CHINA TING GROUP HOLDINGS LIMITED
華鼎集團控股有限公司

Annual Report 2005

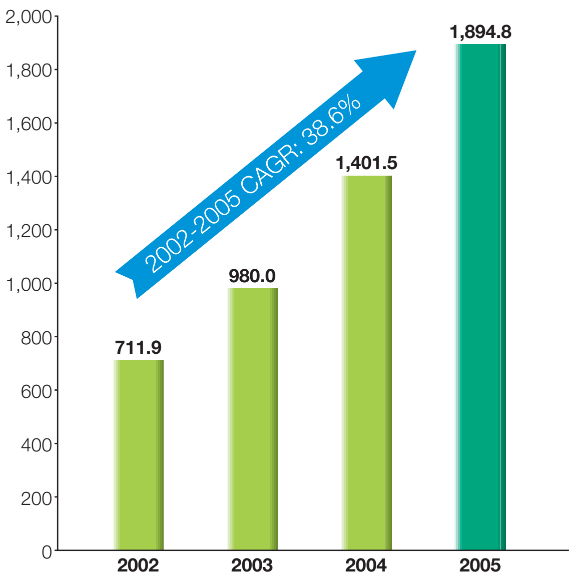
Stock Code: 3398

Contents

Financial Highlights

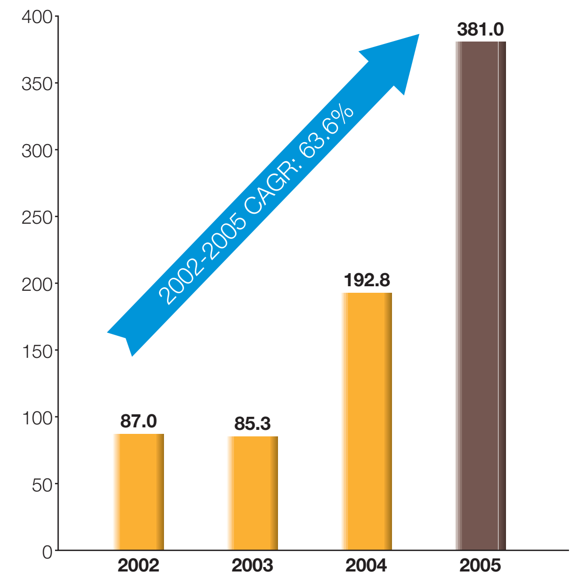
TURNOVER

(HK$ million)

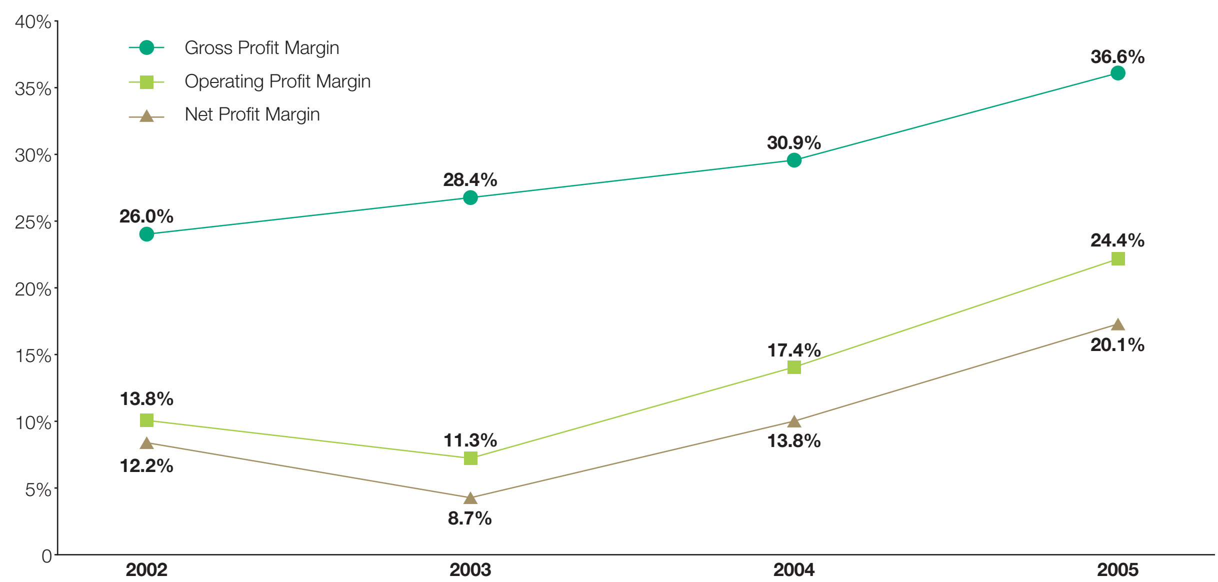


NET PROFIT

(HK$ million)



EXPANDING MARGINS



Financial Highlights

Financial Performance

	2005 (HK$ million)	2004 (HK$ million)	Change (%)
Turnover	**1,894.8**	1,401.5	+35.2
Gross profit	**692.7**	433.7	+59.7
Gross profit margin (%)	**36.6%**	30.9%	+5.7
Operating profit	**462.7**	243.2	+90.3
Operating profit margin (%)	**24.4%**	17.4%	+7.0
Net profit	**381.0**	192.8	+97.6
Net profit margin (%)	**20.1%**	13.8%	+6.3
EPS (HK cents)			
— Basic	**25.15**	12.94	+94.4
— Diluted	**25.13**	N/A	N/A

Financial Position

	2005 (HK$ million)	2004 (HK$ million)
Non-current assets	**370.4**	398.6
Net current assets	**1,089.1**	150.9
Cash and bank balances, including time deposits	**970.7**	157.5
Total liabilities	**401.6**	642.7
Bank borrowings	**63.8**	213.9
Net assets	**1,454.3**	536.2

Operation Indicators

	2005	2004
Accounts receivable turnover	**40 days**	43 days
Stock turnover	**39 days**	43 days
Current ratio	**3.7 times**	1.2 times
Accounts payable turnover	**54 days**	74 days
Net debt to total equity	**Net cash**	11%

Corporate Information

Executive Directors

Mr. TING Man Yi *(Chairman)*
Mr. TING Hung Yi *(Chief Executive Officer)*
Mr. DING Jianer
Mr. WONG Sin Yung

Independent Non-executive Directors

Dr. CHENG Chi Pang
Mr. WONG Chi Keung
Mr. LEUNG Man Kit

Company Secretary

Mr. WONG Sin Yung *CPA*

Qualified Accountant

Mr. CHENG Ho Lung Raymond *CPA, ACCA*

Authorised Representatives

Mr. TING Hung Yi
Mr. WONG Sin Yung

Audit Committee

Dr. CHENG Chi Pang *(Chairman)*
CPA (Practising), FCCA, ASA, ATIHK
Mr. WONG Chi Keung
FCPA, FCCA, FCPA (Australia), ACIS, ACMA
Mr. LEUNG Man Kit

Nomination Committee

Mr. TING Hung Yi *(Chairman)*
Dr. CHENG Chi Pang
Mr. LEUNG Man Kit

Remuneration Committee

Mr. TING Hung Yi *(Chairman)*
Dr. CHENG Chi Pang
Mr. WONG Chi Keung

Registered Office

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

Head Office and Principal Place of Business in Hong Kong

28th Floor, Futura Plaza
111–113 How Ming Street
Kwun Tong
Kowloon
Hong Kong

Principal Banker

Nanyang Commercial Bank Limited
151 Des Voeux Road Central, Hong Kong

Corporate Information

Legal Advisers

Squire, Sanders & Dempsey
40th Floor
Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Compliance Advisers

Kingsway Capital Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Retailing in China

– 5 brands with over 300 retail outlets in China

FINITY

ÉLANIE PARIS

Dbni

MAXSTUDIO.COM

RIVERSTONE

Experienced in Silk Apparel Manufacturing

Entering into A New Era

– Home Textile Products

2005 — A Year of Significant Development

Listed on the Main Board of The Stock Exchange of Hong Kong Limited

Early this Year

Preparing for the listing

November to December

Investors' presentation and roadshow in Hong Kong, Singapore, the United States and Europe

15 December

Listed on the Main Board of The Stock Exchange of Hong Kong Limited

Chairman's Statement

On behalf of the board (the "**Board**") of Directors (the "**Directors**") of China Ting Group Holdings Limited (the "**Company**"), I am pleased to present you the first annual report of the Company and its subsidiaries (collectively, the "**Group**") after the listing of the Company's shares (the "**Shares**") on the main board (the "**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 December 2005.

For the financial year ended 31 December 2005, the Group's turnover reached approximately HK$1,894.8 million, representing an increase of approximately HK$493.3 million or approximately 35.2%, as compared to approximately HK$1,401.5 million in the financial year 2004. Net profit of the Group recorded approximately HK$381.0 million, representing an increase of approximately HK$188.2 million or approximately 97.6%, as compared to approximately HK$192.8 million in the financial year 2004.

Continuing the success in the financial year 2005, the Group will continue to expand its production capacity by acquiring new machines for the existing factories and constructing new factories for the OEM business. The Group has already incurred approximately HK$53.5 million for the construction of a new production plant for men and women's suits made of synthetic fabric. We expect the new production plant to commence commercial production in the second half of 2006. Upon commencement of commercial production of the new production plant, the estimated annual production capacity of the Group will increase by approximately two million pieces of apparel.

In February 2006, the Group signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu to construct a new apparel production base with an estimated annual production capacity of approximately six million pieces of apparel. The construction of this production base commenced in March 2006, and we anticipate the first stage and the final stage of construction to be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project is approximately HK$234.0 million.

The retail business of the Group experienced a strong growth during the past few years. Mainland China will continue to be the major retail market of the Group. The Group will continue to expand its retail network for its own brands and the licensed brand by increasing the number of retail outlets and establishing flagship specialty shops in major cities in Mainland China, such as Beijing, Shanghai, Hangzhou and Guangzhou. The Group will strengthen the brand image through a number of initiatives including renovation of retail outlets, strengthen advertising and promotional activities, and inviting VIP customers to promotional sales and fashion shows and exhibitions.

Chairman's Statement

As at 31 December 2005, the total number of retail outlets of the Group was 302, representing 11.4% increase, as compared to 271 retail outlets as at 31 December 2004. By the end of 2006, the estimated total number of retail outlets will achieve 365.

In order to provide customers with a diverse range of choices and enhance the Group's market profile, the Group has incurred approximately HK$8.0 million to establish a product design, development and exhibition centre. The Directors consider that after completion of this development and exhibition centre in the second half of 2006, the Group will have strong design and development capability in fabric and apparel which will further strengthen the Group's competitive edge.

The Group has been granted an exclusive right from Burlington Industries LLC, a leading fabric provider of apparel and home textiles, to sell and distribute *BURLINGTON HOUSE* home textile products in Mainland China. The Group plans to set up at least five retail stores in 2006 and the first retail store will be open in May 2006. As the Group is experienced in retail business with extensive retail network in Mainland China, together with the growing consumption power in Mainland China, we are confident that the Group is in the best position to achieve good result in the home textile retail business.

The Shares have been listed on the Main Board of the Stock Exchange since 15 December 2005. The Directors believe that the initial public offering enables the Group to access to international capital markets and provides the Group with a solid platform for future business growth. Looking forward, we are very optimistic about the business prospects of the Group.

Finally, on behalf of the Board, I would like to thank all the management and staff member of the Group for their hard work and dedication and valuable contribution to the business of the Group. I would also like to thank our shareholders, investors and business associates for their continuing support to the Group.

TING Man Yi
Chairman

11 April 2006

Management Discussion and Analysis

1. Business Overview

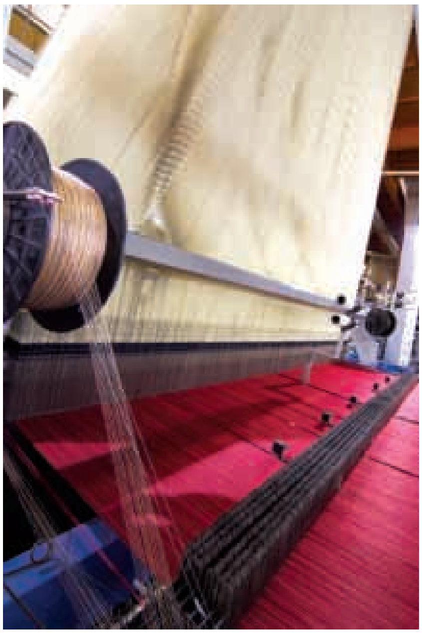
The Group is a vertically integrated and large scale garment manufacturer, exporter and retailer based in Mainland China whose businesses principally comprise the following two distinctive, yet related, parts: (i) the provision of vertically integrated garment manufacturing solutions for middle to high-end fashion apparel, primarily for women, using predominantly silk or silk-blended fabric, on an OEM basis for international fashion brands, chain retailers and department stores primarily in the United States and increasingly in Europe; and (ii) manufacturing and retailing of branded fashion apparel, primarily for women, in Mainland China. The Group sold over 16.5 million pieces of apparel for the financial year ended 31 December 2005 with a total turnover of approximately HK$1,894.8 million.

The Group is headquartered in Hong Kong with production facilities in Zhejiang, Jiangsu and Shenzhen, and with offices in Hong Kong, Hangzhou, Shenzhen, Shanghai, Paris and New York to support its sourcing, manufacturing and distribution activities, maintain close liaison with major customers and to keep abreast of the latest market information and international fashion trends.

The Group's primary manufacturing facilities are situated at the China Ting Industrial Complex in Hangzhou, which is the centre of China's silk industry. The Group also operates other manufacturing facilities in different cities in Mainland China, such as Shenzhen, Haiyan in Zhejiang province and Sihong in Jiangsu province, the PRC.

Management Discussion and Analysis

1.1 OEM business



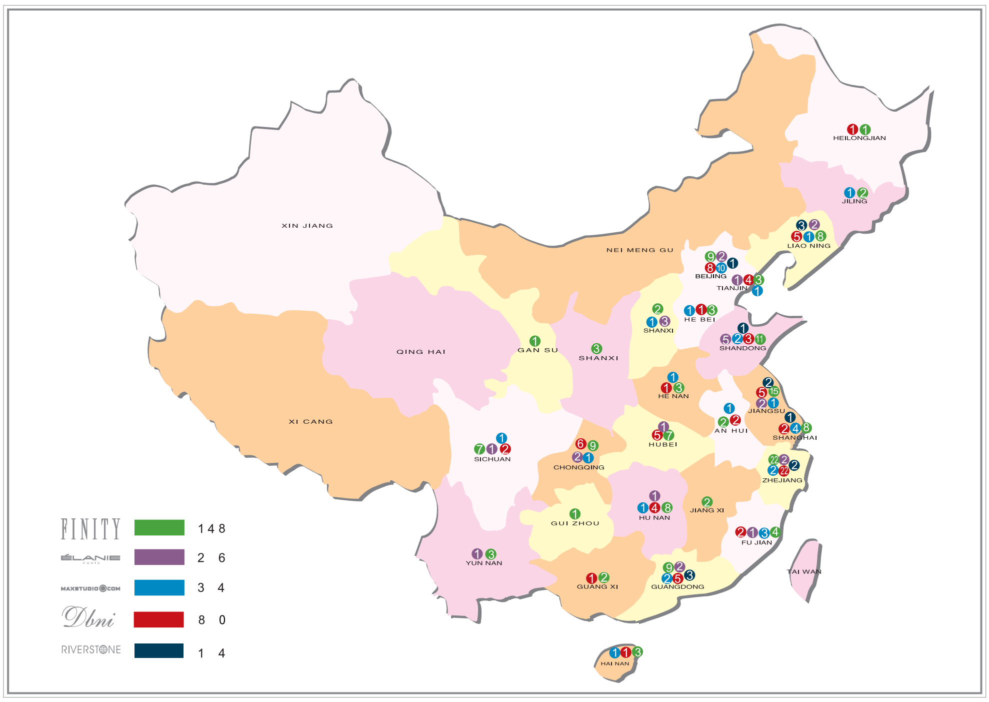
Through vertical integration of the core production activities, the Group continued to benefit from economies of scale, control the production costs and enhance the quality of its products, so as to deliver quality products to customers and shorten the leak time for production. The Group provides a range of garment manufacturing solutions for middle to high-end fashion apparel, primarily for women, using predominantly silk or silk-blended fabric, for international fashion brands, chain retailers and department stores primarily in the United States. During the financial year, the Group invested in Zhejiang Huayue Silk Products Company Limited and made further investment in Jiangsu Fuze Textile Company Limited, both of which further secured the supply of silk fabric for the production of the Group.

As at 31 December 2005, members of the Group operated 14 factories, principally situated at the China Ting Industrial Complex, in Hangzhou, engaging in fabric weaving and manufacturing of a varieties of silk and silk-blended fabric garment for OEM business.

Silk garment manufactured by the Group in Mainland China was subject to limited trade restriction, and Mainland China and U.S. had reached an agreement on import of textile to the U.S. in November 2005. Looking ahead, we anticipate that there will not be any material trade restriction on silk garment imported to the U.S. or other European countries. On this basis, we consider that the OEM business of the Group, principally of silk and silk-blended fabric garment, will continue to grow and to be an important part of the business of the Group.

1.2 Retail business

The economy of Mainland China is experiencing a strong growth. The continuous improvement in the living standards and the increase in consumption accelerate the domestic retail market in Mainland China. This is particularly the case for fashion apparel items. The Directors anticipate that the Group's retail business will continue to benefit from this economic development.



Management Discussion and Analysis

As at 31 December 2005, the Group's retail business had a sales network of 302 retail outlets comprising 147 concessions and 3 free-standing stores directly operated by the Group and 152 retail outlets operated by franchisees through franchise agreements, spanning over 26 provinces and centrally governed municipalities.

All retail outlets were operated under the four in-house brands of "*FINITY*", "*DBNI*", "*ÉLANIE*" and "*RIVERSTONE*", and one licensed brand of "*MAX STUDIO*". The Group suspected the retail business of "*SPRINGFIELD*" in October 2005. Each brand name has its own distinct theme, sells at varying retail prices and targets different customer groups. The Directors believe that the Group's retail apparel brands have well covered the mid to up-market segments.

As at 31 December 2005, the Group had three production factories in Hangzhou and one production factory in Shenzhen for retail apparels. During the past three years, the Group recorded a turnover compound annual growth rate ("**CAGR**") of approximately 21.6% and reached a new high of HK$172.7 million for the financial year 2005.

For the coming years, the Group will focus on the enhancement of its retail brands and will further strengthen and promote the existing brand image and may develop new brands to capture the growing retail markets. The Group will also continue to expand the retail network in order to booster the overall performance of the retail business of the Group. The Group plans to open 63 retail outlets during 2006 and by the end of 2006, the estimated number of retail outlets is expected to be 365.

2. Financial Review

2.1 Turnover

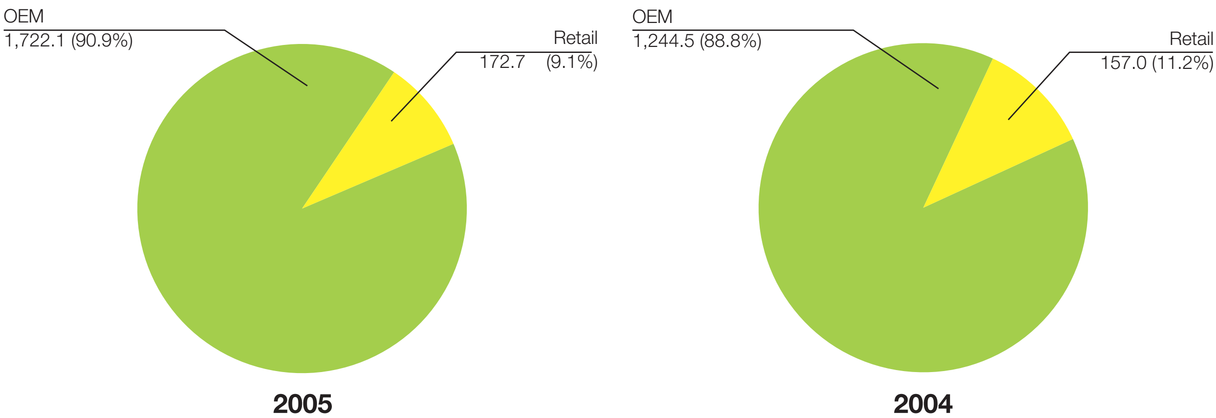
For the financial year 2005, the Group recorded a turnover of approximately HK$1,894.8 million, representing a growth of approximately HK$493.3 million or approximately 35.2% over the financial year 2004. The increase was mainly due to an increase of approximately HK$477.6 million in the turnover from OEM sales of garment, which was driven primarily by the increase in the purchase orders from key OEM customers in the United States. The sales to five major customers increased by approximately 64.9% as compared to the financial year 2004. The increase in turnover also included an increase of approximately HK$15.7 million or approximately 10.1% from the retail sales in Mainland China of branded fashion apparel. The increase in retail sales reflected increasing sales at the Group's existing retail outlets and also additional turnover from the new retail outlets. The Directors believe that the increase in the average annual household income in urban cities in Mainland China will continue to support the growth of the retail business.

The Group's turnover continues to derive from the two core businesses: OEM and retail. OEM sales still represented a majority of the Group's total turnover. For the financial year 2005, the OEM sales was approximately HK$1,722.1 million, representing an increase of approximately 38.4%, accounted for approximately 90.9% of the Group's turnover, whereas the retail sales was approximately HK$172.7 million, representing an increase of approximately 10.1%, accounted for approximately 9.1% of the Group's turnover.

Management Discussion and Analysis

TURNOVER BY BUSINESS SEGMENT — OEM AND RETAIL

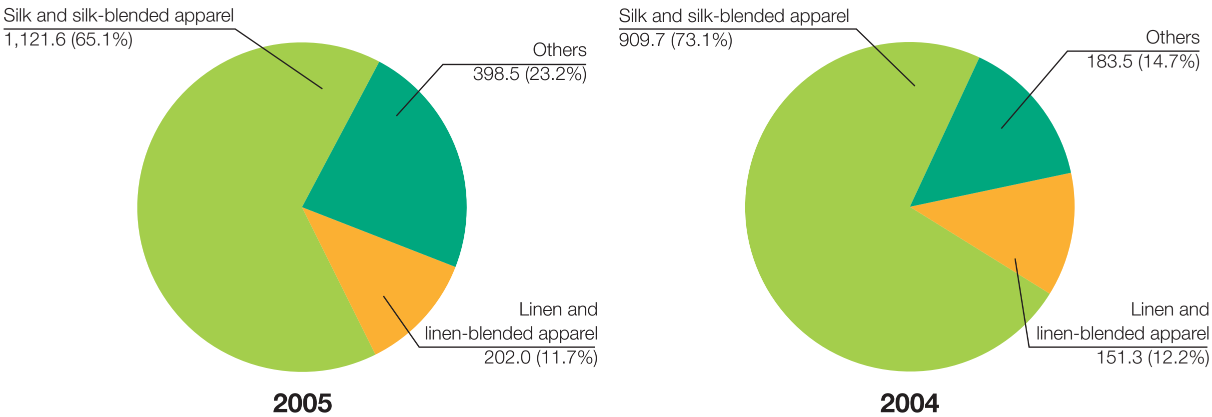
(HK$ million)



For OEM business, sales of silk and silk-blended apparel, linen and linen-blended apparel, and other apparel recorded an increase of approximately 23.3%, 33.5% and 117.2% over the financial year 2004. A substantial part of the OEM turnover continued to be derived from the sale of silk and silk-blended apparel, which accounted for approximately 65.1% of the total OEM turnover.

OEM TURNOVER BY PRODUCT

(HK$ million)

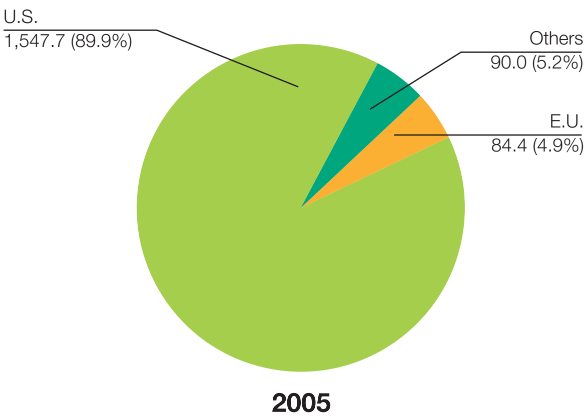


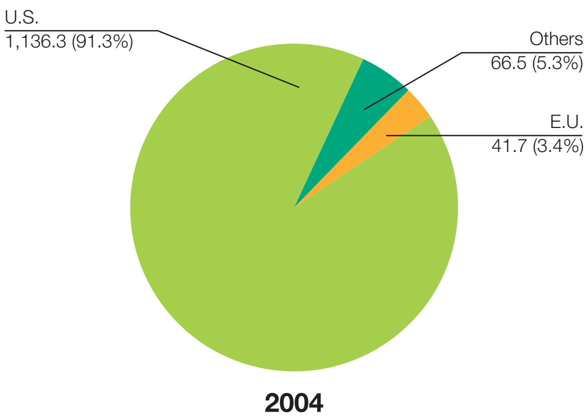
Management Discussion and Analysis

United States continued to be the largest market for the OEM business, accounted for approximately 89.9% of total OEM turnover.

OEM TURNOVER BY REGION

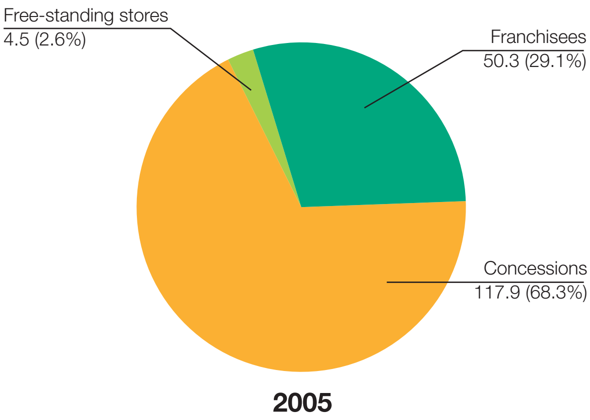
(HK$ million)

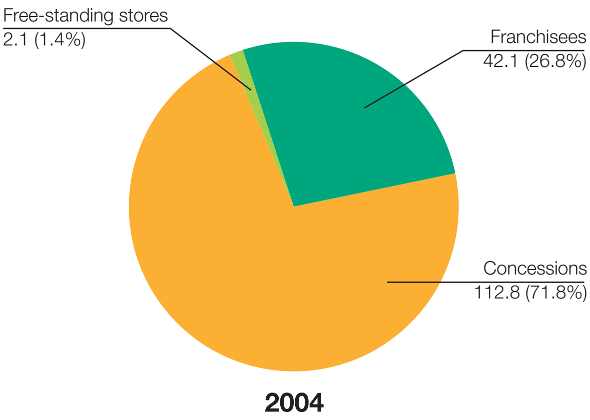




RETAIL TURNOVER BY SALE CHANNELS

(HK$ million)

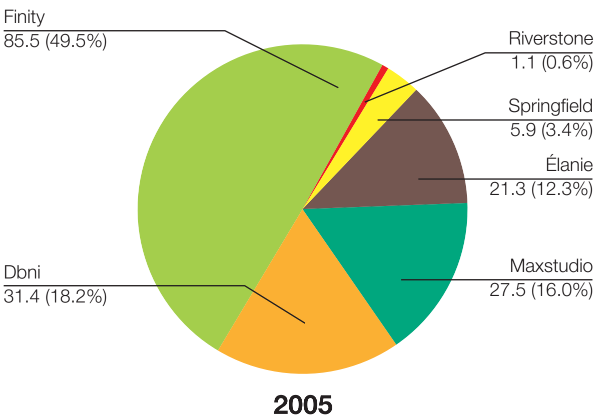


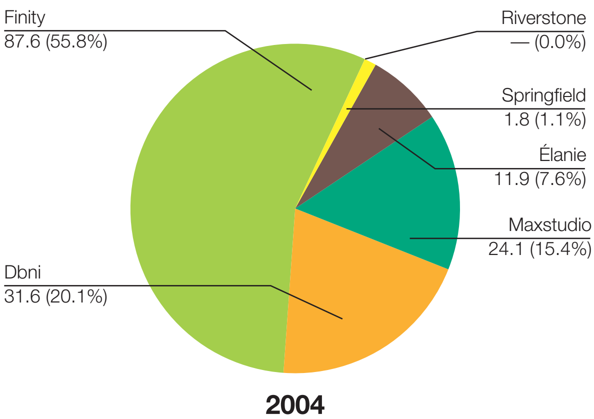


Management Discussion and Analysis

RETAIL TURNOVER BY BRAND NAME

(HK$ million)





2.2 Gross Profit

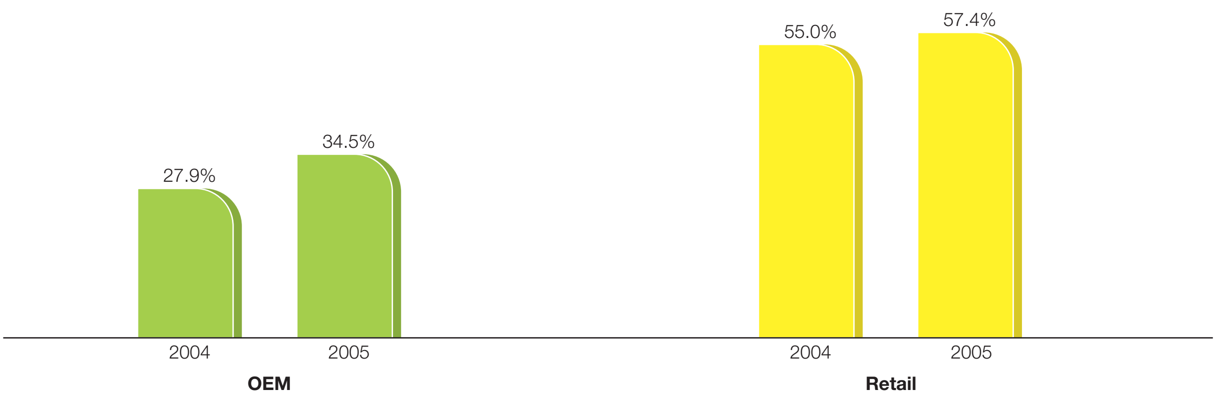
The Group's gross profit for the financial year 2005 was approximately HK$692.7 million, representing an increase of approximately HK$259.0 million, as compared to approximately HK$433.7 million recorded in financial year 2004. Gross profit margin also improved from approximately 30.9% for the financial year 2004 to approximately 36.6% for the financial year 2005. The improvement in the gross profit margin was mainly due to a further enhancement in the economies of scale of the operation of the Group from the vertically integrated production facilities.

The gross profit margin of the OEM business and the retail business improved from approximately 27.9% for the financial year 2004 to approximately 34.5% for the financial year 2005, and from approximately 55.0% for the financial year 2004 to approximately 57.4% for the financial year 2005, respectively.

Management Discussion and Analysis

GROSS PROFIT MARGIN BY BUSINESS SEGMENT — OEM AND RETAIL

(GP %)



2.3 Other gains

Other gains decreased from approximately HK$26.6 million for the financial year 2004 to approximately HK$21.9 million for the financial year 2005. The decrease was mainly represented by a decrease of approximately HK$8.1 million in the excess of fair value of net assets of subsidiaries over the cost of acquisition.

2.4 Operating expenses

The marketing and distribution expenses in the financial year was approximately HK$102.7 million as compared with the financial year 2004 of approximately HK$108.8 million. The decrease was largely due to the decrease in quota expenses of approximately HK$12.1 million, resulted from the elimination of quota in the financial year. The selling and distribution expenses mainly included amortisation of retail shops decoration cost, advertising, staff cost for sales staff, transportation and office utilities.

The administrative expenses in the financial year was approximately HK$160.1 million, representing an increase of approximately 39.3%, as compared to approximately HK$114.9 million in the financial year 2004. The general and administrative expenses mainly consisted of salaries and benefits for administrative staff, rental charges, depreciation and office utilities. The increase was primarily due to the increase in salaries and benefits as a result of new hires for the Group's expansion and the increase in stock provision of approximately HK$15.7 million.

2.5 Operating Profit

The operating profit of the OEM business reached approximately HK$432.6 million, representing an increase of approximately 147.1% over the financial year 2004. This increase was consistent with the increase in gross profit. The operating profit of the retail business was approximately HK$14.3 million, representing a decrease of approximately 65.5% as compared with the financial year 2004 of approximately HK$41.5 million. The decrease was mainly due to the operating loss of approximately HK$3.1 million for operating *SPRINGFIELD* business and the increase in stock provision of approximately HK$15.7 million.

The operating profits of these two businesses and the unallocated gain of approximately HK$15.9 million turned in a consolidated operating profit of HK$462.7 million, as compared to the operating profit of approximately HK$243.2 million in the financial year 2004.

2.6 Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the financial year 2005. The applicable enterprise income tax rate for the PRC subsidiaries was between 15% and 33%.

The Group's effective tax rate was 15.7% in 2005 as compared to 12.4% in the financial year 2004.

2.7 Net Profit Attributable to Shareholders

The net profit attributable to shareholders increased by approximately HK$188.2 million, or approximately 97.6% from approximately HK$192.8 million in the financial year 2004 to approximately HK$381.0 million in the financial year.

2.8 Liquidity and Financial Resources

During the financial year, the Group mainly financed its operation through a combination of shareholders equity and internally generated cash flow. The net cash inflow from operating activities increased by approximately HK$279.3 million, from approximately HK$128.5 million in the financial year 2004 to approximately HK$407.8 million in the financial year 2005. The increase was mainly due to the increase in operating profit and a shorter accounts receivable collection day. The net cash generated from financing activities increased by approximately HK$521.8 million, to approximately HK$539.6 million in 2005. The increase was primarily resulted from the proceeds of approximately HK$1,012.5 million raised from the initial public offering of the Shares completed in December 2005, the net repayment of bank borrowings of approximately HK$152.3 million, the dividend paid to equity holders of HK$256.3 million and the payment of share issuance cost of approximately HK$59.7 million.

As at 31 December 2005, the Group was in a net cash position and had net cash and cash equivalent of approximately HK$906.9 million.

The key financial ratios improved throughout the financial year 2005. The accounts receivable turnover was reduced by 3 days to 40 days and the stock turnover on sales was 39 days, representing a reduction of 4 days over the previous financial year. The current ratio improved from 1.2 times in financial year 2004 to 3.7 times in financial year 2005.

3. Capital Commitment and Contingent liabilities

The Group had no contingent liabilities or off balance sheet obligations as at 31 December 2005.

As at 31 December 2005, the Group had capital expenditure of HK$10.5 million (2004: Nil) in respect of property, plant and machinery, contracted for but not yet incurred.

4. Subsequent Events

(a) On 4 January 2006, the Company issued 75,000,000 Shares at the offer price of HK$2.025 per Share under an over-allotment option as part of the initial public offering of the Shares and raised gross proceeds of approximately HK$151.9 million.

(b) In February 2006, the Group signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu to construct a new apparel production base with an estimated annual production capacity of approximately six million pieces of apparel. The construction of this production base commenced in March 2006, and we expect the first stage and the final stage of the production to be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project is approximately HK$234.0 million.

5. Human Resources

As at 31 December 2005, the Group had approximately 10,950 full-time employees in Mainland China, Hong Kong, France and United States. The staff costs for the financial year 2005 was HK$217.3 million, representing an increase of approximately 25.3% over the financial year 2004.

The Group has established an incentive bonus scheme for its employees, in which the benefits are determined based on the performance of the Group and individual employees. The Directors believe that a competitive remuneration scheme, a safe and comfortable workplace, and career development opportunities are incentives for employees to excel in their areas of responsibilities.

6. Outlook

Global economy is improving and Mainland China and the United States had reached an agreement of textile safeguard in November 2005. Looking ahead, a more favorable operating environment is expected.

As the international garment retailers/brand owners will increasingly seek to reduce the number of manufacturers with whom they do business and consolidate their sources of supply after the abolition of the global quota system, the Group will be benefited of such consolidation.

The Group will continue to expand its existing silk and silk-blended OEM business and simultaneously, with the widen customer base, long-term business relationship and skillful manufacturing operation provide the Group with an opportunity to expand into non-silk garment OEM business. The Group has strategically timed its expansion into non-silk garment OEM business with the expiry of the textile-specific safeguards, which may be imposed by other WTO members against textile exports from Mainland China towards the end of 2008.

Management Discussion and Analysis

The Group's retail business has grown quickly in recent years and the Group plans to open about 63 new retail outlets in the financial year 2006. The Group will focus on the existing five brands for which it also manufactures the apparel, which may provide a higher profit margin. At the same time, the Group will improve store performance and implement cost control scheme to enhance retail's profit margin. In the short run, retail outlets operated by the Group are likely to be focusing on concessions but over time the Group intends to open more free-standing stores, including flagship specialty stores in major PRC cities.

In respect of the above, the Group has started to enter into a new era of rapid business growth.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. TING Man Yi, aged 49, is the Chairman of the Group and an executive Director. Mr. TING started the business of the Group in December 1992 with the establishment of Concept Creator. Mr. TING has considerable experience in silk fabric trading business and silk garment manufacturing business. Before establishing the business of the Group, Mr. TING worked for Hangzhou Silk Industrial Company (杭州市絲綢工業公司) during the period between 1981 and 1986. Mr. TING is currently responsible for overall strategic planning of the Group, overseeing the manufacturing business of the Group in Hangzhou and the planning and implementation of major new investments and projects of the Group. Mr. TING is the elder brother of Mr. TING Hung Yi and Mr. DING Jianer and the younger brother of Ms. DING Yinger.

Mr. TING Hung Yi, aged 45, is an executive Director and Chief Executive Officer of the Group. Mr. TING joined the Group in May 2002 and has since then been principally responsible for the strategic development of the Group's OEM and retail business. Prior to joining the Group, Mr. TING was the general manager of a trading company in Hong Kong between 1991 and 2002. Mr. TING graduated from Zhejiang Sci-Tech University (浙江理工大學), formerly known as Zhejiang Institute of Silk Textiles (浙江絲綢工學院), in 1987 and had over 16 years of experience in the operation of garment exporting business. Mr. TING is the younger brother of Mr. TING Man Yi, Mr. DING Jianer and Ms. DING Yinger. Mr. TING is also the brother-in-law of Mr. CHEN Jun.

Mr. DING Jianer, aged 46, is an executive Director. Mr. DING joined the Group in October 1996 when he was first involved in the management and business operation of Shenzhen Fuhowe Fashion Company Limited. Mr. DING has considerable experience in the silk garment manufacturing business, with focus on different areas ranging from the operations of weaving plants, sales and marketing to printing and dyeing. Mr. DING is responsible for overseeing the manufacturing business of the Group in Shenzhen. Mr. DING is the younger brother of Mr. TING Man Yi and Ms. DING Yinger and the elder brother of Mr. TING Hung Yi.

Mr. WONG Sin Yung, aged 51, is an executive Director and the company secretary of the Company. Mr. WONG joined the Group in January 2004 and is responsible for the financial, accounting and company secretarial matters of the Group. Mr. WONG is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. WONG obtained a Master's Degree in Business Administration from the University of Hong Kong in 1999 and a Master of Arts Degree in Human Resource Management from Macquarie University, Australia in 1996. Mr. WONG has over 25 years of working experience in a number of areas including corporate financial management, accounting, auditing, corporate administration, project consulting and civil aviation finance. Mr. WONG has no family relationship with any of the other Directors and senior management staff of the Group.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHENG Chi Pang, aged 48, was appointed independent non-executive Director in November 2005. Dr. CHENG obtained a Bachelor's Degree in Business in 1992, a Master's Degree in Business Administration in 1998 and an Honorary Doctorate Degree of Philosophy in Business Management in 2003. Dr. CHENG is an associate member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Taxation Institute of Hong Kong and a member of the Association of Chartered Accountants in England and Wales. Dr. CHENG is a Certified Public Accountant practising in Hong Kong and has over 25 years of experience in accounting and business advisory as well as financial management. Dr. CHENG joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited ("**NWSH**"), the shares of which are listed on the Main Board of the Stock Exchange. He is now the chairman of the Supervisory Board of The Macao Water Supply Company Limited. Mr. CHENG is also an independent non-executive director and chairman of audit committee of Nine Dragons Paper (Holdings) Limited and Chief Executive Officer of L&E Business Consultants Limited. Prior to joining the New World Group, he was a senior manager of an international accounting firm. Dr. CHENG is currently a non-executive director of Wai Kee Holdings Limited and Build King Holdings Limited both of whose shares are listed on the Main Board.

Mr. WONG Chi Keung, aged 51, was appointed independent non-executive Director in November 2005. Mr. WONG obtained a master's degree in business administration from the University of Adelaide in Australia in 1986. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. WONG is also a responsible officer for asset management, advising on securities and advising on corporate finance for Legend Capital Partners, Inc. under the Securities and Futures Ordinance of Hong Kong.

Mr. WONG was as an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited, a company listed on the Stock Exchange, for over ten years. He is the managing director of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Ting Group Holdings Limited, FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Automobile Holding Company Limited, International Entertainment Corporation, PacMOS Technology Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies are listed on the Stock Exchange. Mr. WONG has over 29 years of experience in finance, accounting and management.

Directors and Senior Management

Mr. LEUNG Man Kit, aged 52, was appointed independent non-executive Director in November 2005. Mr. LEUNG obtained a Bachelor's Degree in Social Science from the University of Hong Kong in 1977. Mr. LEUNG has over 20 years of experience in project finance and corporate finance. Mr. LEUNG held senior positions with Peregrine Capital (China) Limited, Crosby Securities (HK) Limited and Swiss Bank Corporation, Hong Kong Branch. Mr. LEUNG was a director of Emerging Markets Partnership (Hong Kong) Limited which was the principal adviser to the AIG Infrastructure Fund L.P. Mr. LEUNG is an independent non-executive director and audit committee member of NetEase, a NASDAQ listed company. Mr. LEUNG is also an independent non-executive director and audit committee member of Junefield Department Store Group Limited and Anhui Expressway Company Limited. Both of them are listed on the Stock Exchange.

CORPORATE MANAGEMENT TEAM

Export and OEM business

Mr. CHEUNG Ting Yin Peter, aged 42, is a vice president of the Group and the managing director of Concept Creator Fashion (Hong Kong) Limited. Mr. CHEUNG joined the Group in January 2000. Mr. CHEUNG is experienced in the garment and textile industry and oversees the Group's sales and marketing team. Mr. CHEUNG obtained a Bachelor of Arts (*cum laude*) Degree from the University of Washington in 1987, and a Master's Degree in Business Administration from Simon Fraser University in 1990. Mr. CHEUNG was made a member of the Golden Key National Honor Society and Phi Beta Kappa in 1986 and 1988, respectively.

Ms. LI Yuet Mui, Xera, aged 46, is a vice president of the Group and the managing director of China Ting Garment Mfg (Group) Limited. Ms. LI joined China Ting Garment in May 2002 and is responsible for the strategic development of the company, focusing on its sales, marketing and overall management. Ms. LI has over 22 years of experience in the garment industry. Prior to joining the Group, Ms. LI worked at a number of established companies in the garment industry.

Ms. LO Man Yi, aged 48, is the managing director of China Ting Textile & Knitwear (H.K.) Limited, responsible for its overall management and merchandising operation. Ms. LO is the executive vice president of China Ting Fashion Group (USA) LLC, where she oversees the administration and operation and shaping the marketing strategy of its apparel and home textile business. Ms. LO is the director of China Ting Garment Mfg (Group) Limited, responsible for the business development, sales and marketing. Ms. LO also head over the OEM design and development division. Ms. LO joined the Group in August 2004. Ms. LO obtained a Higher Diploma in Fashion and Clothing Technology from Hong Kong Polytechnic University in 1981. Ms. LO has over 20 years of experience in the apparel industry.

Directors and Senior Management

Mr. PAU Wai Keung, Simon, aged 47, is the managing director of Skylite Fashion (Hong Kong) Limited. Mr. PAU joined the Group in June 2002 and has since been responsible for the sales, marketing and overall management of Skylite Fashion (Hong Kong) Limited. Mr. PAU started working in the garment industry in 1977 and has gained over 20 years of experience in the garment exporting business. Prior to joining the Group, Mr. PAU had gained substantial experience in sales, marketing and management from a number of established garment trading companies and buying offices in Hong Kong.

Mr. LEUNG Che Hung, aged 40, is a director of Hangzhou China Ting Fashion Company Limited and the general manager of its Shanghai office. Mr. LEUNG joined the Group in May 2000, and has since then been responsible for the sales, marketing and overall management of the office. Mr. LEUNG has considerable experience in the garment and textile industry.

Ms. NG Sharon Angela, aged 57, is a director of Concept Creator Limited with the responsibility for the Group's overall European operations and development. Ms. NG has over 20 years of experience in the textile and service sectors, specialising in market development, sales and corporate management, of which over 14 years were spent in the fashion industry. Ms. NG joined the Group in June 2002.

Mr. Paul Alan COHEN, aged 59, is a senior vice president for business development of China Ting Fashion Group (USA) LLC. Mr. COHEN is experienced in the garment trading industry. Mr. COHEN joined the Group in May 2002 and has since then been responsible for the day-to-day operations of China Ting Fashion Group (USA) LLC.

Weaving and apparel production management

Mr. YE Ai Min, aged 45, is a vice president of the Group and the managing director of Hangzhou China Ting Fashion Company Limited and is responsible for overseeing the Group's production management. Mr. YE joined the Group in August 1993 and has taken up various positions including being the general manager of Shenzhen Fuhowe Fashion Company Limited and Hangzhou China Ting Fashion Company Limited, respectively, and is experienced in apparel production management and product quality control. Mr. YE graduated from Zhejiang Medical University (浙江醫科大學) in 1983 with a Bachelor's Degree in medicine. Mr. YE has more than ten years of experience in the management of garment manufacturing enterprises.

Mr. FU Xiao Bo, aged 44, is a vice president of the Group overseeing its export business in Shanghai and Hangzhou. Mr. FU joined the Group in May 1997 and has taken up various responsibilities including product development and the post of the general manager of the Group's representative office in Shanghai. Mr. FU has considerable experience in business development, client management,

Directors and Senior Management

fabrication and production techniques. Mr. FU graduated from Zhejiang Sci-Tech University (浙江理工大學), formerly known as Zhejiang Institute of Silk Textiles (浙江絲綢工學院), in 1984 with a Bachelor's Degree.

Ms. JIN Xiao Ying, aged 51, is a vice president of the Group and the managing director of Zhejiang Huali Fashion Company Limited, being in charge of the Group's product quality control operations. Ms. JIN joined the Group in May 1999, and has been the general manager of Zhejiang Huali Fashion Company Limited. Ms. JIN has considerable experience in the management of apparel manufacturing, production management and product quality control. Ms. JIN completed her tertiary education in 1988.

Mr. CHENG Si Min, aged 53, is a vice president of the Group and the general manager of Zhejiang China Ting Jincheng Silk Company Limited, overseeing its weaving operation, new fabric product development and technique development. Mr. CHENG joined the Group in October 2003. Mr. CHENG has substantial experience in managing silk weaving, printing and dyeing enterprises. Mr. CHENG has taken up various management positions and is experienced in the management of woven fabric development, weaving enterprises, formulation of production techniques and product quality control. Mr. CHENG was the managing director and general manager of Hangzhou Jincheng. Mr. CHENG graduated from the the Department of Electrical and Mechanical Engineering of Zhejiang University (浙江大學) in 1980, specialising in automation of industrial electrical equipment.

Retail and brand management

Mr. LIU Gang, aged 44, is the managing director of Zhejiang China Ting Brand Management Company Limited and the director for art and design of the Group. Mr. LIU joined the Group in August 1998. Mr. LIU is responsible for the design, promotion and management of the Group's various in-house brand names. Since joining the Group, Mr. LIU has assisted the Group in introducing the *FINITY, Dbni, ÉLANIE, MAX STUDIO* and *RIVERSTONE* brands to Mainland China market. Mr. LIU graduated from Zhejiang Sci-Tech University (浙江理工大學), formerly known as Zhejiang Institute of Silk Textiles (浙江絲綢工學院), in 1987.

Mr. CHEN Jun, aged 44, is the general manager of Finity Internationa Fashion Company Limited and Diny (Hangzhou) Fashion Company Limited, in charge of the manufacturing, sales, promotion and marketing of the Group's branded apparel retail business in the PRC. Mr. CHEN joined the Group in February 1999 and has been the general manager of Finity International Fashion Company Limited and Diny (Hangzhou) Fashion Company Limited since December 2001. Mr. CHEN has been involved in the market promotion and development for sale of branded apparel in the PRC, and has gained substantial work experience. Mr. CHEN graduated from Zhejiang Radio and Television University (浙江廣播電視大學) in 1983. Mr. CHEN is the brother-in-law of Mr. TING Hung Yi, an executive Director.

Mr. HE Yi Min, aged 39, is the general manager of Finity Fashion (Shenzhen) Company Limited. Mr. HE joined the Group in April 1998 and has been the general manager of Finity Fashion (Shenzhen) Company Limited since March 2003. Mr. HE is currently in charge of the retail operations of the *ÉLANIE* brand. Mr. HE has over seven years of experience in garment manufacturing and retail sales of fashion. Mr. HE obtained a Bachelor's Degree in education from Zhejiang Normal University (浙江師範大學) in 1990.

Accounting, finance and administration

Mr. FANG Long, aged 50, is a vice president of the Group, being responsible for the Group's administration and public relations. Mr. FANG joined the Group in August 2000 and had been the deputy general manager of Finity Fashion (Shenzhen) Company Limited until March 2003. Mr. FANG is currently in charge of administration and corporate management of the China Ting Industrial Complex, as well as the management of the offices, production facilities and properties within the China Ting Industrial Complex. Mr. FANG completed undergraduate studies at Jiangxi University (江西大學) in 1989.

Mr. MAO Jian Hua, aged 52, is the Financial Controller and Chief Accountant of the Group. Mr. MAO joined the Group in December 2003 and is responsible for the overall accounting and budgetary control for the Group's OEM production in the PRC. Mr. MAO is a holder of the Certificate of Certified Public Valuer of the PRC (中華人民共和國註冊資產評估師證書) as well as a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Mr. MAO is experienced in financial management and accounting. Mr. MAO has over 16 years of work experience in financial management and accounting.

Ms. DING Yinger, aged 56, is the General Manager (Finance) of the Group in Mainland China. Ms. DING joined the Group in March 2002 and is responsible for the management of funds for the Group and the financial management and control of the Group's retail business in Mainland China. Ms. DING has considerable experience in financial management. Ms. DING is the elder sister of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer.

Mr. NG Cheuk Him, aged 30, is the senior finance manager of the Group. Prior to joining the Group in August 2005, Mr. NG worked as a finance manager of a confectionery manufacturer in Mainland China. Mr. NG had worked as an audit manager at an international accounting firm in Beijing. Mr. NG

Directors and Senior Management

is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. NG obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University in 1997.

Mr. CHENG Ho Lung, Raymond, aged 28, is the accounting manager of the Group and the qualified accountant of the Group. Mr. CHENG joined the Group in May 2005. Mr. CHENG graduated with a Bachelor's Degree in Business Administration (Accounting) from the Hong Kong University of Science and Technology in 1999. Mr. CHENG is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, Mr. CHENG worked for an international accounting firm in Hong Kong as an audit manager.

Corporate Governance Report

The Directors recognise the importance of incorporating elements of good corporate governance into the management structure of the Group and the internal control procedures, of the Group, so as to make sure that all business activities of the Group and the decision-making process are properly regulated. During the period from 15 December 2005 (the "**Listing Date**"), being the date on which trading of the Shares commenced on the Main Board up to 31 December 2005, the Company complied with the applicable the Code Provisions set forth in The Code on Corporate Governance Practices (the "**Code**") in appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), save that the Board had held one meeting during the financial year 2005, as the Company was established on 31 May 2005 and became the holding company of its subsidiaries on 18 November 2005 following completion of the Reorganisation (as defined below).

BOARD OF DIRECTORS

The Board is responsible for preventing frauds and irregularities, safeguarding the assets of the Group and formulating business strategies for the Group. The Board currently comprises four executive Directors and three independent non-executive Directors. Details of the Directors are set forth on pages 24 to 26 of this report.

Four executive Directors include three brothers, namely Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer, and Mr. WONG Sin Yung, who is the company secretary and has no family relationship with any of the other executive and independent non-executive Directors.

The Chairman and the Chief Executive Officer of the Group are siblings. Mr. TING Man Yi is the Chairman of the Group and Mr. TING Hung Yi is the Chief Executive Officer of the Group. The Chairman is responsible for the overall strategic planning of the Group, overseeing the manufacturing business of the Group in Hangzhou and the planning and implementation of major new investments and projects of the Group. The Chairman will ensure that the Group maintains adequate and effective corporate governance practices and procedures. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group and the strategic development of the Group's OEM and retail business. With the assistance of other members of the Board and other senior management, the Chief Executive Officer closely monitors the operating and financial results of the Group, identifies weakness of the operation and takes all necessary and appropriate steps to remedy.

All three independent non-executive Directors have been appointed for three years, commenced from 18 November 2005. All of them have satisfied the independence criteria, and each of them has made such confirmation pursuant to rule 3.13 of the Listing Rules. The Directors are of the view that all independent non-executive Directors meet the independence guidelines set forth in rule 3.13 of the Listing Rules.

Corporate Governance Report

For the financial year 2005, the Board held one meeting on 18 November 2005 and all Directors had attended the meeting. The Directors confirm that at least four board meetings are scheduled to be held during for the financial year 2006.

The Board is responsible for the formulation of the overall business strategies and objectives, the monitoring and evaluation of the operating and financial performance, the review of the corporate governance standard and the supervision of the management of the Group. The management of the Group is responsible for the implementation of the business strategies and the day-to-day operations of the Group under the supervision of the Chief Executive Officer. The Directors have full access to information on the Group. All senior management of the Group also provide the Directors from time to time with information on the business of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in appendix 10 to the Listing Rules. The Company has made specific enquires with the Directors, and all Directors have confirmed that they complied with the requirements under the Model Code throughout the period from the Listing Date up to 31 December 2005.

REMUNERATION COMMITTEE

The remuneration committee of the Board has three members, namely Mr. TING Hung Yi, Dr. CHENG Chi Pang and Mr. WONG Chi Keung. The chairman of the remuneration committee is Mr. TING Hung Yi. The primary duties of the remuneration committee include reviewing the terms of remuneration packages and determining the award of bonuses. Its terms of reference are available on request, which will also be posted on the website of the Company once the construction work of the website shall have been finished. The remuneration committee was established on 18 November 2005. No remuneration committee meetings were held in the financial year 2005 as the Shares only commenced trading on the Main Board on 15 December 2005. Two remuneration committee meetings were held on 3 January 2006 and 29 March 2006, and all the committee members attended these meetings.

NOMINATION COMMITTEE

The nomination committee of the Board consists of Mr. TING Hung Yi, Dr. CHENG Chi Pang and Mr. LEUNG Man Kit. The chairman of the nomination committee is Mr. TING Hung Yi. The nomination committee selects and recommends appropriate candidates, based on his or her prior experience and qualifications, to the Board on the appointment of Directors and the senior management of the Group. Its terms of reference are available on request, which will also be posted on the website of the Company once the construction work of the website shall have been finished. The nomination committee was established on 18 November 2005. No nomination committee meetings were held in the financial year 2005 as the Shares only commenced trading on the Main Board on 15 December 2005. A meeting of the nomination committee, with all committee members attended, was held on 11 April 2006 discussing the nomination procedures and the process and the criteria to be adopted by the nomination committee.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, Dr. CHENG Chi Pang, Mr. LEUNG Man Kit and Mr. WONG Chi Keung. Dr. CHENG Chi Pang is the chairman of the audit committee. The audit committee assists the Board to review the financial reporting process, evaluate the effectiveness of the internal control systems of the Group and oversee the auditing processes. Its terms of reference are available on request, which will also be posted on the website of the Company once the construction work of the website shall have been finished. The audit committee was established on 18 November 2005. No audit committee meeting was held in the financial year 2005 as the Shares only commenced trading on 15 December 2005. Two audit committee meetings were held on 21 February 2006 and 7 April 2006 with all committee members attended.

DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility for overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group, selecting suitable accounting policies, applying the selected accounting policies consistently, and making prudent and reasonable judgments and estimates for the preparation of the financial statements of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set forth in the auditors' report on page 52.

AUDITORS' REMUNERATION

The professional fee charged by the Group's auditors in respect of the auditing services is disclosed in the notes to the consolidated financial statements. The remuneration paid to the auditors of the Group, PricewaterhouseCoopers, and its affiliated firms, for audit and non-audit services (namely taxation services) rendered during the financial year was HK$4.0 million and HK$0.1 million, respectively. The remuneration paid to the Group's auditors in respect of the listing of the Shares in December 2005 was HK$11.8 million.

INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the audit committee of the Board, the Board reviews the effectiveness of these systems.

Report of the Directors

The Directors are pleased to present their first report together with the audited financial statements of the Company for the period from 31 May 2005 (being the date of incorporation of the Company) to 31 December 2005 and the audited consolidated financial statements of the Group for the financial year ended 31 December 2005.

REORGANISATION

The Company was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands.

On 30 August 2005 and 9 September 2005, pursuant to the Reorganisation (as defined in the prospectus of the Company dated 30 November 2005 (the "**Prospectus**")), Witpower Investments Limited, Skyyear Holdings Limited, Oceanroc Investments Limited and Joyocean Investments Limited acquired, through exchanges of shares, the entire issued share capital of certain companies now comprising the Group in which the equity holders have direct interests.

On 18 November 2005, pursuant to the Reorganisation (as defined in the Prospectus), the Company acquired the entire issued share capital of Witpower Investments Limited, Skyyear Holdings Limited, Oceanroc Investments Limited, Joyocean Investments Limited and Manfame Investments Limited through share exchanges and became the holding company of the members now comprising the Group.

Dealings in the Shares commenced on the Main Board on 15 December 2005.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Company are investment holding. Details of the principal business activities of the subsidiaries of the Company are set forth in note 9 to the consolidated financial statements.

The Group's principal business activities during the financial year 2005 were garment manufacturing for export and retailing branded fashion apparel in Mainland China.

RESULTS AND APPROPRIATIONS

The Group's consolidated results for the financial year ended 31 December 2005 are set forth in the consolidated income statement on page 56 of this report.

Report of the Directors

During the financial year ended 31 December 2005, a dividend of HK$80.0 million out of the profits of certain companies now comprising the Group for the financial year 2004, and a further special dividend of HK$161.0 million for the financial year 2004, were approved by their respective board of directors. Such dividends were settled by the internal sources of funding and partly offset by amounts due to the then shareholders before the listing of Shares on the Main Board of the Stock Exchange.

At a meeting held on 11 April 2006, the Directors proposed a final dividend of HK4.6 cents per Share in respect of the financial year ended 31 December 2005. Upon the approval to be obtained from the forthcoming Annual General Meeting to be held on 30 May 2006, the final dividend will be payable on or about 20 June 2006 to the Shareholders whose names appear on the register of members of the Company at close of business on 30 May 2006. Such dividend represented HK$91,540,000 for the 1,990,000,000 Shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK$3,450,000 for the 75,000,000 Shares issued in January 2006 under the over-allotment arrangement as disclosed in note 19 to the consolidated financial statements.

The register of members of the Company will be closed from Wednesday, 24 May 2006 to Tuesday, 30 May 2006, both days inclusive, during which no transfer of Shares will be effected. To qualify for the final dividend to be considered at the forthcoming Annual General Meeting, Shareholders must ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on Tuesday, 23 May 2006.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 139 and 140 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the consolidated financial statements.

DONATIONS

During the financial year 2005, the Group made charitable donations of approximately HK$1.7 million.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital of and the share option granted by the Company are set forth in Note 19 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the financial year 2005 are set forth in Note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distributions amounted to HK$1,326.9 million.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

As dealings in the Shares on the Main Board commenced on 15 December 2005, the Group had not utilized any of the net proceeds from the initial public offering of the Shares as at 31 December 2005 for the business expansion and construction of production facilities of the Group.

As at 31 December 2005, all the net proceeds were deposited with a licensed bank in Hong Kong as short-term deposits with interest rate of approximately 4.5%. Nevertheless, there is no change in the proposed use of net proceeds stated in the Prospectus. Subsequent to 31 December 2005, the Group has already used part of the net proceeds to repay the bank borrowings of approximately HK$5.8 million and to invest into the following projects for the business expansion:–

(i) approximately HK$43.0 million to complete the construction of a new apparel production plant in Hangzhou with an estimated capacity of two million pieces of apparel. This new apparel production plant is expected to commence its production in the second half of 2006; and

(ii) approximately HK$8.0 million to complete the construction of a product design, development and exhibition centre. This centre is expected to put into use in the second half of 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year 2005, sales made to the Group's top five customers and the largest customer accounted for approximately 59.8% and 21.1% of the total sales for the financial year. The Group's top five suppliers and the largest supplier together accounted for approximately 13.3% and 4.7% of the total raw materials purchased for the financial year.

Report of the Directors

None of the Directors, their associates or Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued Shares) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors since 31 May 2005 (being the date of incorporation of the Company) and up to the date of this report were:–

Executive Directors:–
Mr. TING Man Yi *(Chairman)* (appointed on 17 June 2005)
Mr. TING Hung Yi *(Chief Executive Officer)* (appointed on 17 June 2005)
Mr. DING Jianer (appointed on 17 June 2005)
Mr. WONG Sin Yung (appointed on 15 August 2005)

Independent non-executive Directors:–
Dr. CHENG Chi Pang (appointed on 18 November 2005)
Mr. WONG Chi Keung (appointed on 18 November 2005)
Mr. LEUNG Man Kit (appointed on 18 November 2005)

In accordance with article 86 of the Company's articles of association (the "**Articles**"), Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer, Mr. WONG Sin Yung, Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit will retire and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company received from each of Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit a confirmation of his independence and the Company still considers all of them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set forth on pages 24 to 30 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement on 18 November 2005 with the Company. Each service agreement is of an initial term of three years commencing from 18 November 2005 and shall continue thereafter until terminated in accordance with the terms of the service agreement. Under the service agreement, either party may, after the expiry of the relevant first year of service of the relevant executive Directors, terminate the service agreement by giving to the other not less than six months' prior written notice.

The annual salary of each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer and Mr. WONG Sin Yung from 18 November 2005 to 17 November 2006 shall be HK$3.0 million, HK$3.0 million, HK$2.0 million and HK$0.8 million, respectively. As from 18 November 2006, the annual salary of each executive Director shall be determined by the Board and subject to the annual review by the remuneration committee of the Company, provided that any increment of which shall not be more than 15% of the annual salary received by each executive Director for the immediate preceding year.

Each of the executive Directors is also entitled to a management bonus, the amount of which is determined with reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "**Net Profits**") as the Board may, in its absolute discretion, approve, provided that the aggregate amount of the management bonus payable to all executive Directors in respect of any financial year shall not exceed 2% of the Net Profits for the relevant financial year.

Each of the independent non-executive Directors has signed a letter of appointment dated 18 November 2005 with the Company under which each of them has agreed to act as an independent non-executive Director for a period of three years, commencing from 18 November 2005, unless terminated in accordance with the terms and conditions specified therein. The initial annual fee payable to Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit is HK$300,000, HK$200,000 and HK$200,000, respectively.

Save for the annual remuneration mentioned above, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director. Save as disclosed above, there is no service contract, which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation), entered into with any of the executive Director proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the financial year.

EMOLUMENT POLICY OF THE GROUP

The Company's policies concerning remuneration of the Directors are as follows:–

(i) the amount of remuneration is determined by the remuneration committee of the Board on the basis of the relevant executive Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided to the executive Directors under their remuneration package; and

(iii) the Directors may be granted, at the discretion of the Board with the endorsement of the remuneration committee of the Board, options pursuant to the share option scheme adopted by the Company, as part of their remuneration package.

The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. The employee's remuneration packages are generally determined based on their job nature and position with reference to market standards. Employees also receive certain welfare benefits. The Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions), or were required, pursuant to section 352 of the Securities and Futures Ordinance ("**SFO**"), to be entered in the register required to be maintained, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:–

(a) Beneficial interests in the Shares

Name of Directors	**Capacity**	**Number of Shares** *(Note 1)*	**Approximate percentage of interest in the Company**
Mr. TING Man Yi	Interest of controlled corporation	1,490,000,000 (L) *(Note 2)*	74.87%
		75,000,000 (S) *(Note 5)*	3.77%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (L) *(Note 3)*	74.87%
		75,000,000 (S) *(Note 5)*	3.77%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (L) *(Note 4)*	74.87%
		75,000,000 (S) *(Note 5)*	3.77%

Notes:–

1. The letters "L" and "S" stand for the Director's long position and short position, respectively, in the Shares.

2. Longerview Investments Limited ("**Longerview**") is owned as to 41.5% by Firmsuccess Limited ("**Firmsuccess**") which is wholly-owned by Mr. TING Man Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Man Yi. As such, under the SFO, Mr. TING Man Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.

3. Longerview is owned as to 40.5% by In Holdings Limited ("**In Holdings**") which is wholly-owned by Mr. TING Hung Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Hung Yi. As such, under the SFO, Mr. TING Hung Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.

4. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between Mr. TING Man Yi, Firmsuccess, Mr. TING Hung Yi, In Holdings, Mr. DING Jianer, Willport Investments Limited ("**Willport**") and Longerview (collectively the "**Controlling Shareholders**"), each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, under the SFO, Mr. DING Jianer is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

5. Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer are also deemed to have a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement entered into by Longerview on 9 December 2005 (as defined in the prospectus (the "**Prospectus**") of the Company dated 30 November 2005).

(b) Beneficial interests in the shares of associated corporations

Name of Directors	Name of associated corporation	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the associated corporation
Mr. TING Man Yi	Firmsuccess	Personal interest	1	100%
	Longerview	Corporate interest	415 *(Note 1)*	41.5%
Mr. TING Hung Yi	In Holdings	Personal interest	1	100%
	Longerview	Corporate interest	405 *(Note 2)*	40.5%
Mr. DING Jianer	Willport	Personal interest	1	100%
	Longerview	Corporate interest	180 *(Note 3)*	18%

Notes:–

1. The 415 shares in Longerview are held by Firmsuccess, which is wholly-owned by Mr. TING Man Yi.

2. The 405 shares in Longerview are held by In Holdings, which is wholly-owned by Mr. TING Hung Yi.

3. The 180 shares in Longerview are held by Willport, which is wholly-owned by Mr. DING Jianer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2005, the persons, other than Directors and chief executive of the Company, having interests or short positions in the Shares or underlying shares or debentures of the Company, which were required to be entered into the register kept by the Company pursuant to section 336 of the SFO, were as follows:–

Name of substantial Shareholders	**Capacity**	**Number of Shares** *(Note1)*	**Approximate percentage of interest in the Company**
Longerview	Beneficial owner	1,490,000,000 (L)	74.87%
		75,000,000 (S) *(Note 2)*	3.77%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (L) *(Note 3)*	74.87%
		75,000,000 (S) *(Note 2)*	3.77%
In Holdings	Interest of controlled corporation	1,490,000,000 (L) *(Note 4)*	74.87%
		75,000,000 (S) *(Note 2)*	3.77%
Willport	Interest of controlled corporation	1,490,000,000 (L) *(Note 5)*	74.87%
		75,000,000 (S) *(Note 2)*	3.77%

Notes:–

1. The letters "L" and "S" stand for the substantial Shareholders' long position and short position, respectively, in the Shares.

2. Longerview had a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement. Firmsuccess, In Holdings and Willport are also deemed to have a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement.

3. Longerview is owned as to 41.5% by Firmsuccess. As such, Longerview is a controlled corporation (within the meaning of the SFO) of Firmsuccess. Firmsuccess is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.

4. Longerview is owned as to 40.5% by In Holdings. As such, Longerview is a controlled corporation (within the meaning of the SFO) of In Holdings. In Holdings is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.

5. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between the Controlling Shareholders, each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Firmsuccess, In Holdings and Willport is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, Willport is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION DEED

(a) Share Option Scheme

Pursuant to the written resolutions of the sole Shareholder passed on 18 November 2005, a share option scheme (the "**Share Option Scheme**") was approved and adopted by the Company.

The purpose of the Share Option Scheme is to allow the Company to grant options to subscribe for Shares (the "**Options**") to Participants (as defined below) as incentives or rewards for their contribution to the Group.

For the purpose of the Share Option Scheme, Participants include (i) employees of the Company (whether fulltime or part-time) or any of its subsidiaries; and (ii) Directors (whether executive Directors or non-executive Directors or independent non-executive Directors) or any director of its subsidiaries (together, the "**Participants**" and each a "**Participant**").

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 199,000,000 Shares (the "**Scheme Mandate Limit**"), unless the Company obtains an approval from the Shareholders as set out below. Options lapsed shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may seek approval of the shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the "**Refreshed Limit**") of the issued share capital of the Company as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of Shares in issue. Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the shareholders' approval in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee. Such period shall commence on the date on which an offer of the grant of an Option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the Board.

An amount of HK$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant. Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

The subscription price in respect of each Share issued under the Share Option Scheme will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "Trading Day"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant; and (iii) the nominal value of a Share.

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by the written resolutions of the sole Shareholder, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

As at the date of this report, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

(b) Pre-IPO Share Option Deed

A share option deed was entered into between the Company and Ms. LI Yuet Mui, Xera ("**Ms. LI**"), a senior management staff of the Group, on 18 November 2005 (the "**Pre-IPO Share Option Deed**"), whereby the Company has granted Ms. LI an option to subscribe for certain number of Shares upon and subject to the terms and conditions set forth in the Pre-IPO Share Option Deed.

The purpose of the Pre-IPO Share Option Deed is to provide incentive and reward to Ms. LI for her contribution to the management and business growth of the Group.

The principal terms of the Pre-IPO Share Option Deed, as approved by the written resolutions of the sole Shareholder passed on 18 November 2005, are substantially the same as the terms of the Share Option Scheme except that:–

(i) the subscription price for each Share subject to the option granted under the Pre-IPO Share Option Deed shall be the par value of each Share;

(ii) the period within which Ms. LI may exercise the option under the Pre-IPO Share Option Deed is eight years from the Listing Date. During the exercise period, Ms. LI can exercise the option in each year no more than one-eighth of the total number of the Option Shares (as defined below) granted, provided that Ms. LI cannot exercise any option granted under the Pre-IPO Share Option Deed during the period of six months immediately after the Listing Date;

(iii) the total number of the Shares subject to the Pre-IPO Share Option Deed shall be up to 10,000,000 Shares upon full exercise of the option under the Pre-IPO Share Option Deed; and

(iv) save for the option which has been granted, no further options will be granted under the Pre-IPO Share Option Deed.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at 31 December 2005, none of the Directors and their respective associates (as defined in the Listing Rules) or the controlling shareholders of the Company (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year 2005.

CONTINUING CONNECTED TRANSACTIONS

During the financial year 2005, the Group entered into the following non-exempt continuing connected transactions:–

(a) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group Company Limited ("**Zhejiang Huading Group**") and Hangzhou Fuding Fashion Company Limited ("**Hangzhou Fuding**"), a member of the Group. Zhejiang Huading Group has agreed to lease to Hangzhou Fuding a factory building for a period from 1 October 2005 to 31 December 2007. The annual rental for the factory building is fixed at RMB1,363,050 (equivalent to approximately HK$1,310,625) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Huangzhou Fuding to Zhejiang Huading Group for the lease amounted to HK$327,700.

(b) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group and Hangzhou China Ting Fashion Company Limited ("**Hangzhou China Ting Fashion**"), a member of the Group. Zhejiang Huading Group has agreed to lease to Hangzhou China Ting Fashion the office premises in Shanghai for a period from 1 October 2005 to 31 December 2007.

The annual rental for the office tower is fixed at RMB1,322,000 (equivalent to approximately HK$1,271,154) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hangzhou China Ting Fashion to Zhejiang Huading Group for the lease amounted to HK$317,800.

(c) A lease agreement dated 9 September 2005 and entered into between Zhejiang Huading Group and Hong Kong Fuhowe Fashion Company Limited ("**Hong Kong Fuhowe**"), a member of the Group, Zhejiang Huading Group has agreed to lease to Hong Kong Fuhowe the relevant potion of the office tower for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the office tower is fixed at RMB3,757,000 (equivalent to approximately HK$3,612,500) (including management fee) during the term of the lease agreement, which will be payable on a monthly basis by Hong Kong Fuhowe to Zhejiang Huading Group. For the financial year ended 31 December 2005, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang Huading Group for the lease amounted to HK$903,100.

(d) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group and Hong Kong Fuhowe. Zhejiang Huading Group has agreed to lease to Hong Kong Fuhowe the staff quarters comprise 16 six-storey buildings for general staff, one six-storey building for senior staff, one four-storey guest house and the ancillary buildings and facilities a period from 1 October 2005 to 31 December 2007. The annual rental for the staff quarters is fixed at RMB7,500,000 (equivalent to approximately HK$7,211,538) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang Huading Group for the lease amounted to HK$1,802,900.

(e) A lease agreement dated 9 September 2005 was entered into between Hangzhou Yuhang Huaming Garment Manufacturing Company Limited ("**Yuhang Huaming**") and Zhejiang Huali Fashion Company Limited ("**Zhejiang Huali**"), a member of the Group. Yuhang Huaming agreed to lease to Zhejiang Huali the relevant portion of the factory building and staff quarters in for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the factory building and staff quarters is fixed at RMB846,610 (equivalent to approximately HK$814,048) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Zhejiang Huali to Yuhang Huaming Group for the lease amounted to HK$203,500.

(f) A lease agreement dated 9 September 2005 was entered into between Yuhang Huaming and Hangzhou Fuding. Yuhang Huaming has agreed to lease to Hangzhou Fuding the relevant portion of the another factory building and staff quarters for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the factory building and staff quarters is fixed at RMB613,020 (equivalent to approximately HK$589,442) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hangzhou Fuding to Yuhang Huaming Group for the lease amounted to HK$147,400.

(g) A supply contract dated 1 November 2005 was entered into between Hangzhou Fuze Textile Technology Company Limited ("**Hangzhou Fuze**") and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Hangzhou Fuze has undertaken to supply to members of the Group the required silk fabric at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of silk fabric by members of the Group from Hangzhou Fuze amounted to HK$3.8 million, which was below the annual cap of HK$5.0 million.

(h) A supply contract dated 1 November 2005 was entered into between Hangzhou Huaze Textile Company Limited ("**Hangzhou Huaze**") and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Hangzhou Huaze has undertaken to supply to members of the Group the required velour at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of velour by members of the Group from Hangzhou Huaze amounted to HK$6.3 million, which was below the annual cap of HK$6.4 million.

(i) A supply contract dated 1 November 2005 was entered into between Hangzhou Huasheng Accessories Company Limited ("**Huasheng Accessories**") and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Huasheng Accessories has undertaken to supply to members of the Group the required plastic bags and hangers at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of plastic bags and hangers by the Group from Huasheng Accessories amounted to HK$7.5 million, which was below the annual cap of HK$9.1 million.

(j) A supply contract dated 1 November 2005 was entered into between Zhejiang Huayue Silk Products Company Limited ("**Zhejiang Huayue**") and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Zhejiang Huayue has undertaken to supply to members of the Group the required silk fabric at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of silk fabric by members of the Group from Zhejiang Huayue amounted to HK$54.3 million, which was below the annual cap of HK$61.9 million.

The independent non-executive Directors have reviewed the above non-exempt continuing connected transactions of the Group and have confirmed that these transactions have been entered into:–

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded the respective cap amounts set out in the relevant agreements referred to above.

The auditors of the Company have reported to the Directors that during the financial year:–

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iii) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

The purchases of accessories from Huasheng Accessories and silk fabric from Hangzhou Fuze and Hangzhou Huaze as set out in Note 36(a) to the consolidated financial statements, being the significant related party transactions of the Group, constitute continuing connected transactions of the Group. The disclosure requirements in respect of these continuing connected transactions have been complied with in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, at least 25% of the Company's total issued share capital was held by the public.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in Note 39 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, with written terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants adopted as the terms of reference of audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide comments and advice to the Board. The audit committee has reviewed the audited financial statements of the Company and audited consolidated financial statements of the Group for the financial year ended 31 December 2005.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment.

On Behalf of the Board
TING Man Yi
Chairman
Hong Kong, 11 April 2006

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA TING GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 53 to 138 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 April 2006

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**237,783**	274,714
Investment properties	7	**4,940**	4,310
Leasehold land and land use rights	8	**36,128**	43,622
Interest in associates	10	**59,540**	45,117
Intangible assets	11	**27,688**	29,655
Deferred income tax assets	22	**4,321**	1,173
		370,400	398,591
Current assets			
Inventories	12	**218,140**	187,665
Due from related companies	13, 36(c)(i)	**—**	159,874
Due from associates	10	**1,104**	4,238
Due from directors	14, 36(c)(ii)	**—**	28,468
Trade and bills receivable	15	**230,924**	188,583
Other receivables, deposits and prepayments	16	**62,643**	52,620
Tax recoverable		**2,097**	1,332
Pledged bank deposits	17	**1,128**	17,850
Term deposits with initial term of over three months	18	**300,000**	1,692
Bank balances and cash	18	**669,542**	137,936
		1,485,578	780,258
Total assets		**1,855,978**	1,178,849

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**199,000**	10,000
Retained earnings	20	**433,805**	389,379
Other reserves	20	**807,556**	41,269
		1,440,361	440,648
Minority interests		**13,979**	95,515
Total equity		**1,454,340**	536,163
LIABILITIES			
Non-current liabilities			
Borrowings	21	**4,368**	13,231
Deferred income tax liabilities	22	**779**	108
		5,147	13,339
Current liabilities			
Trade and bills payables	23	**182,719**	176,164
Other payables and accruals	24	**103,486**	93,144
Borrowings	21	**59,420**	200,660
Due to associates	10	**7,541**	—
Due to directors	14, 36(c)(iii)	**—**	142,321
Taxation payable		**43,325**	17,058
		396,491	629,347
Total liabilities		**401,638**	642,686
Total equity and liabilities		**1,855,978**	1,178,849
Net current assets		**1,089,087**	150,911
Total assets less current liabilities		**1,459,487**	549,502

TING Man Yi
Director

TING Hung Yi
Director

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	9	**478,054**
Current assets		
Due from subsidiaries	9	**429,274**
Other receivables, deposits and prepayments	16	**15,759**
Term deposits with initial term of over three months	18	**300,000**
Bank balances and cash	18	**333,458**
		1,078,491
Total assets		**1,556,545**
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	19	**199,000**
Other reserves	20	**1,233,729**
Retained earning	20	**95,038**
Total equity		**1,527,767**
LIABILITIES		
Current liabilities		
Other payables and accruals	24	**28,778**
Total liabilities		**28,778**
Total equity and liabilities		**1,556,545**
Net current assets		**1,049,713**
Total assets less current liabilities		**1,527,767**

TING Man Yi
Director

TING Hung Yi
Director

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	5	**1,894,835**	1,401,465
Cost of goods sold	28	**(1,202,126)**	(967,807)
Gross profit		**692,709**	433,658
Other income	5	**10,913**	6,505
Other gains, net	25	**21,882**	26,637
Selling, marketing and distribution costs	28	**(102,667)**	(108,716)
Administrative expenses	28	**(160,089)**	(114,930)
Operating profit		**462,748**	243,154
Finance costs	26	**(8,951)**	(10,191)
Share of profit of associates	10	**9,023**	10,391
Profit before income tax		**462,820**	243,354
Income tax expense	27	**(72,715)**	(30,186)
Profit for the year		**390,105**	213,168
Attributable to:			
Equity holders of the Company		**380,997**	192,803
Minority interests		**9,108**	20,365
		390,105	213,168
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
— basic	31	**25.15 cents**	12.94 cents
— diluted	31	**25.13 cents**	N/A
Dividend	32	**351,260**	—

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Note	Attributable to the equity holders of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Total	Minority interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004		10,000	—	34,215	203,672	247,887	88,834	336,721
Currency translation differences	20	—	—	(52)	—	(52)	(2)	(54)
Profit for the year		—	—	—	192,803	192,803	20,365	213,168
Total recognised income for the year		—	—	(52)	192,803	192,751	20,363	213,114
Capital contribution to a new subsidiary	20	—	—	10	—	10	—	10
Acquisition of additional interest in a subsidiary		—	—	—	—	—	(13,682)	(13,682)
Profit appropriation	20	—	—	7,096	(7,096)	—	—	—
At 31 December 2004		10,000	—	41,269	389,379	440,648	95,515	536,163

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

		Attributable to the equity holders of the Company						
	Note	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		10,000	—	41,269	389,379	440,648	95,515	536,163
Currency translation differences	20	—	—	11,967	—	11,967	—	11,967
Profit for the year		—	—	—	380,997	380,997	9,108	390,105
Total recognised income for the year		—	—	11,967	380,997	392,964	9,108	402,072
Capital contribution to subsidiaries	20	—	—	2,338	—	2,338	—	2,338
Issue of shares in connection with the Listing	19, 20	50,000	962,500	—	—	1,012,500	—	1,012,500
Capitalisation of share premium account	19, 20	139,000	(139,000)	—	—	—	—	—
Share issuance costs	20	—	(59,727)	—	—	(59,727)	—	(59,727)
Employee share option scheme:								
— value of employee services		—	—	1,902	—	1,902	—	1,902
Acquisition of a subsidiary	35	—	—	—	—	—	4,874	4,874
Contribution from a minority shareholder		—	—	—	—	—	8,683	8,683
Acquisition of additional interest in subsidiaries		—	—	—	—	—	1,414	1,414
Dividend	32	—	—	—	(256,270)	(256,270)	(15,551)	(271,821)
Profit appropriation	20	—	—	12,134	(12,134)	—	—	—
Deemed distribution		—	—	(25,827)	(68,167)	(93,994)	(90,064)	(184,058)
At 31 December 2005		199,000	763,773	43,783	433,805	1,440,361	13,979	1,454,340

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Cash generated from operating activities	33	**459,786**	164,021
Interest paid		**(8,951)**	(10,191)
Income taxes paid		**(43,034)**	(25,368)
Net cash generated from operating activities		**407,801**	128,462
Cash flows from investing activities			
Acquisition of minority interests		**—**	(11,705)
Acquisition of subsidiaries, net of cash acquired	35	**575**	—
Acquisition of associates	10	**(9,360)**	(4,193)
Purchases of property, plant and equipment		**(104,542)**	(20,312)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	33	**33,298**	4,965
Purchases of intangible assets		**—**	(31,216)
Acquisition of leasehold land		**(16,611)**	—
Repayment from/(advance to) associates		**10,684**	(6,727)
Increase in term deposits with initial term of over three months		**(298,308)**	(1,692)
Decrease/(increase) in pledged deposits		**16,722**	(16,106)
Interest received		**10,249**	5,842
Cash outflow from deemed distribution		**(64,206)**	—
Net cash outflow from investing activities		**(421,499)**	(81,144)
Net cash (outflow)/inflow before financing activities		**(13,698)**	47,318

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**1,012,500**	10
Proceeds from issuance of ordinary shares of subsidiaries from Controlling Shareholders		**2,338**	—
Payment of shares issuance costs		**(59,727)**	—
Proceeds from borrowings		**293,802**	412,478
Repayment of borrowings		**(446,169)**	(394,702)
Dividend paid to equity holders	32	**(256,270)**	—
Capital contribution by minority interests		**8,683**	—
Dividends paid to minority interests		**(15,551)**	—
Net cash inflow from financing activities		**539,606**	17,786
Net increase in cash and cash equivalents		**525,908**	65,104
Cash and cash equivalents at 1 January		**137,936**	73,388
Exchange gains/(losses)		**5,698**	(556)
Cash and cash equivalents at 31 December		**669,542**	137,936
Analysis of balance of cash and cash equivalents:			
Bank balances and cash		**408,396**	138,048
Short-term bank deposits		**261,146**	197
Bank overdrafts		**—**	(309)
		669,542	137,936

Notes to the Consolidated Financial Statements

1. GROUP STRUCTURE, REORGANISATION AND PRINCIPAL ACTIVITIES

China Ting Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

Pursuant to a group reorganisation, which was completed on 18 November 2005 (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") on 15 December 2005.

The Reorganisation has been reflected in the financial statements by regarding the Group now comprising the Company and its subsidiaries as a continuing entity. Accordingly, the financial statements for the year ended 31 December 2005 have been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group as if the current structure had been in existence throughout the period presented.

As the Company was only incorporated on 31 May 2005, there were no comparative figures in the Company's balance sheet as at 31 December 2004.

These consolidated financial statements are presented in units of Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 11 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of China Ting Group Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The HKICPA has issued a number of new/revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2006. The Group has started considering the potential impact of these HKFRSs. Based on the preliminary assessment, the Group believes that the adoption of these HKFRSs, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted the following new/revised HKFRSs, if applicable, in the financial statements for the year ended 31 December 2005:

HKAS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards — Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-int 3	Emission Rights[2]
HKFRS-int 4	Determining whether an Arrangement Contains a Lease[2]
HKFRS-int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3]

1: Effective for accounting periods commencing on or after 1 January 2007.

2: Effective for accounting periods commencing on or after 1 January 2006.

3: Effective for accounting periods commencing on or after 1 December 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

(i) *Subsidiaries*

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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the Reorganisation which has been accounted for on a merger basis, the acquisitions set out in Note 35 have been accounted for using the purchase method of accounting. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are de-combined from the date that control ceases.

Under the purchase method of accounting, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Minority interests represent the interests in net profit and assets of the subsidiaries comprising the Group which are attributable to shareholders outside the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (Continued)

(i) *Subsidiaries (Continued)*

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

(ii) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is the Company's presentation currency.

The balance sheets of subsidiaries and associates expressed in currencies other than HK$ at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Whilst the income statements are translated at average rates. Exchange differences are dealt with as a movement in reserves.

(ii) *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translation (Continued)

(iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20–40 years
Leasehold improvements	5 years
Plant and machinery	5–10 years
Vehicles	3–10 years
Furniture, fittings and equipment	5–10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the year of construction or installation and testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties (Continued)

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the "First Edition of The HKIS Valuation Standards on Properties" issued by The Hong Kong Institute of Surveyors.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial year in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties (Continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under Hong Kong Accounting Standard 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

(g) Leasehold land and land use rights

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

(h) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition, other than acquisition under the Reorganisation, over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill arising on the acquisition of subsidiaries in Note 35 below is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (Continued)

(ii) *Trademarks*

Trademarks are shown at historical cost. Trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful life of 10 years. In determining the estimated useful life of the trademark, the Directors have considered the fair value of the trademark and the estimated royalty expenses based on the future revenue stream.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and bills receivables in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement within "administrative expenses".

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(p) Borrowing costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

(i) *Pension obligations*

The Group participates in a number of defined contribution plans in Hong Kong and the People's Republic of China ("PRC"), the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies. The Group pays contributions to the pension plans on a mandatory, contractual or voluntary basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(iii) *Profit sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (Continued)

(iv) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and reliable estimate of that amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services net of rebates, discounts, returns, value-added tax and after eliminated sales within the Group. Revenue is recognised as follows:

(i) *Sales of goods — original equipment manufacturing ("OEM")*

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue recognition (Continued)

(ii) *Sales of goods — retail*

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The recorded revenue includes credit card fees payable for the transaction. Such credit card fees are included in selling, marketing and distribution costs. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(iii) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iv) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(v) *Rental income*

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease term.

(v) Government grants

Government grants are subsidies on export of textile and clothing and assistance on certain projects approved by local government. Government grants are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group comply with all attached conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Government grants (Continued)

Government grants relating to costs are deferred and recognised in the consolidated income statement over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(w) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on the straight-line basis over the period of the lease.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders. Dividend proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), business risk, credit risk and liquidity risk.

(i) *Foreign exchange risk*

The Group mainly operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in the PRC while purchases are mainly from suppliers in Hong Kong and the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures such as United States Dollars ("USD"), Renminbi ("RMB") and EURO, primarily with respect to HK$ which is the Group's presentation currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

In addition, RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The conversion rates of HK$ against USD and RMB, however, have been comparatively stable during the year.

(ii) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2005, over 79.8% (2004: 78.9%) of the Group's borrowings were at fixed rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 21.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iii) *Credit risk*

The carrying amounts of cash and cash equivalents, time deposits, accounts and bills receivable, and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Although OEM garment sales to large or long-established customers with good repayment history comprise a significant proportion of the total Group's OEM garment sales, the Group has policies on granting different settlement methods to different customers to monitor the credit exposure. Letters of credit are normally required from new customers and existing customers with short trading history for settlement purposes. Sales to retail customers are made in cash or via credit cards or collected by department stores on behalf of the Group. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

(iv) *Concentration risk*

During the year ended 31 December 2005, the Group's sales to top 5 customers accounted for approximately 59.8% (2004: 49.1%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(v) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(v) *Liquidity risk (Continued)*

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payments of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and bank loans. The Group generally operates with a working capital surplus.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 21.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(i) Sales of goods — original equipment manufacturing ("OEM")

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Sales of goods — retail

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such credit card fees are included in selling, marketing and distribution costs. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(iii) Useful lives of machinery and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its machinery and equipment. This estimate is based on the historical experience of the actual useful lives of machinery and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(v) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(vi) Income taxes

The Group is subject to income taxes in certain jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(vii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(h)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(a) Turnover and other income

i) *Turnover*

The Group is principally engaged in the manufacture and sale of garments on an OEM basis and retailing of branded fashion apparel. Revenues recognised are approximately HK$1,894,835,000 for the year ended 31 December 2005 (2004: HK$1,401,465,000).

ii) *Other income*

The Group's other income are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Interest income	**10,249**	5,842
Rental income	**664**	663
	10,913	6,505

(b) Primary reporting segment — business segments

The business segment reporting includes the following segments: (1) manufacture and sale of garments on an OEM basis; and (2) retailing of branded fashion apparel.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed amongst those business segments.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

Capital expenditure comprises mainly additions to property, plant and equipment (Note 6), leasehold land and land use rights (Note 8) and intangible assets (Note 11), including additions resulting from acquisitions through business combinations.

As at and for the year ended 31 December 2005

The segment results for the year ended 31 December 2005 and other segment items included in the consolidated income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Gross segment sales	1,730,322	172,783	1,903,105
Elimination of inter-segment sales	(8,270)	—	(8,270)
Turnover	1,722,052	172,783	1,894,835
Other income	10,762	151	10,913
	1,732,814	172,934	1,905,748
Segment results	432,577	14,265	446,842
Unallocated gains			15,906
Operating profit			462,748
Finance costs	(8,951)	—	(8,951)
Share of profit of associates	9,023	—	9,023
Profit before income tax			462,820
Income tax expense			(72,715)
Profit for the year			390,105
Other segment items included in the consolidated income statement are as follows:			
Depreciation charge (Note 6)	23,531	3,075	26,606
Amortisation of leasehold land and land use rights (Note 8)	1,061	—	1,061
Provision for impairment of receivables (Note 28)	3,069	—	3,069
Bad debts written off (Note 28)	78	—	78
Inventory write-down (Note 28)	55	17,047	17,102

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Corporate and others HK$'000	Total HK$'000
Assets	820,910	170,275	805,253	1,796,438
Associates	59,540	—	—	59,540
Total assets	880,450	170,275	805,253	1,855,978
Liabilities	320,031	61,674	19,933	401,638
Capital expenditure	118,112	4,455	—	122,567

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

As at and for the year ended 31 December 2004

The segment results for the year ended 31 December 2004 and other segment items included in the consolidated income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Gross segment sales	1,253,113	156,953	1,410,066
Elimination of inter-segment sales	(8,601)	—	(8,601)
Turnover	1,244,512	156,953	1,401,465
Other income	4,787	1,718	6,505
	1,249,299	158,671	1,407,970
Segment results	175,065	41,452	216,517
Unallocated gains			26,637
Operating profit			243,154
Finance costs	(5,615)	(4,576)	(10,191)
Share of profit of associates	10,391	—	10,391
Profit before income tax			243,354
Income tax expense			(30,186)
Profit for the year			213,168
Other segment items included in the consolidated income statement are as follows:			
Depreciation charge (Note 6)	22,996	1,885	24,881
Amortisation of leasehold land and land use rights (Note 8)	846	6	852
Provision for impairment of receivables (Note 28)	—	633	633
Bad debts written off (Note 28)	8,320	—	8,320
Inventory write-down (Note 28)	—	1,361	1,361

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting segment — business segments (Continued)

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Assets	904,925	228,807	1,133,732
Associates	45,117	—	45,117
Total assets	950,042	228,807	1,178,849
Liabilities	549,241	93,445	642,686
Capital expenditure	43,023	34,480	77,503

(c) Secondary reporting segment — geographical segments

The Group primarily operates in Hong Kong and the PRC. Sales are made to overseas customers as well as customers in the PRC.

The Group's sales are mainly made to the customers located in the following geographical areas:

	2005 HK$'000	2004 HK$'000
North America	**1,547,703**	1,136,335
European Union	**84,427**	41,726
The PRC (including Hong Kong)	**214,419**	190,682
Other countries	**48,286**	32,722
	1,894,835	1,401,465

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting segment — geographical segments (Continued)

The Group's total assets are located in the following geographical areas:

	2005 HK$'000	2004 HK$'000
The PRC		
— Mainland China	**721,143**	738,331
— Hong Kong	**1,134,293**	439,976
North America	**542**	542
	1,855,978	1,178,849

The Group's capital expenditure, based on where the assets are located, are located in the following geographical areas:

	2005 HK$'000	2004 HK$'000
The PRC		
— Mainland China	**121,177**	76,234
— Hong Kong	**1,390**	1,073
North America	**—**	196
	122,567	77,503

6. PROPERTY, PLANT AND EQUIPMENT

	Properties	Leasehold improvements	Plant and machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004							
Cost	210,436	5,568	71,419	16,116	17,520	11,797	332,856
Accumulated depreciation	(8,512)	(4,023)	(5,626)	(6,430)	(4,021)	—	(28,612)
Net book amount	201,924	1,545	65,793	9,686	13,499	11,797	304,244
Year ended 31 December 2004							
Net book amount at 1 January 2004	201,924	1,545	65,793	9,686	13,499	11,797	304,244
Additions	257	805	9,119	3,229	5,000	1,902	20,312
Transfers	128	—	3,928	—	5,238	(9,294)	—
Disposals	(23,892)	(33)	(331)	(453)	(746)	—	(25,455)
Depreciation charge	(10,234)	(758)	(7,031)	(2,818)	(4,040)	—	(24,881)
Exchange differences	321	1	115	16	23	18	494
Net book amount at 31 December 2004	168,504	1,560	71,593	9,660	18,974	4,423	274,714
At 31 December 2004							
Cost	182,777	6,292	83,545	18,325	25,575	4,423	320,937
Accumulated depreciation	(14,273)	(4,732)	(11,952)	(8,665)	(6,601)	—	(46,223)
Net book amount	168,504	1,560	71,593	9,660	18,974	4,423	274,714

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Properties	Leasehold improvements	Plant and machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005							
Net book amount at 1 January 2005	168,504	1,560	71,593	9,660	18,974	4,423	274,714
Additions	9,203	1,295	22,963	5,175	4,807	61,099	104,542
Acquisition of subsidiaries	—	—	1,939	—	48	4,008	5,995
Transfers	22,026	—	11,831	342	305	(34,504)	—
Disposals	(10,929)	(238)	(6,446)	(125)	(168)	—	(17,906)
Deemed distribution (Note 20)	(84,625)	—	(4,815)	(1,971)	(5,222)	(12,561)	(109,194)
Depreciation charge	(8,884)	(601)	(9,934)	(2,987)	(4,200)	—	(26,606)
Exchange differences	3,588	(44)	1,777	163	329	425	6,238
Net book amount at 31 December 2005	98,883	1,972	88,908	10,257	14,873	22,890	237,783
At 31 December 2005							
Cost	108,939	6,118	108,763	20,479	24,341	22,890	291,530
Accumulated depreciation	(10,056)	(4,146)	(19,855)	(10,222)	(9,468)	—	(53,747)
Net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain property, plant and equipment of the Group have been pledged for bank borrowings as follows:

	2005	2004
	HK$'000	HK$'000
Net book value of pledged property, plant and equipment	**4,813**	13,268

Depreciation is charged to the following expenses:

	2005	2004
	HK$'000	HK$'000
Cost of sales	**14,909**	16,311
Administrative expenses	**11,697**	8,570
	26,606	24,881

7. INVESTMENT PROPERTIES

	2005	2004
	HK$'000	HK$'000
At 1 January	**4,310**	3,040
Fair value gain (Note 25)	**630**	1,270
At 31 December	**4,940**	4,310

The investment properties were revalued at 30 September 2005 by independent professionally qualified valuer, CB Richard Ellis Limited. Valuations were based on current prices in an active market for these properties. Directors considered that the valuation is approximately the same as the fair value of the investment properties as at 31 December 2005.

The Group's interest in investment properties are held in Hong Kong with lease period between 10 to 50 years and are pledged for bank borrowings.

8. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
	HK$'000	HK$'000
In Hong Kong, held on:		
— Leases of over 50 years	**—**	9,101
— Leases of between 10 to 50 years	**9,587**	9,853
Outside Hong Kong, held on:		
— Leases of between 10 to 50 years	**26,541**	24,668
	36,128	43,622

The movements of net book value of leasehold land and land use rights are analysed as follows:

	2005	2004
	HK$'000	HK$'000
At beginning of year	**43,622**	23,487
Additions	**16,611**	25,975
Acquisition of subsidiaries	**293**	—
Disposals	**(8,903)**	(4,996)
Deemed distribution (Note 20)	**(15,147)**	—
Amortisation	**(1,061)**	(852)
Exchange differences	**713**	8
At end of year	**36,128**	43,622

Certain leasehold land and land use rights of the Group have been pledged for bank borrowings. The carrying amount of these leasehold land and land use rights as at 31 December 2005 was approximately HK$9,587,000 (2004: HK$18,955,000).

Amortisation is charged to administrative expenses during the year.

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES

	Company 2005 HK$'000
Investments in subsidiaries	
Unlisted shares, at cost	**478,054**
Due from subsidiaries	**429,274**

The balances are unsecured, interest-free and repayable on demand.

The particulars of the Group's principal subsidiaries as at 31 December 2005 are set out as follows:

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
China Ting Garment Mfg (Group) Limited	Hong Kong	Garment trading in Hong Kong	5,000,000 shares of HK$1 each	100%
China Ting Textile & Knitwear (H.K.) Limited	Hong Kong	Knitwear trading in Hong Kong	10,000 shares of HK$1 each	100%
Concept Creator Fashion Limited	Hong Kong	Garment trading in Hong Kong	200,000 shares of HK$1 each	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Diny (Hangzhou) Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$630,000	100%
Finity Fashion (Shenzhen) Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	HK$10,000,000	100%
Finity International Fashion Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$6,800,000	100%
Hangzhou China Ting Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$3,500,000	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Hangzhou Fuding Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$1,000,000	100%
Hangzhou Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	RMB5,000,000	100%
Jiangsu Fuze Textile Company Limited	The PRC	Jacquard and velvet fabric weaving in the PRC	US$1,375,000	52%
Shenzhen Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$560,000	100%
Skylite Fashion (Hong Kong) Limited	Hong Kong	Garment trading in Hong Kong	10,000 shares of HK$1 each	100%
Zhejiang China Ting Brand Management Company Limited	The PRC	Garment manufacturing and retailing and trademark holding in the PRC	US$1,200,000	100%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Zhejiang China Ting Jincheng Silk Company Limited	The PRC	Silk fabric weaving in the PRC	US$1,950,000	100%
Zhejiang China Ting Knitwear Company Limited	The PRC	Knitwear manufacturing in the PRC	US$3,500,000	100%
Zhejiang China Ting Textile Technology Company Limited	The PRC	Home textile weaving in the PRC	US$10,000,000	100%
Zhejiang Concept Creator Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%
Zhejiang Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$1,000,000	100%
Zhejiang Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,500,000	100%
Zhejiang Huayue Silk Products Company Limited	The PRC	Spun silk fabric weaving in the PRC	US$2,500,000	55%

9. INVESTMENTS IN SUBSIDIARIES/DUE FROM SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation/ establishment	Principal activities and place of operations	Particular of issued/paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Zhejiang Huali Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$936,300	100%
Zhejiang Xinan Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%

The English names of certain subsidiaries referred herein represent management's best effort in translating the Chinese names of these companies as no English names have been registered.

10. INTEREST IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Share of net assets	41,861	27,438
Goodwill	17,679	17,679
	59,540	45,117
Due from associates	1,104	4,238
Due to associates	7,541	—

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

10. INTEREST IN ASSOCIATES (CONTINUED)

Movements of share of net assets and goodwill of associates are as follows:

	2005 **HK$'000**	2004 HK$'000
At beginning of year	**45,117**	30,533
Acquisitions	**9,360**	4,193
Share of results before income tax	**11,234**	10,758
Share of income tax	**(2,211)**	(367)
Share of profits of associates	**9,023**	10,391
Change of status from associates to subsidiaries upon acquisitions of additional interests (Note 35)	**(3,956)**	—
Exchange differences	**(4)**	—
At end of year	**59,540**	45,117

The summarisation of the financial information of the Group's associates in aggregate is as follows:

	2005 **HK$'000**	2004 HK$'000
Total assets	**146,109**	229,610
Total liabilities	**(37,769)**	(53,821)
Revenues	**122,226**	126,780
Operating profit	**22,356**	30,141

10. INTEREST IN ASSOCIATES (CONTINUED)

The particulars of the Group's associates are set out as follows:

Name of companies	Place of incorporation/ establishment and operations	Particular of issued/paid-in capital	Equity interest attributable to the Group	Principal activities
Hangzhou Huaxing Silk Printing Company Limited	The PRC	US$3,000,000	40%	Fabric printing and dyeing
Heshan Tri-Star Silk Dyeing and Printing Works Limited	The PRC	US$3,000,000	40%	Fabric printing and dyeing
Interfield Industrial Limited	Hong Kong	23,400,000 shares of HK$1 each	40%	Investment holding
Jiaxing Feiyue Knitwear Garment Limited	The PRC	US$660,000	45.5%	Garment manufacturing
Hangzhou Huasheng Accessories Company Limited	The PRC	US$250,000	25%	Accessories and plastic bags manufacturing

Notes to the Consolidated Financial Statements

11. INTANGIBLE ASSETS

	Goodwill	Trademark	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2004	—	—	—
Additions	—	31,216	31,216
Amortisation	—	(1,561)	(1,561)
At 31 December 2004	—	29,655	29,655
At 31 December 2004			
Cost	—	31,216	31,216
Accumulated amortisation	—	(1,561)	(1,561)
Net book amount	—	29,655	29,655
At 1 January 2005	—	29,655	29,655
Acquisition of subsidiaries	1,414	—	1,414
Amortisation	—	(3,381)	(3,381)
At 31 December 2005	1,414	26,274	27,688
At 31 December 2005			
Cost	1,414	31,216	32,630
Accumulated amortisation	—	(4,942)	(4,942)
Net book amount	1,414	26,274	27,688

Pursuant to an agreement dated 7 June 2004, the Group acquired the right to use the brand FINITY in the PRC and Hong Kong from Finity Acquisition Corp. ("FAC"), an independent third party, for an aggregate consideration of US$4 million based on mutually agreed price. Amortisation is charged to selling, marketing and distribution costs during the year.

12. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**83,290**	45,991
Work-in-progress	**94,545**	75,370
Finished goods	**63,939**	72,836
	241,774	194,197
Less: inventory write-down	**(23,634)**	(6,532)
	218,140	187,665

The cost of inventories recognised as expense and included in cost of goods sold amounted to approximately HK$816,261,000 (2004: HK$571,593,000) for the year ended 31 December 2005.

The Group has made an inventory write-down of HK$17,102,000 in 2005 (2004: HK$1,361,000).

13. DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, interest-free and repayable on demand. The carrying amounts due from related companies approximate their fair values. Please refer to Note 36 for further details of these balances.

14. DUE FROM/(TO) DIRECTORS

The amounts due from/(to) directors were unsecured, interest-free and had been fully settled during the year. Please refer to Note 36 for further details of these balances.

15. TRADE AND BILLS RECEIVABLE

	2005	2004
	HK$'000	HK$'000
Trade receivables	**213,811**	162,379
Bills receivable	**21,668**	27,690
	235,479	190,069
Less: Provision for impairment	**(4,555)**	(1,486)
	230,924	188,583

Aging analysis of trade and bills receivables is as follows:

	2005	2004
	HK$'000	HK$'000
0 to 30 days	**167,341**	134,328
31 to 60 days	**49,356**	41,945
61 to 90 days	**11,750**	3,490
Over 90 days	**7,032**	10,306
	235,479	190,069

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of less than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

15. TRADE AND BILLS RECEIVABLE (CONTINUED)

Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The department stores are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bills receivable are with average maturity dates of within 2 months.

The carrying amounts of trade and bills receivable approximate their fair values.

The Group has recognised losses of approximately HK$3,147,000 (2004: HK$8,953,000) for the year ended 31 December 2005 for the impairment and write-off of its trade receivables. The losses have been included in administrative expenses in the consolidated income statement.

16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
VAT recoverable	**27,063**	27,457	**—**
Prepayments and deposits	**30,991**	18,319	**14,603**
Other receivables	**4,589**	6,844	**1,156**
	62,643	52,620	**15,759**

Other receivables, deposits and prepayments are non-interest bearing. The carrying amounts of other receivables, deposits and prepayments approximate their fair values.

17. PLEDGED BANK DEPOSITS

As at 31 December 2005, bank deposits of HK$1,128,000 (2004: HK$17,850,000) had been pledged with financial institutions for the grants of certain trade finance facilities to the Group.

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Pledged bank deposits are denominated in:			
Euro	**—**	6,691	**—**
USD	**—**	11,159	**—**
RMB	**1,128**	—	**—**
	1,128	17,850	**—**

The weighted average effective interest rate on pledged bank deposits were 1.71% (2004: 1.61%) per annum for the year ended 31 December 2005.

18. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/BANK BALANCES AND CASH

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Cash at bank and in hand	**408,396**	138,048	**83,458**
Short-term bank deposits	**261,146**	197	**250,000**
Bank overdrafts	**—**	(309)	**—**
Bank balances and cash	**669,542**	137,936	**333,458**
Term deposits with initial term of over three months	**300,000**	1,692	**300,000**
Pledged bank deposits (Note 17)	**1,128**	17,850	**—**
	970,670	157,478	**633,458**

18. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/BANK BALANCES AND CASH (CONTINUED)

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Denominated in:			
HK$	**635,565**	16,290	**633,458**
RMB	**73,296**	54,063	**—**
USD	**261,460**	77,186	**—**
Euro	**349**	9,939	**—**
	970,670	157,478	**633,458**

(i) The weighted average effective interest rate on short-term bank deposits, with maturity ranging from 7 to 180 days, was 4.27% (2004: 1.98%) per annum during the year ended 31 December 2005.

(ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

19. SHARE CAPITAL

Details of share capital of the Company as at 31 December 2005 are as follows:

	Authorised ordinary shares		
	Par value	Number of shares	Total
	HK$	'000	HK$'000
At date of incorporation	0.1	10,000	1,000
Increase in authorised share capital	0.1	9,990,000	999,000
At 31 December 2005	0.1	10,000,000	1,000,000

		Issued and fully paid ordinary shares		
		Par value	Number of shares	Total
	Notes	HK$	'000	HK$'000
At date of incorporation	(i)	—	—	—
Ordinary shares allotted and issued nil paid	(ii)	0.1	—	—
Issue of ordinary shares in respect of the Reorganisation	(iii)	0.1	100,000	10,000
Capitalisation of share premium account	(iv)	0.1	1,390,000	139,000
New issue of shares	(v)	0.1	500,000	50,000
At 31 December 2005		0.1	1,990,000	199,000

19. SHARE CAPITAL (CONTINUED)

Notes:

(i) The Company was incorporated on 31 May 2005 with an authorised share capital of HK$1,000,000 divided into 10,000,000 shares of HK$0.10 each ("Share"). On 17 June 2005, one Share was allotted and issued nil paid to the initial subscriber of the Company which was subsequently transferred to Gainchoice Investment Limited ("Gainchoice") which is wholly owned by the controlling shareholders of the Company, namely Mr. TING Man Yi, Firmsuccess Limited, Mr. TING Hung Yi, In Holdings Limited, Mr. DING Jianer, Willport Investments Limited and Longerview Investments Limited ("Controlling Shareholders") on the same date.

(ii) On 17 June 2005, 99 Shares were allotted and issued nil paid to Gainchoice. On 27 July 2005, 100 Shares were transferred from Gainchoice to Longerview Investments Limited ("Longerview"), wholly owned by the Controlling Shareholders of the Company.

(iii) Pursuant to a written resolution of the sole shareholder of the Company passed on 1 November 2005, the authorised share capital of the Company was increased from HK$1,000,000 to HK$1,000,000,000 by the creation of additional 9,990,000,000 Shares. Pursuant to a share exchange deed on 18 November 2005, a total of 99,999,900 shares, credited as fully paid, were allotted and issued to Longerview and the 100 nil paid Shares held by Longerview were credited as fully paid, in consideration for the acquisition of the entire issued share capital of Witpower Investments Limited, Skyyear Holdings Limited, Joyocean Investments Limited, Manfame Investments Limited and Oceanroc Investments Limited pursuant to the Reorganisation.

(iv) On 18 November 2005, 1,390,000,000 Shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK$139,000,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the HKSE (the "Listing") as described below.

(v) On 14 December 2005, the Company issued 500,000,000 ordinary shares of HK$2.025 per share in connection with the Listing, and raised gross proceeds of approximately HK$1,012,500,000. Subsequent to the issuance of 500,000,000 ordinary shares, the share of the Company were listed on the Main Board of the HKSE on 15 December 2005.

(vi) Subsequent to 31 December 2005, on 4 January 2006, the Company issued 75,000,000 ordinary shares of HK$0.10 each at HK$2.025 per share under an over-allotment arrangement in connection with the Listing and raised gross proceeds of approximately HK$151,875,000.

19. SHARE CAPITAL (CONTINUED)

Share options

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered by the Company with an employee on 18 November 2005, the employee has been conditionally granted the option prior to 15 December 2005 to subscribe for up to 10,000,000 shares. The option granted under the Pre-IPO Share Option Scheme may be exercised by the employee in part, during a period of eight years from 15 December 2005, representing no more than one-eighth of the total number of the option shares in each calendar year, provided that the employee cannot exercise any option granted under the Pre-IPO Share Option Scheme within a period of six months immediately after 15 December 2005. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005	
	Average exercise price in HK$ per share	**Options (thousands)**
At date of incorporation	—	—
Granted	**0.10**	**10,000**
At 31 December	**0.10**	**10,000**

At 31 December 2005, all the options were not exercisable.

10,000,000 outstanding options at the end of the year will be expired on 15 December 2013 at an exercise price of HK$0.10 per share.

The fair value of options granted during the year determined using the Black-Scholes valuation model was HK$15,215,000. The significant inputs into the model were share price of HK$2.025, at the grant date, exercise price shown above, standard deviation of expected share price returns of 100%, expected life of options of 8 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 4% per annum. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last year.

20. RESERVES

(a) Group

	Share premium HK$'000	Capital reserve HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iii))	Statutory reserves HK$'000 (Note (i))	Share based compensation reserve HK$'000 (Note (iv))	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004	—	32,654	(6,972)	9,437	—	(904)	203,672	237,887
Capital contribution to a new subsidiary	—	—	10	—	—	—	—	10
Currency translation differences	—	—	—	—	—	(52)	—	(52)
Profit for the year	—	—	—	—	—	—	192,803	192,803
Profit appropriation	—	—	—	7,096	—	—	(7,096)	—
At 31 December 2004	—	32,654	(6,962)	16,533	—	(956)	389,379	430,648
Representing:								
2004 Final dividend proposed							—	
Others							389,379	
							389,379	

20. RESERVES (CONTINUED)

(a) Group (Continued)

	Share premium HK$'000	Capital reserve HK$'000 (Note (ii))	Contributed surplus HK$'000 (Note (iii))	Statutory reserves HK$'000 (Note (i))	Share based compensation reserve HK$'000 (Note (iv))	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2005	—	32,654	(6,962)	16,533	—	(956)	389,379	430,648
Currency translation differences	—	(30)	—	—	—	11,997	—	11,967
Capital contribution to subsidiaries by Controlling Shareholders	—	—	2,338	—	—	—	—	2,338
Profit for the year	—	—	—	—	—	—	380,997	380,997
Issue of shares in connection with the Listing (Note 19(v))	962,500	—	—	—	—	—	—	962,500
Capitalisation of share premium account (Note 19(iv))	(139,000)	—	—	—	—	—	—	(139,000)
Share issuance costs	(59,727)	—	—	—	—	—	—	(59,727)
Employee share option scheme: — value of employee services	—	—	—	—	1,902	—	—	1,902
Dividend declared and paid	—	—	—	—	—	—	(256,270)	(256,270)
Profit appropriation	—	—	—	12,134	—	—	(12,134)	—
Deemed distribution (Note (v))	—	(24,878)	—	(3,696)	—	2,747	(68,167)	(93,994)
At 31 December 2005	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Representing:								
2005 Final dividend proposed							94,990	
Others							338,815	
							433,805	

20. RESERVES (CONTINUED)

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note (iii))	Share based compensation reserve HK$'000 (Note (iv))	Retained earning HK$'000	Total HK$'000
At date of incorporation	—	—	—	—	—
Profit for the year	—	—	—	95,038	95,038
Effect of the Reorganisation	—	468,054	—	—	468,054
Employee share option scheme:					
— value of employee services	—	—	1,902	—	1,902
Issue of shares in connection with the listing (Note 19(v))	962,500	—	—	—	962,500
Capitalisation of share premium account (Note 19 (iv))	(139,000)	—	—	—	(139,000)
Share issuance costs	(59,727)	—	—	—	(59,727)
At 31 December 2005	763,773	468,054	1,902	95,038	1,328,767
Representing:					
2005 Final dividend proposed				94,990	
Others				48	
				95,038	

20. RESERVES (CONTINUED)

(b) Company (Continued)

Notes:

(i) Statutory reserves

Statutory reserves include statutory reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations on foreign investment enterprises established in the PRC, the Company's PRC subsidiaries are required to transfer an amount of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to make good of previous years' losses or to increase the capital of these subsidiaries.

The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. The enterprise expansion fund can only be used to increase capital of group companies or to expand their production operations upon approval by the relevant authority.

(ii) Capital reserve

Capital reserve represents capital contributions from the Controlling Shareholders other than the paid up share capital of the Companies now comprising the Group.

(iii) Contributed surplus

Contributed reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired pursuant to the Reorganisation effected on 18 November 2005 over the nominal value of the share capital of the Company issued in exchange.

Contribution surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation over the fair value of the subsidiaries in exchange.

(iv) Share based compensation reserve

Share based compensation reserve represents value of employee services under the Group's employee share option schemes of approximately HK$1.9 million relate to the Pre-IPO Share Option Scheme.

20. RESERVES (CONTINUED)

(b) Company (Continued)

Notes: (Continued)

(v) Deemed distribution

Although the equity interests in Zhejiang Huading Group Company Limited, Hangzhou Chuangxin Silk Company Limited and Skylite Apparels Company were not acquired by the Group pursuant to the Reorganisation, their operating results for the year ended 31 December 2004 and their financial positions as at 31 December 2004 have been included in the consolidated financial statements. This is because these companies and the Group are under common control and management by the Controlling Shareholders and all their businesses together with assets and liabilities are closely related to those of the Group and have been taken up by the Group pursuant to the Reorganisation.

During the year ended 31 December 2004, Zhejiang Huading Group Company Limited was engaged in sales of garments and investment holdings. The principal assets of Zhejiang Huading Group Company Limited are the premises currently occupied by members of the Group. Subsequent to 31 May 2005, all of Zhejiang Huading Group Company Limited's remaining assets and liabilities were assumed by the Group except that Zhejiang Huading Group Company Limited retains (i) the land use rights and certain buildings which are let to the Group at an annual rental of RMB13,942,050 for the period from 1 October 2005 to 31 December 2007, renewable at the Group's option; (ii) and certain receivables and payables which cannot be assumed because of their legal titles. The retention of these assets and liabilities by Zhejiang Huading Group Company Limited was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

Huangzhou Chuangxin Silk Company Limited was principally engaged in silk weaving. Part of the land on which the factory buildings of Hangzhou Chuangxin is situated will be resumed by the PRC government. Pursuant to an agreement entered in November 2005, the assets and liabilities of Hangzhou Chuangxin Silk Company Limited were assumed by Huangzhou Fucheng Fashion Company Limited except for certain assets and liabilities including the land and buildings to be resumed by the PRC government. The retention of these assets and liabilities by Hangzhou Chuangxin was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

Huangzhou Furun Fashion Company Limited is an investment holding company. Subsequent to the transfer of 45% equity interest in Hangzhou Fucheng Fashion Company Limited by Hangzhou Furun Fashion Company Limited to China Ting Garment Manufacturing (Group) Limited in December 2003, Hangzhou Furun became inactive since then. The principal activity of Skylite Apparels Company is the trading of garment. Subsequent to the transfer of all of its business and operations to the Group in October 2005, it became inactive since then. The retention of any assets and liabilities (including cash balance, trade receivable and payable previously incurred) by Hangzhou Furun Fashion Company Limited and Skylite Apparel Company was accounted for as a deemed distribution to the Controlling Shareholders upon the completion of the Reorganisation.

Notes to the Consolidated Financial Statements

20. RESERVES (CONTINUED)

Set out below are the details of the deemed distribution made by the Group for the year ended 31 December 2005:

	2005 HK$'000
Property, plant and equipment	109,194
Leasehold land and land use rights	15,147
Inventories	3,465
Due from related companies	3,347
Due from directors	3,141
Trade and bills receivables	355
Other receivables, deposits and prepayments	1,296
Cash and bank balances	64,206
Trade and bills payables	(96)
Other payables and accruals	(9,342)
Tax payable	(6,655)
Net assets distributed	184,058
Minority interests	(90,064)
Net assets distributed to Controlling Shareholders	93,994

21. BORROWINGS

	2005 HK$'000	2004 HK$'000
Non-current		
Bank borrowings	**4,368**	13,231
Current		
Bank borrowings	**59,420**	200,660
Total borrowings	**63,788**	213,891
Representing:		
— secured	**38,806**	34,003
— guaranteed	**21,138**	70,822
— unsecured	**3,844**	109,066
Total borrowings	**63,788**	213,891
Analysed as follows:		
— wholly repayable within five years	**63,788**	207,347
— not wholly repayable within five years	**—**	6,544
Total borrowings	**63,788**	213,891

As at 31 December 2005, secured bank borrowings are secured by investment properties, other buildings, leasehold land and land use rights and certain bank deposits of the Group (Notes 6, 7, 8 and 17).

As at 31 December 2004, bank borrowings amounting to HK$45,193,000 were secured by a property owned by Mr. Ting Man Yi and personal guarantees of the Controlling Shareholders. These securities have been released prior to the listing of the Company's shares on the Main Board of HKSE.

21. BORROWINGS (CONTINUED)

In addition, bank borrowings amounting to HK$54,932,000 as at 31 December 2004 were guaranteed by Zhejiang Huading Group and Hangzhou Yuhang Huaming Garment Manufacturing Company Limited ("Yuhang Huaming"), an equity holder of Zhejiang Huading Group. These securities have been released prior to the listing of the Company's shares on the Main Board of the HKSE on 15 December 2005.

An analysis of the carrying amounts of the Group's borrowings by type and currency is as follows:

	2005 **HK$'000**	2004 HK$'000
HK$ at floating rates	**12,865**	24,538
RMB at fixed rates	**50,923**	152,754
Euro at floating rates	**—**	6,797
USD at fixed rates	**—**	9,147
USD at floating rates	**—**	20,655
Total borrowings	**63,788**	213,891

The weighted average effective interest rates per annum of bank borrowings at 31 December 2005 were as follows:

	2005 **HK$'000**	2004 HK$'000
HK$	**5.49%**	2.09%
RMB	**5.34%**	5.15%
Euro	**—**	4.47%
USD	**—**	3.82%

21. BORROWINGS (CONTINUED)

The maturities of the Group's bank borrowings at 31 December 2005 were as follows:

	2005 HK$'000	2004 HK$'000
Repayable:		
— within one year	59,420	200,660
— in the second year	1,143	8,891
— in the third to fifth year	3,225	3,306
— after the fifth year	—	1,034
	63,788	213,891

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at 31 December 2005.

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	2005 HK$'000	2004 HK$'000
Carrying amounts	4,368	13,231
Fair value	3,861	12,584

The fair values are based on cash flow discounted using a rate based on the borrowing rates of 3.10% (2004: 2.70%) for the year ended 31 December 2005.

21. BORROWINGS (CONTINUED)

At each balance sheet date, the Group had the following non-drawn borrowing facilities:

	2005 HK$'000	2004 HK$'000
Floating rate		
— expiring within one year	31,938	98,033

22. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005 HK$'000	2004 HK$'000
Deferred income tax assets	(4,321)	(1,173)
Deferred income tax liabilities	779	108
	(3,542)	(1,065)

Deferred income tax assets and deferred income tax liabilities are expected to be settled after more than 12 months.

The gross movement on the deferred income tax account is as follows:

	2005 HK$'000	2004 HK$'000
At beginning of year	(1,065)	(1,035)
Exchange differences	(38)	(1)
Recognised in income statement (Note 27)	(2,439)	(29)
At end of year	(3,542)	(1,065)

22. DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation HK$'000
Deferred income tax liabilities	
At 31 December 2003	160
Recognised in income statement	(52)
At 31 December 2004	108
Recognised in income statement	671
At 31 December 2005	779

	Accelerated tax deprecation HK$'000	Provisions HK$'000	Pre-operating expenses HK$'000	Total HK$'000
Deferred income tax assets				
At 31 December 2003	—	(840)	(355)	(1,195)
Recognised in income statement	(35)	49	9	23
Exchange differences	—	—	(1)	(1)
At 31 December 2004	(35)	(791)	(347)	(1,173)
Recognised in income statement	(59)	(3,060)	9	(3,110)
Exchange differences	—	(37)	(1)	(38)
At 31 December 2005	(94)	(3,888)	(339)	(4,321)

22. DEFERRED INCOME TAX (CONTINUED)

In accordance with PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$2,308,000 (2004: HK$823,000) as at 31 December 2005, in respect of losses amounting to HK$20,793,000 (2004: HK$4,414,000), that can be carried forward against future taxable income and will be expired between 2007 and 2009.

23. TRADE AND BILLS PAYABLES

	2005	2004
	HK$'000	HK$'000
Trade payables	**159,541**	162,738
Bills payable	**23,178**	13,426
	182,719	176,164

The aging analysis of third party trade and bills payables is as follows:

	2005	2004
	HK$'000	HK$'000
0 to 30 days	**108,996**	94,391
31 to 60 days	**49,702**	40,690
61 to 90 days	**8,359**	18,291
Over 90 days	**15,662**	22,792
	182,719	176,164

Bills payable are with average maturity dates of within 2 months.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2005	2004	**2005**
	HK$'000	HK$'000	**HK$'000**
Payable for purchases of property, plant and equipment and construction in progress	**10,002**	3,477	**—**
Salary and welfare payables	**33,000**	21,191	**7,590**
Customer deposits	**16,510**	9,576	**—**
Accrued expenses	**9,648**	17,431	**1,948**
Dividend payable to minority interests (Note (a))	**—**	5,230	**—**
Other payables	**34,326**	35,272	**19,240**
Amount due to the ex-shareholders of certain subsidiaries	**—**	967	**—**
	103,486	93,144	**28,778**

(a) Dividend payable to minority interests have been settled prior to the listing of the Company's shares on the Main Board of the HKSE.

25. OTHER GAINS, NET

	2005	2004
	HK$'000	HK$'000
Gain on disposal of property, plant and equipment and leasehold land and land use rights	**6,489**	489
Fair value gain on investment properties	**630**	1,270
Government grants	**11,771**	6,249
Exchange gain	**272**	4,442
Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**	8,129
Others	**2,720**	6,058
	21,882	26,637

26. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	**8,951**	10,191

27. INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Hong Kong profits tax (Note (a))	**50,623**	15,741
PRC enterprise income tax (Note (b))	**24,531**	14,328
Overseas taxation (Note (c))	**—**	146
Deferred income tax (Note 22)	**(2,439)**	(29)
	72,715	30,186

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31 December 2005 (2004: 17.5%).

(b) PRC enterprise income tax

PRC enterprise income tax is provided on the basis of the profits of the PRC established and operating subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group is 26.4%, which comprises 24% attributable to national enterprise income tax and 2.4% attributable to local municipal income tax, except that the applicable enterprise income tax rate for Jiangsu Fuze Textile Company Limited is 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax, and that for Shenzhen Fuhowe Fashion Company Limited and Finity Fashion (Shenzhen) Company Limited is 15%.

27. INCOME TAX EXPENSE (CONTINUED)

(b) PRC enterprise income tax (Continued)

In accordance with the relevant applicable tax regulations, for those subsidiaries established in the PRC as wholly owned foreign enterprises or sino-foreign joint ventures, they are entitled to full exemption from enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year, after offsetting all unexpired tax losses carried forward from previous years.

(c) Overseas taxation

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Group's effective tax rate differs from the statutory rate principally due to the followings:

	2005 **HK$'000**	2004 HK$'000
Profit before share of profit of associates and income tax	**453,797**	232,963
Calculated at a taxation rate 17.5% (2004: 17.5%)	**79,414**	40,768
Effect from different income tax rate	**43,652**	9,862
Effects of tax exemption	**(27,353)**	(28,033)
Income not subject to tax	**(28,312)**	(1,214)
Expenses not deductible for tax purposes	**2,420**	5,451
Utilisation of previously unrecognised tax losses	**(244)**	(1,019)
Tax losses for which no deferred income tax asset was recognised	**2,826**	2,012
Others	**312**	2,359
Income tax expense	**72,715**	30,186

28. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling, marketing and distribution costs and administrative expenses are analysed as follows:

	2005 HK$'000	2004 HK$'000
Auditors' remuneration	**4,000**	1,200
Amortisation of leasehold land and land use rights (Note 8)	**1,061**	852
Amortisation of trademark (Note 11)	**3,381**	1,561
Depreciation of property, plant and equipment (Note 6)	**26,606**	24,881
Employee benefit expenses (Note 29)	**217,289**	173,394
Changes in inventories of finished goods and work in progress	**64,708**	(31,025)
Raw materials and consumables used	**751,553**	602,618
Advertising costs	**2,442**	2,733
Direct operating expenses arising from investment properties that generate rental income	**81**	78
Repairs and maintenance	**2,211**	3,426
Operating lease rental in respect of property, plant and equipment	**6,307**	7,523
Inventory write-down (Note 12)	**17,102**	1,361
Provision for impairment of receivables (Note 15)	**3,069**	633
Bad debts written off (Note 15)	**78**	8,320

29. EMPLOYEE BENEFIT EXPENSES

	2005 HK$'000	2004 HK$'000
Salaries, wages and bonuses	**195,720**	151,186
Pension costs — defined contribution plans (Note (i))	**10,926**	9,125
Staff welfare	**10,643**	13,083
	217,289	173,394

Note (i): Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 18.8% of employees' basic salary to the scheme to fund the retirement benefits of the employees.

(a) Directors', supervisors' and senior management's emoluments

The remuneration of each director of the Company during the year is set out below:

Name	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefits in kind HK$'000	Contributions to pension plans HK$'000	Discretionary bonus HK$'000	Total HK$'000
For the year ended 31 December 2004					
Ting Man Yi	—	1,616	12	—	1,628
Ding Jianer	—	442	12	—	454
Ting Hung Yi	—	1,633	12	—	1,645
Wong Sin Yung	—	390	12	—	402
	—	4,081	48	—	4,129
For the year ended 31 December 2005					
Ting Man Yi	**—**	**1,707**	**12**	**2,880**	**4,599**
Ding Jianer	**—**	**691**	**12**	**940**	**1,643**
Ting Hung Yi	**—**	**1,618**	**12**	**2,880**	**4,510**
Wong Sin Yung	**—**	**565**	**12**	**500**	**1,077**
Cheng Chi Pang	**—**	**36**	**—**	**—**	**36**
Wong Chi Keung	**—**	**24**	**—**	**—**	**24**
Leung Man Kit	**—**	**24**	**—**	**—**	**24**
	—	**4,665**	**48**	**7,200**	**11,913**

29. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Directors', supervisors' and senior management's emoluments (Continued)

During the year ended 31 December 2005, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2005 include 3 (2004: 2) directors of the Company whose emoluments are reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining 2 (2004: 3) individuals during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,177**	3,188
Contributions to pension plans	**24**	24
Discretionary bonuses	**3,100**	600
	7,301	3,812

The emoluments fell within the following bands:

	2005	2004
HK$1,000,001–HK$1,500,000	**—**	3
HK$2,500,001–HK$3,000,000	**1**	—
HK$4,000,001–HK$4,500,000	**1**	—

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

30. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$95,038,000.

31. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 1,490,000,000 ordinary shares were deemed to be in issue since 1 January 2004 after taking into consideration of the effect of the capitalisation issue as detailed in Note 19(iv).

	2005	2004
Profit attributable to equity holders of the Company (HK'000)	**380,997**	192,803
Weighted average number of ordinary shares in issue (thousands)	**1,514,658**	1,490,000
Basic earnings per share (HK cents per share)	**25.15 cents**	12.94 cents

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

31. EARNINGS PER SHARE (CONTINUED)

	2005
Profit attributable to equity holders of the Company and used to determine diluted earnings per share (HK$'000)	**380,997**
Weighted average number of ordinary shares in issue (thousands)	**1,514,658**
Adjustments for — share options (thousands)	**1,147**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,515,805**
Diluted earnings per share (HK per share)	**25.13 cents**

No disclosure of diluted earnings per share for the year ended 31 December 2004 has been made as there was no potential dilutive ordinary shares outstanding during the year.

32. DIVIDEND

A dividend in respect of 2005 of HK4.6 cents per share, amounting to a final dividend of HK$94,990,000 is to be proposed at the Annual General Meeting on 30 May 2006. These financial statements do not reflect this dividend payable.

	2005 HK$'000	2004 HK$'000
Interim dividend, paid (note (i))	**256,270**	—
Proposed final dividend of HK4.6 cents (2004: Nil) per ordinary share (note (ii))	**94,990**	—
	351,260	—

32. DIVIDEND (CONTINUED)

Notes:

(i) Interim dividend

Dividend for the year ended 31 December 2005 represents (i) the dividend declared and paid by Zhejiang Huading Group Company Limited to its then shareholders of which HK$15,270,000 was paid to the equity holders of the Company and HK$13,985,000 was paid to minority shareholders of Zhejiang Huading Group Company Limited; (ii) the dividend of HK$1,566,000 declared and paid by Zhejiang China Ting Jincheng Company Limited to an independent third party; and (iii) the dividend declared and paid by Witpower Investments Limited, Skyyear Holdings Limited and Joyocean Investments Limited to its then shareholder of which HK$74,000,000, HK$80,000,000 and HK$87,000,000, respectively, were paid to the equity holders of the Company.

(ii) Proposed final dividend

At a meeting held on 11 April 2006, the directors proposed a final dividend of HK4.6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retain profit for the year ending 31 December 2006. Such dividend represented HK$91,540,000 for the 1,990,000,000 shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK$3,450,000 for the shares issued in January 2006 under the over-allotment arrangement as disclosed in Note 19(vi).

33. CASH GENERATED FROM OPERATING ACTIVITIES

	2005 **HK$'000**	2004 HK$'000
Operating profit	**462,748**	243,154
Adjustments for:		
— Depreciation	**26,606**	24,881
— Amortisation	**4,442**	2,413
— Gain on disposal of property, plant and equipment and leasehold land and land use rights (see below)	**(6,489)**	(489)
— Fair value gain on investment properties	**(630)**	(1,270)
— Amortisation of share option scheme	**1,902**	—
— Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**	(8,129)
— Interest income	**(10,249)**	(5,842)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
— Inventories	**(30,242)**	(47,973)
— Trade and other receivables	**(49,981)**	(14,283)
— Amounts due from/(to) related companies	**156,527**	27,022
— Amounts due from/(to) directors	**(116,994)**	(32,336)
— Trade and other payables	**22,146**	(23,127)
Cash generated from operating activities	**459,786**	164,021

33. CASH GENERATED FROM OPERATING ACTIVITIES (CONTINUED)

In the cash flow statement, proceeds from disposal of property, plant and equipment and land use rights comprise:

	2005 HK$'000	2004 HK$'000
Net book amount of:		
Property, plant and equipment (Note 6)	**17,906**	25,455
Leasehold land and land use rights (Note 8)	**8,903**	4,996
Less: Assets used in exchange of land use rights and property, plant and equipment	**—**	(25,975)
Net book value of assets disposed	**26,809**	4,476
Gain on disposal of property, plant and equipment and leasehold land and land use rights (Note 25)	**6,489**	489
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	**33,298**	4,965

Major non-cash transactions

During the year ended 31 December 2004, the Group disposed of certain land use rights, buildings and plant and machinery to the local government in exchange for certain land use rights.

Details of the exchange are as follows:

	2004 HK$'000
Land use rights	4,996
Buildings	20,648
Plant and machinery	331
Assets given up	25,975
Less: fair value of asset received	(25,975)
Loss on exchange of assets	—

There was no major non-cash transaction during the year ended 31 December 2005.

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet incurred is as follows:

	2005	2004
	HK$'000	HK$'000
Property, plant and machinery	**10,547**	—

(b) Operating lease commitments

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation claims and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
	HK$'000	HK$'000
Land and buildings		
Amounts payable		
— Not later than 1 year	**6,246**	1,956
— Later than 1 year and not later than 5 years	**4,465**	2,366
— Later than 5 years	**—**	886
	10,711	5,208
Plant and equipment		
Amounts payable		
— Not later than 1 year	**132**	—
— Later than 1 year and not later than 5 years	**44**	—
	176	—
	10,887	5,208

Notes to the Consolidated Financial Statements

35. BUSINESS COMBINATIONS

In May 2005, the Group contributed additional capital of US$175,000 to Jiangsu Fuze Textile Company Limited and the Group's attributable interest in this company increased from 45% to 52%.

The acquired businesses contributed revenues of approximately HK$337,000 and net loss of HK$115,000 to the Group for the year 31 December 2005. If the acquisitions had occurred on 1 January 2005, the Group's revenue would have been increased by HK$1,958,000, and profit before allocations would have been decreased by HK$232,000, for the year ended 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	2005 **HK$'000**
Purchase consideration:	
— Cash paid	**1,354**
— Equity interests in acquiree's prior to acquisition	**3,956**
Total purchase consideration	**5,310**
Fair value of net assets acquired — shown as below	**(5,310)**
Excess of fair value of net assets of subsidiaries over the cost of acquisition	**—**

Excess of fair-value of net assets of subsidiaries over the cost of acquisition has arisen as a result of gains from purchases in discount.

35. BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities acquired during the year ended 31 December 2005 are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment (Note 6)	5,995	5,995
Leasehold land and land use rights (Note 8)	293	293
Inventories	1,841	1,841
Trade and other receivables	1,535	1,535
Cash and cash equivalents	1,929	1,929
Tax recoverable	344	344
Trade and other payables	(1,753)	(1,753)
Net assets	10,184	10,184
Minority interests	(4,874)	
Net assets acquired	5,310	
Purchase consideration settled in cash		1,354
Cash and cash equivalents in subsidiaries acquired		(1,929)
Cash inflow on acquisition		(575)

36. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

The directors are of the view that the following companies are related parties of the Group:

Name	Relationship with the Group
China Ting Industrial Investment (Hong Kong) Limited ("China Ting Industrial")	A company in which the Company's Controlling Shareholders have equity interest
Chinamine Garment Manufacturing Enterprises Limited ("Chinamine Garment")	A company in which the Company's Controlling Shareholders have equity interest
Hangzhou Yuhang Huading Real Estate Development Company Limited ("Yuhang Huading Real Estate")	A company in which the Company's Controlling Shareholders have equity interest
Hangzhou Fuze Textile Technology Company Limited ("Hangzhou Fuze")	A company in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest
Hangzhou Huaze Textile Technology Company Limited ("Hangzhou Huaze")	A company in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest
Hangzhou Huasheng Accessories Company Limited ("Huasheng Accessories")	An associated company
Interfield Industrial Limited ("Interfield")	An associated company
Hangzhou Yuhang Huaming Garment Manufacturing Company Limited ("Yuhang Huaming")	A related company
Mr. Ting Man Yi ("Ting Man Yi")	A director of the Company

The names of certain companies referred to in the above represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the related party transactions undertaken in connection with the Reorganisation and directors' emoluments (Note 29) as disclosed above, the Group had the following significant continuing and discontinuing transactions carried out with related parties during the year:

(a) Transactions with related parties:

In the opinion of the Directors, the transactions below were conducted in the ordinary and usual course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties.

	2005	2004
	HK$'000	HK$'000
Interest income from Yuhang Huading Real Estate	**—**	1,658
Purchases of property, plant and equipment from Yuhang Huaming	**2,634**	—
Sales of property, plant and equipment and leasehold land to Ting Man Yi	**19,900**	
Purchases of accessories from Huasheng Accessories	**7,525**	827
Purchases of silk fabric from Hangzhou Fuze	**3,826**	—
Purchases of silk fabric from Hangzhou Huaze	**6,292**	—
Subcontracting charges paid to Interfield	**18,904**	53,231

(b) Key management compensation

	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**20,661**	8,760

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances

(i) *Due from related companies*

	2005 HK$'000	2004 HK$'000
China Ting Industrial		
— Non-trade	—	30,658
Hangzhou Yuhang Huading Real Estate		
— Non-trade	—	129,216
	—	159,874

Maximum non-trade amount outstanding during the year:

Name	2005 HK$'000	2004 HK$'000
China Ting Industrial	30,658	30,658
Hangzhou Yuhang Huading Real Estate	129,916	5,689

All the current accounts maintained with related parties were interest-free, non-secured and with no fixed repayment terms.

(ii) *Due from directors — Non-trade*

	2005 HK$'000	2004 HK$'000
Mr. Ting Man Yi	—	4,099
Mr. Ding Jianer	—	2,471
Mr. Ting Hung Yi	—	21,898
	—	28,468

36. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances (Continued)

(ii) *Due from directors — Non-trade (Continued)*

Maximum amount outstanding during the year

Name of directors	**2005 HK$'000**	2004 HK$'000
Mr. Ting Man Yi	**140,600**	5,976
Mr. Ding Jianer	**68,400**	2,479
Mr. Ting Hung Yi	**32,000**	35,202

All the current accounts maintained with directors were interest-free, non-secured and fully settled during the year.

(iii) *Due to directors — Non-trade*

	2005 HK$'000	2004 HK$'000
Mr. Ting Man Yi	**—**	44,878
Mr. Ding Jianer	**—**	81,181
Mr. Ting Hung Yi	**—**	16,262
	—	142,321

All the current accounts maintained with directors were interest-free, non-secured and fully settled during the year.

37. CONTINGENT LIABILITIES

As at 31 December 2005, the Company has given corporate guarantees for bank facilities of subsidiaries amounting to HK$67,500,000 (2004: HK$140,548,000) of which HK$31,938,000 (2004: HK$98,023,000) has not been utilised.

Notes to the Consolidated Financial Statements

38. ULTIMATE HOLDING COMPANY

The Directors regard Longerview Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

39. SUBSEQUENT EVENTS

In February 2006, the Group has signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu to construct a new apparel production base with an estimated annual production capacity of approximately six million pieces. The construction of the project has commenced in March 2006 and it is expected that the first stage and the final stage of the production will be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project was approximately HK$234 million.

Four-year Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years is set out below.

	For the financial years ended 31 December (Amounts expressed in HK$'000, unless specified)			
	2002	2003	2004	**2005**
Turnover	711,903	980,015	1,401,465	**1,894,835**
Cost of goods sold	(527,024)	(702,082)	(967,807)	**(1,202,126)**
Gross profit	184,879	277,933	433,658	**692,709**
Other income	744	902	6,505	**10,913**
Other gains, net	24,283	19,918	26,637	**21,882**
Selling, marketing and distribution costs	(60,448)	(80,600)	(108,716)	**(102,667)**
Administrative expenses	(51,243)	(107,018)	(114,930)	**(160,089)**
Operating profit	98,215	111,135	243,154	**462,748**
Finance costs	(1,142)	(6,974)	(10,191)	**(8,951)**
Share of profit of associates	3,317	3,669	10,391	**9,023**
Profit before income tax	100,390	107,830	243,354	**462,820**
Income tax expenses	(6,050)	(12,799)	(30,186)	**(72,715)**
Profit before minority interests	94,340	95,031	213,168	**390,105**
Minority interests	(7,307)	(9,759)	(20,365)	**(9,108)**
Net profit attributable to shareholders	87,033	85,272	192,803	**380,997**

Four-year Financial Summary

	As at 31 December (Amounts expressed in HK$'000, unless specified)			
	2002	2003	2004	**2005**
Non-current Assets	204,493	362,499	398,591	**370,400**
Current Assets	555,921	671,772	780,258	**1,485,578**
Total Assets	760,414	1,034,271	1,178,849	**1,855,978**
Non-current Liabilities	266	9,585	13,339	**5,147**
Current Liabilities	515,391	687,965	629,347	**396,491**
Total Liabilities	515,657	697,550	642,686	**401,638**
Total Equity	244,757	336,721	536,163	**1,454,340**
Net Current Assets/(Liabilities)	40,530	(16,193)	150,911	**1,089,087**
Total Assets Less Current Liabilities	245,023	346,306	549,502	**1,459,487**

Note: The results of the Group for the three financial years ended 31 December 2002, 2003 and 2004 and its assets and liabilities were extracted from the Prospectus, which also set forth the details of the basis of presentation of the combined accounts. The result of the Group for the financial year ended 31 December 2005 and its assets and liabilities as at 31 December 2005 are set forth on pages 56 and 53 to 54, respectively, and are presented on the basis set out in note 2(a) to the consolidated financial statements.