and additional share capital of HK$2,246,300 and share premium of HK$26,506,340 (before issue expenses).

28. RESERVES

(a) Group

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

The capital reserve of the Group represents (i) the premium arising from the issue of shares by Joint Result for settlement of the amounts due to directors, of HK$93,378,000; and (ii) the excess of the nominal value of the share capitals of the subsidiaries acquired pursuant to the group reorganisation taken place on 24 August 2004, for the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"), over the nominal value of the 1,000,000 shares of HK$0.1 each of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par.

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

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28. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	122,429	1,000	402,007	298	525,734
Equity-settled share option arrangements	–	4,300	–	–	4,300
Profit for the year	–	–	–	19,586	19,586
Proposed final 2005 dividend	–	–	–	(19,840)	(19,840)
At 31 December 2005	122,429	5,300	402,007	44	529,780
Profit for the year	–	–	–	25,688	25,688
Proposed final 2006 dividend	–	–	–	(25,600)	(25,600)
	122,429	5,300	402,007	132	529,868

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as disclosed in the annual report of the Company for the year ended 31 December 2004, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The Group's and Company's share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

(a) During the year, the Group entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK$20,784,000 (2005: HK$55,206,000).

(b) During the year, accounts receivable of HK$10,000,000 were settled by the transfer from a debtor to the Group a piece of land and certain items of property, plant and equipment of HK$1,123,000 and HK$8,877,000, respectively.

(c) During the year, out of the 3,420,000 new ordinary shares issued by Sparkle Logistics, the Company subscribed 3,230,000 ordinary shares of HK$1 each and the minority shareholder has subscribed 190,000 new ordinary shares of HK$1 each with a total consideration of HK$190,000. The minority shareholder has paid up HK$50,000 and the remaining balance of HK$140,000 was reflected as an amount due from a minority shareholder in the Group's consolidated balance sheet as at 31 December 2006.

30. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Discounted bills with recourse supported by letters of credit	**103,276**	30,597	**–**	–
Guarantees given to banks in connection with facilities granted to and fully utilised by subsidiaries	**–**	–	**672,697**	678,447
	103,276	30,597	**672,697**	678,447

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30. CONTINGENT LIABILITIES *(continued)*

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$2,059,000 (2005: HK$1,416,000) as at 31 December 2006, as further explained under the heading "Employee benefits" in note 2.4 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,260**	1,200
In the second to fifth years, inclusive	**2,320**	3,409
	3,580	4,609

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31. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**3,543**	809
In the second to fifth years, inclusive	**8,920**	1,967
After five years	**6,863**	5,688
	19,326	8,464

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments as at the balance sheet date:

Capital commitments

	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchases of machinery	**6,156**	27,702
Construction in progress	**15,710**	4,605
	21,866	32,307

At 31 December 2006, the Group had commitments in respect of capital contributions to Panyu KH Textile, En Ping KH and Kam Wing of US$19,447,000 (equivalent to approximately HK$151,298,000) due on 29 November 2007, US$52,000,000 (equivalent to approximately HK$404,560,000) due on 27 April 2010 and HK$64,500,000 due on 31 March 2008 (note 17), respectively.

At the balance sheet date, the Company had no significant commitments (2005: Nil).

Notes to Financial Statements

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33. RELATED PARTY TRANSACTIONS

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

	Note	2006 HK$'000	2005 HK$'000
Rental expenses on office premises and a staff quarter paid to Tai Chin Chun and Tai Chin Wen	*(i)*	**210**	240

Note:

(i) The Group entered into tenancy agreements with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of office premises and a staff quarter at monthly rentals of HK$15,000 and HK$6,000, for terms of one and a half and two years, respectively, based on the prevailing market rentals.

(b) The Group had an outstanding amount due from a minority shareholder of HK$140,000 (2005: due to a minority shareholder of HK$114,000) as at balance sheet date (note 29(c)). The balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of certain buildings/structures of the Group as detailed in note 14 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Short-term employee benefits	**10,999**	6,744
Share-based payments	**–**	1,290
Post-employment benefits	**84**	79
	11,083	8,113

Further details of directors' emoluments are included in note 8 to the financial statements.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, finance leases, and cash and short-term deposits. The Group has various other financial assets and liabilities such as accounts and bills receivable and accounts and bills payable, which arise directly from its operation.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The interest rate of the interest-bearing bank and other borrowings of the Group are disclosed in note 23 to the financial statements. The Group believes its exposure to cash flow interest rate risk is minimal.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arise from substantial portion of sales or purchases by operating units in US dollars and RMB. 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 arise.

Liquidity risk

The Group maintains a balance between continuity of funding and flexibility through the use of bills payable and interest-bearing bank and other borrowings. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Since the Group trades only with recognised and creditworthy third parties, there is generally no requirement for collateral.

Notes to Financial Statements

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35. POST BALANCE SHEET EVENTS

(a) On 11 January 2007, the Group entered into a sale and purchase agreement with an independent third party to acquire a piece of land situated in Panyu, the PRC, and the properties erected thereon at a consideration of HK$20 million. This transaction was completed on 1 March 2007.

(b) In January 2007, Kam Wing was incorporated in Hong Kong pursuant to the JV Agreement as further detailed in note 17(g).

(c) On 13 April 2007, the Group entered into a 4-year loan facility of HK$440 million with a syndicate of banks in Hong Kong. Pursuant to the agreement, the syndicated loan will be repaid in 11 quarterly instalments with the first instalment due in October 2008.

(d) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2007.