CHINA TING GROUP

Annual Report 2006

Stock Code: 3398

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Financial Highlights

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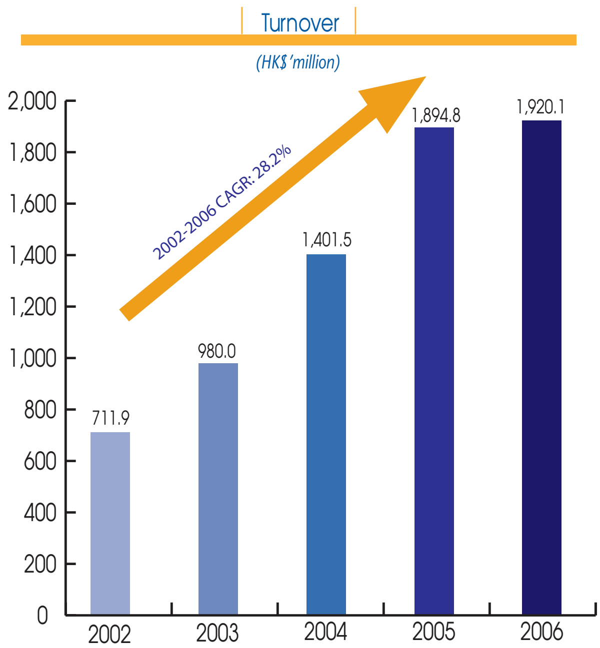
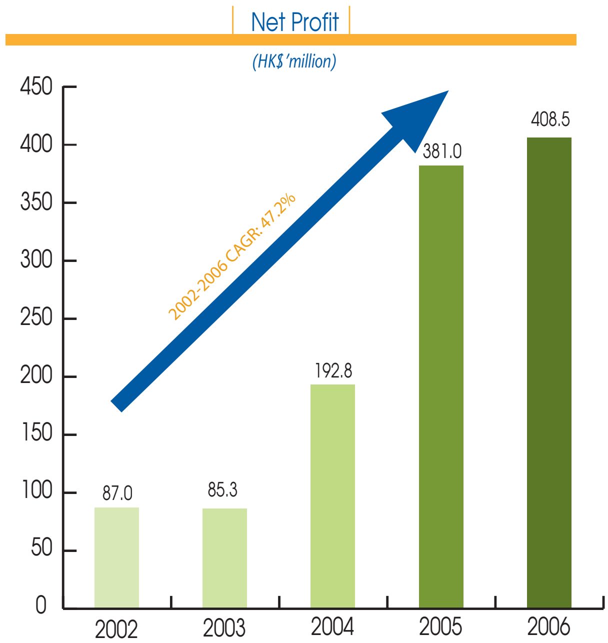
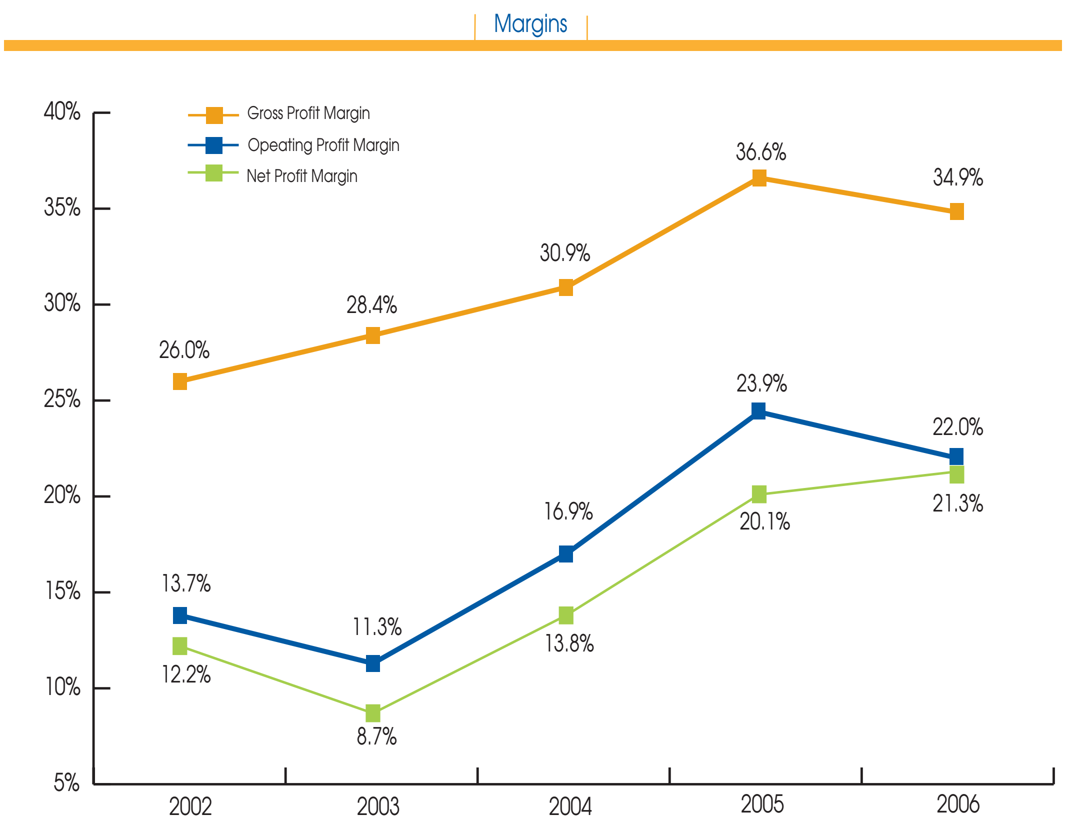






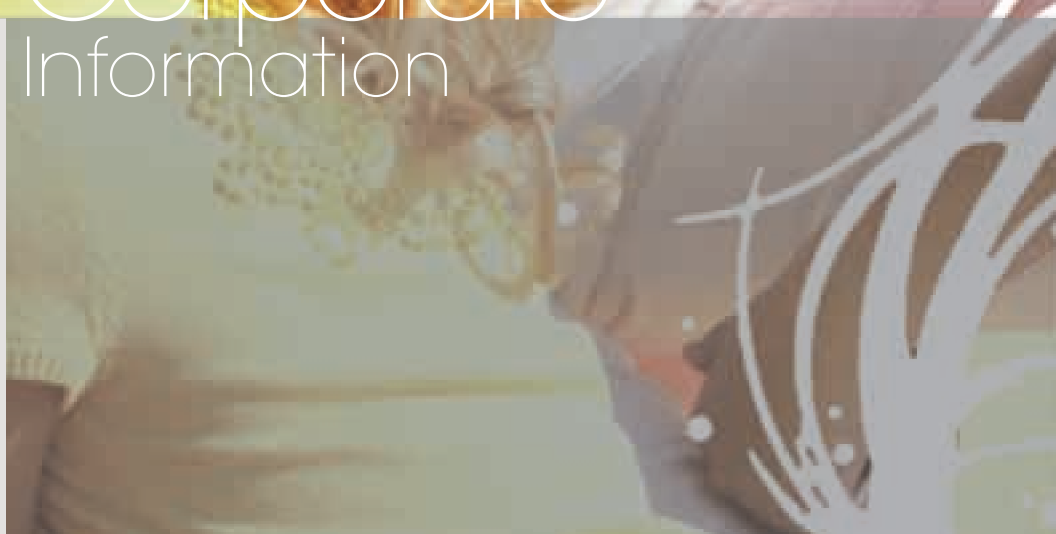
Financial Performance

	2006 (HK$ million)	2005 (HK$ million)	Change (%)
Turnover	**1,920.1**	1,894.8	1.3
Gross profit	**670.3**	692.7	(3.2)
Gross profit margin (%)	**34.9%**	36.6%	
Operating profit	**423.2**	452.5	(6.5)
Operating profit margin (%)	**22.0%**	23.9%	
Net profit	**408.5**	381.0	7.2
Net profit margin (%)	**21.3%**	20.1%	
EPS (HK cents)			
— Basic	**19.79**	25.15	(21.3)
— Diluted	**19.70**	25.13	(21.6)

Financial Position

	2006 (HK$ million)	2005 (HK$ million)
Non-current assets	**652.1**	370.4
Net current assets	**1,210.4**	1,089.1
Cash and bank balances, including time deposits	**837.6**	970.7
Total liabilities	**379.0**	401.6
Bank borrowings	**2.2**	63.8
Net assets	**1,842.8**	1,454.3

Corporate Information



Corporate Information

Executive Directors

Mr. TING Man Yi *(Chairman)*
Mr. TING Hung Yi *(Chief Executive Officer)*
Mr. DING Jianer
Mr. WONG Sin Yung
Mr. CHEUNG Ting Yin, Peter

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

Legal Advisers

Squire, Sanders & Dempsey
40th Floor
Gloucester Tower, The Landmark
15 Queen's Road 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
George Town
Grand Cayman
KY1-1107
Cayman Islands

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

Chairman's Statement

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 with the 2006 annual report of the Company and its subsidiaries (collectively, the "**Group**").

For the financial year ended 31 December 2006, the Group's turnover reached approximately HK$1,920.1 million, representing an increase of approximately HK$25.3 million or approximately 1.3%, as compared to approximately HK$1,894.8 million for the financial year ended 31 December 2005. Net profit of the Group recorded a new high of approximately HK$408.5 million, representing an increase of approximately HK$27.5 million or approximately 7.2%, as compared to approximately HK$381.0 million for the financial year ended 31 December 2005. The Company continues to maintain generous dividend policy and the dividend payout ratio for the financial year ended 31 December 2006 was approximately 67.8% of the profit attributable to the equity holders of the Company.

Our efforts and achievement were recognised by the market. Effective from 2 November 2006, the Company has been selected as one of the constituent stocks of the Hang Seng Composite Index Series and Hang Seng Freefloat Index Series.

The Directors believe that the Group's current business activities provide an excellent platform for future growth. Going forward, the Group will expand its existing production facilities through expansion and mergers and acquisitions to position the Group to take advantage of the anticipated industry consolidation. The Group will further expand its retail network for branded apparel sales by increasing the number of retail outlets and continuing its marketing strategies and improvement in retail network.

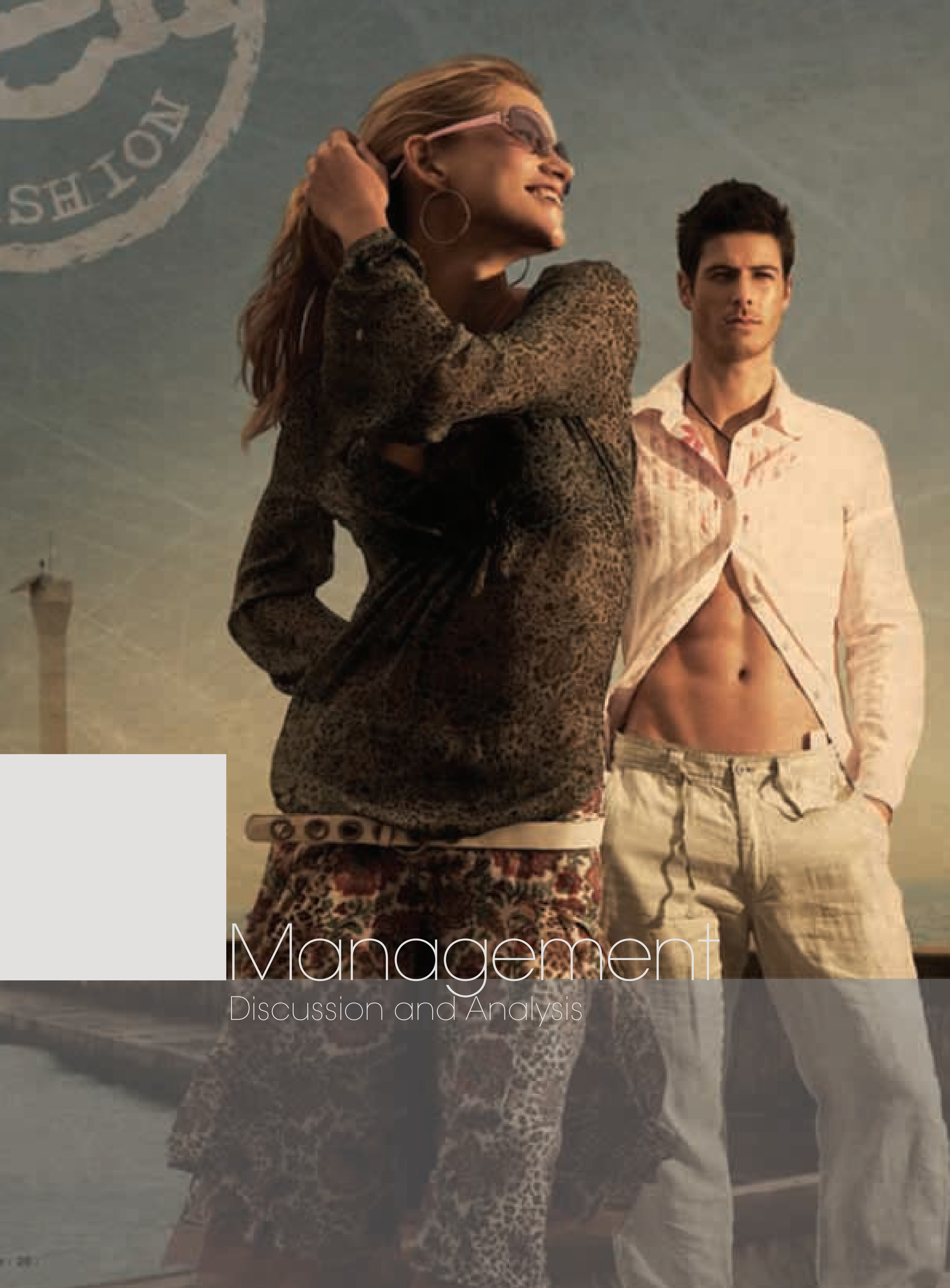
The Group will continue to strengthen its market position, as one of the world leading silk fashion apparel manufacturers and a reputable branded fashion retailer in China, to generate greater return for our shareholders and investors by leveraging our competitive edges.

Finally, on behalf of the Board, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance. I also wish to express my sincere gratitude to our shareholders, investors and business associates for their continuing support to the Group.

TING Man Yi

Chairman

28 March 2007



Management

Discussion and Analysis


RIVERSTONE

(1) BUSINESS REVIEW

The Group is a vertically integrated and large scale garment manufacturer, exporter and retailer based in China. 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. As at 31 December 2006, members of the Group operated 20 factories, principally situated at the China Ting Industrial Complex, engaging in fabric weaving and manufacturing of garment for OEM and of apparels for retail business in China.

The Group has an extensive sales network comprising concessions, free-standing stores directly operated by the Group and retail shops operated by franchisees through franchise agreements, spanning over 26 provinces and centrally governed municipalities. All retail shops were operated under the four in-house brands of "FINITY", "DBNI", "ELANIE" and "RIVERSTONE", and two licensed brands of "MAX STUDIO" and "BURLINGTON HOUSE".

(2) FINANCIAL REVIEW

Turnover

The Group's turnover continues to be derived from the two core businesses: OEM and retail sales in China. For the financial year 2006 ("**FY 2006**"), the Group's turnover rose from approximately HK$1,894.8 million for the financial year 2005 ("**FY 2005**") to approximately HK$1,920.1 million. The increase in turnover was principally attributable to the increase in retail sales in China.

For FY 2006, OEM sales was approximately HK$1,723.4 million, representing an increase of approximately 0.1% and accounted for approximately 89.8% of the Group's turnover. Except for the sales of silk and silk-blended apparel, all other apparels sales recorded a double-digit increase over FY 2005.

The OEM sales analysis by product is as follows:

	FY 2006		FY 2005		
	HK$ million	**%**	HK$ million	%	% Change
Silk and silk-blended apparel	**889.2**	**51.6**	1,121.6	65.1	(20.7)
Linen and linen blended apparel	**312.4**	**18.1**	202.0	11.7	54.7
Others	**440.0**	**25.6**	373.5	21.7	17.8
Home textile fabric and accessories	**81.8**	**4.7**	25.0	1.5	227.2
Total OEM sales	**1,723.4**	**100.0**	1,722.1	100.0	0.1

OEM sales to the United States, the core market for the Group's OEM business, recorded a decline of approximately 4.6%, to approximately HK$1,476.5 million for FY 2006. However, OEM sales to European Union and other countries grew by approximately 41.6% to approximately HK$246.9 million.

It was an encouraging year for the Group's retail sales. For FY 2006, retail sales surged by approximately 13.8% over FY 2005 to approximately HK$196.6 million. The increase in retail sales was driven by the expansion of retail network and the improvement in store sales performance.

In branded fashion segment, sales under the brand name "FINITY" grew by approximately 10.2% to approximately HK$94.2 million, accounting for approximately 47.9% of the Group's retail sales. Sales under the brand names "ELANIE" and "MAX STUDIO", represented approximately 13.8% and approximately 19.1% of the Group's retail sales, delivered sales growth of approximately 27.2% and approximately 36.7% respectively.

The retail sales analysis by brand name is as follows:

	FY 2006		FY 2005		
	HK$ million	**%**	HK$ million	%	% Change
In-house brands					
Finity	**94.2**	**47.9**	85.5	49.5	10.2
Dbni	**27.0**	**13.7**	31.4	18.2	(14.0)
Elanie	**27.1**	**13.8**	21.3	12.3	27.2
Riverstone (Note a)	**10.3**	**5.2**	1.1	0.6	836.4
Licensed brands					
Max Studio	**37.6**	**19.1**	27.5	15.9	36.7
Springfield (Note b)	**–**	**–**	5.9	3.5	N/A
Burlington House (Note a)	**0.4**	**0.3**	–	–	N/A
Total retail sales	**196.6**	**100.0**	172.7	100.0	13.8

Note a) The retail business of "Riverstone" and "Burlington House" commenced in October 2005 and July 2006, respectively.

Note b) The Group terminated the retail business of "Springfield" in October 2005.

Sales from concessions, free-standing stores and franchisees recorded growth between 12.9% and 44.4% in FY 2006. Sales from concessions amounted to approximately HK$133.3 million (FY 2005: HK$117.9 million), accounting for approximately 67.8% of the total retail sales. Sales from free-standing stores amounted to approximately HK$6.5 million (FY 2005: HK$4.5 million), accounting for approximately 3.3% of the total retail sales. Sales from franchisees amounted to approximately HK$56.8million (FY 2005: HK$50.3 million), accounting for approximately 28.9% of the total retail sales.

Gross Profit

The Group's gross profit amounted to HK$670.3 million, representing a decrease of about 3.2%; and gross profit margin dropped slightly from 36.6% to 34.9%.

The gross profit margin of OEM business decreased from 34.5% to 31.8%, which was due to the diversification to non-silk garment business, the high raw silk price and the continuing appreciation of the value of RMB against the US dollar.

The gross profit margin of retail business increased from 57.4% to 62.0%. The increase was mainly driven by the production efficiency while the average unit selling price of apparel remained stable during FY 2006.

Other income and other gains

The other income increased from approximately HK$664,000 for FY 2005 to approximately HK$732,000 for FY 2006. The increase was mainly represented the increase in rental income.

During the year, the Group disposed of a residential property and recorded a net gain of approximately HK$9.4 million, which was included in other gain.

Operating expenses

The selling, marketing and distribution costs rose to approximately HK$118.0 million, representing an increase of approximately 14.9% over FY 2005. The selling, marketing and distribution costs mainly included amortisation of retail shops decoration cost, advertising, staff cost for sales staff, transportation and office utilities. The increase was primarily due to the increase in salaries and transportation costs as a result of the Group's expansion in 2006.

The total amount of administrative expenses was approximately HK$153.0 million, representing a decrease of approximately HK$7.1 million or 4.4%, as compared to approximately HK$160.1 million in FY 2005. The decrease was mainly due to a decrease in stock provision of approximately HK$17.1 million and an increase in rental expenses of approximately HK$9.1 million. The increase in rental expenses in 2006 represented rental expenses paid to Zhejiang China Ting Group Company Limited ("**Zhejiang China Ting**"). Zhejiang China Ting became a subsidiary of the Group on 23 October 2006.

Operating profit

As a result of the factors discussed above, the Group's operating profit margin decrease slightly from approximately 23.9% in FY 2005 to approximately 22.0% in FY 2006. The Group's OEM segment recorded an operating profit margin of approximately 21.4%, representing a decrease of approximately 3.1 percentage points over 24.5% last year. The operating profit margin of the Group's retail segment increased from approximately 8.2% in FY 2005 to approximately 19.8% in FY 2006.

Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for FY 2006 (FY 2005: 17.5%). The applicable enterprise income tax rate for the PRC subsidiaries was between 15% and 33%.

The Group's effective tax rate decreased from 15.7% of profit before tax in FY 2005 to 11.7% of profit before tax in FY 2006. The decrease in effective tax rate was mainly due to the increase in non taxable income by approximately HK$28.8 million represented by the increase in the gain on disposal of property, plant and equipment of approximately HK$3.1 million and increase in interest income of approximately HK$25.7 million.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company for FY 2006 amounted to approximately HK$408.5 million, representing an increase of 7.2% when compared to HK$381.0 million for FY 2005.

Liquidity and Financial Resources

The Group continues to be in a strong financial position, with bank balance and cash of approximately HK$837.6 million as at 31 December 2006.

The net cash inflow from operating activities amounted to approximately HK$221.5 million, a decrease by approximately HK$197.0 million from approximately HK$418.5 million in FY 2005. The decrease was mainly due to an increase in the level of inventory maintained by the Group for its retail business, the increase in accounts receivable and the raw materials and work-in-progress for the OEM business. The net cash used in financing activities increased by approximately HK$677.3 million. As in FY 2005, the Group received net proceeds of approximately HK$1,012.5 million raised from the initial public offering completed in December 2005. Excluding the effect of net proceeds from the initial public offering, the net cash used in financing activities decreased from approximately HK$472.9 million in FY2005 to approximately HK$289.0 million in FY2006.

(3) OUTLOOK

In 2006, OEM sales of silk and silk-blended fashion were affected by the increasing prices of raw silk. This affected the Group's profit margin. During the second half of 2006, the raw silk prices have been back to the normal levels. This accelerated the demand for silk and silk-blended fashion. In 2007, the Directors anticipate that the raw silk prices will remain stable. On this basis, the Directors consider that the Group's OEM sales, as well as the profit margin, should be benefited from this latest development.

In addition to silk and silk-blended fashion, the Group has started the construction of a production plan nearby the existing China Ting Industrial Complex in Hangzhou. This new plant is expected to commence its operations by early 2008. By then, the Group's production capacity will increase by four million pieces a year. Moreover, to reinforce its competitive strength in the industry, the Group is planning to expand its ODM services and its product mix. The Group also plans to set up its own wool fabric production lines.

In order to further improve its operational efficiency and increase its production capacity, the Group is in the process of upgrading its existing production lines to an advanced automatic system. The management estimates that upon completion, the production capacity will be increased by at least 20%.

Given a consistent economic growth in China and the Group's extensive sales network spreading at the well-known department stores, the Directors intend to boost up the retail business in 2007. The Group will strengthen the image of various in-house brands through a number of programmes including opening of flagship shops, the recruitment of European designers, upgrading the image of shops, the increase in marketing, advertising and promotional activities. The Group intends to expand its network of retail sale shops to a total of 455 shops by the end of 2007. In addition, the Group has formed a joint venture with a leading UK jeans brand Lee Cooper to set up 120 sales points in China over a period of three years targeting young customers. The Group will continue to look for opportunities to cooperate with internationally renowned fashion brands.

Looking forward, China Ting Group will continue to diversify its product offerings in OEM business and to aggressively grow its fashion retail business. By effectively tapping the OEM business and brand retailing markets, the Group can expect to see its business growing in good pace and to maximise the returns for its shareholders.

(4) HUMAN RESOURCES

As at 31 December 2006, the Group had approximately 11,000 full-time employees. The staff costs for FY 2006 was HK$279.0 million, representing an increase of approximately 21.7% over FY 2005.

The Group has established an incentive bonus scheme for its employees, in which the benefits are based on the performance of the Group and individual employees. The Director 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.

(5) USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

During the period from 15 December 2005 (date of listing) to 31 December 2006, the Group has already used part of the net proceeds from initial public offering to invest into the following projects for the business expansion:–

(a) approximately HK$52.5 million to complete the construction of a new apparel production plant and the establishment of a design, development and exhibition centre in Hangzhou;

(b) approximately HK$20.4 million for the expansion of retail shops and engaging in advertising and marketing campaigns;

(c) approximately HK$42.7 million on the acquisition of plant and machinery to enhance production capacity; and

(d) approximately HK$116.3 million to repay the bank borrowings.

The net proceeds raised by the Group in its initial public offering in 2005 amounted to approximately HK$1,099.9 million. As at 31 December 2006, approximately HK$868.0 million of the net proceeds had not been used by the Group and were deposited with a licensed bank in Hong Kong as short-term deposits with interest rate of approximately 4.8% per annum.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. TING Man Yi, aged 50, is the Chairman of the Group and an executive Director. Mr. TING started the business of the Group in December 1992. 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 46, is an executive Director and Chief Executive Officer of the Group. Mr. TING joined the Group in May 2002 and is 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 47, 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 52, 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. CHEUNG Ting Yin, **Peter**, aged 43, the managing director of Concept Creator Fashion Limited, was appointed as an executive Director on 3 August 2006. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHENG Chi Pang, aged 49, 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 Stock Exchange of Hong Kong Limited. Dr. Cheng is now the chairman of the Supervisory Board of The Macao Water Supply Company Limited and Senior Partner of Leslie Cheng & Co. Dr. CHENG is also an independent non-executive director and chairman of audit committee of Nine Dragons Paper (Holdings) Limited, Tianjian Port Development Holdings Limited and Fortune Sun (China) Holdings Limited and Chief Executive Officer of L&E 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 Stock Exchange of Hong Kong Limited.

Mr. WONG Chi Keung, aged 52, 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. Mr. WONG 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 of Hong Kong Limited, for over ten years. Mr. WONG 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, FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, International Entertainment Corporation, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. WONG has over 29 years of experience in finance, accounting and management.

Mr. LEUNG Man Kit, aged 53, 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 which are listed on The Stock Exchange of Hong Kong Limited.

CORPORATE MANAGEMENT TEAM

Export and OEM business

Ms. LI Yuet Mui, Xera, aged 47, 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 23 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 49, 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 heads 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.

Mr. PAU Wai Keung, **Simon**, aged 48, 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 41, 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 58, 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 60, 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 46, is a vice president of the Group 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 45, is a vice president of the Group overseeing its export business and product development 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, 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 52, 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 54, is a vice president of the Group and the general manager of Zhejiang China Ting Jincheng Silk Company Limited, overseeing the Group's 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 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 45, 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, ELANIE, 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 45, is the general manager of Finity International 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 40, 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 ELANIE 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 51, 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 53, 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 China. 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 57, is the General Manager (Finance) of the Group in 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 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. CHENG Ho Lung, **Raymond**, aged 29, 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 and the internal control procedures of the Group, so as to make sure that all business activities and the decision-making process of the Group are properly regulated. During the financial year ended 31 December 2006 ("**FY 2006**"), the Company complied with the applicable 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**").

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 five executive Directors and three independent non-executive Directors. Details of the Directors are set forth on pages 26 to 28 of this report.

Five executive Directors include three brothers, namely Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer, Mr. WONG Sin Yung, the company secretary, and Mr. CHEUNG Ting Yin, Peter. Both Mr. WONG Sin Yung and Mr. CHEUNG Ting Yin, Peter, have 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.

For FY 2006, the Board held 4 meetings and all Directors had attended these meetings.

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 as the code of conduct regarding securities transactions by the Directors. In the opinion of the Board, the Company has complied with the Model Code and upon specific enquiry, no Director is aware of any non-compliance with the Model Code throughout FY 2006.

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, and are also posted on the website of the Company. The remuneration committee was established on 18 November 2005. Three remuneration committee meetings were held in FY2006, 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, and are also posted on the website of the Company. The nomination committee was established on 18 November 2005. Two nomination committee meetings, discussing the nomination procedures, were held in FY2006 and all the committee members attended these meetings.

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, and are also posted on the website of the Company. The audit committee was established on 18 November 2005. Three audit committee meetings were held in FY2006 and all the committee members attended these meetings.

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 auditor of the Company about their reporting responsibilities on the financial statements of the Group is set forth in the auditor's report on pages 60 and 61.

AUDITORS' REMUNERATION

The professional fee charged by the Group's auditors in respect of the auditing services is disclosed in the note 24 to the financial statements. The remuneration of the auditors of the Group, PricewaterhouseCoopers, and its affiliated firms, for audit and non-audit services (namely taxation services and interim review) rendered during FY2006 was HK$3.9 million and HK$0.5 million, respectively.

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 has regularly reviewed the effectiveness of risk management and control activities of the Group during FY 2006.

The Directors are pleased to present their report together with the audited financial statements for the financial year ended 31 December 2006.

PRINCIPAL BUSINESS ACTIVITIES

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

The Group's principal business activities during the financial year 2006 were garment manufacturing for export and retailing branded fashion apparel in Mainland China.

An analysis of the Group's performance for the financial year ended 31 December 2006 by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's consolidated results for the financial year ended 31 December 2006 are set forth in the consolidated income statement on page 66 of this annual report.

An interim dividend of HK5.4 cents per Share and a special dividend of HK1.0 cent per Share were paid to the shareholders during the year. At a meeting held on 28 March 2007, the Directors proposed a special dividend of HK2.6 cents per Share in addition to a final dividend of HK4.4 cents per Share. Upon the approval to be obtained from the forthcoming Annual General Meeting to be held on 8 May 2007, the final dividend and the special dividend will be payable on or about on 15 May 2007 to the shareholders whose name appear on the register of members of the Company at close of business on Friday, 27 April 2007.

The register of members of the Company will be closed from Saturday, 28 April 2007 to Friday, 4 May 2007, both days inclusive, during which no transfer of Shares will be effected. In order to qualify for the final dividend to be considered at the forthcoming Annual General Meeting, all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 Friday, 27 April 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 153 and 154 of this annual 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 financial statements.

DONATIONS

During the financial year 2006, the Group made charitable donations of approximately HK$0.2 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 16 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the financial year 2006 are set forth in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distributions amounted to HK$1,543.6 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year 2006, sales made to the Group's top five customers and the largest customer accounted for approximately 49.8% and 17.6% of the total sales. The Group purchased less than 30% of its goods and services from its five largest suppliers.

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.

DIRECTORS

The Directors during the year and up to the date of this annual report were:–

Executive Directors:–
Mr. TING Man Yi *(Chairman)*
Mr. TING Hung Yi *(Chief Executive Officer)*
Mr. DING Jianer
Mr. WONG Sin Yung
Mr. CHEUNG Ting Yin, Peter (appointed on 3 August 2006)

Independent non-executive Directors:–
Dr. CHENG Chi Pang
Mr. WONG Chi Keung
Mr. LEUNG Man Kit

In accordance with article 87 of the Company's articles of association (the "**Articles**"), Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer will retire and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with article 86(3) of the Articles, Mr. CHEUNG Ting Yin, Peter will retire and being eligible, offer himself 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 26 to 33 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer and Mr. WONG Sin Yung entered into a service agreement on 18 November 2005 with the Company and Mr. CHEUNG Ting Yin, Peter entered into a service agreement on 3 August 2006 with the Company. Each of these agreements is for an initial term of three years 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 Director, terminate the service agreement by giving to the other not less than six month's prior written notice.

The annual salary and bonus (as referred to below) of each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer, Mr. WONG Sin Yung and Mr. CHEUNG Ting Yin, Peter for the financial year ended 31 December 2006 was HK$5.3 million, HK$5.3 million, HK$2.8 million, HK$1.2 million and HK$0.9 million, respectively. The annual salary and bonus 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 4% 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

Save for the sale and purchase agreement dated 5 September 2006, particulars of which are set forth under "Connected transactions" below, 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 2006, 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)*	72.11%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (L) *(Note 3)*	72.11%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (L) *(Note 4)*	72.11%

Notes:–

1. The letters "L" stand for the Director's long position 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.

(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)*	18.0%

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 2006, 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** *(Note 1)*	**Approximate percentage of interest in the Company**
Longerview	Beneficial owner	1,490,000,000 (L) *(Note 2)*	72.11%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (L) *(Note 2)*	72.11%
In Holdings	Interest of controlled corporation	1,490,000,000 (L) *(Note 3)*	72.11%
Willport	Interest of controlled corporation	1,490,000,000 (L) *(Note 4)*	72.11%

Notes:–

1. The letters "L" stands for the substantial Shareholders' long position in the Shares.

2. 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.

3. 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.

4. 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-moth 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 annual 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.

Details of the share option outstanding as at 31 December 2006 were as follows:

	Options held at 1 January 2006	Grant during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2006
Ms. LI Yuet Mei, Xera	10,000,000	–	1,250,000	–	8,750,000

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at 31 December 2006, 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 articles of association 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

The Company has not redeemed any of its listed securities during the financial year 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the financial year 2006.

CONNECTED TRANSACTIONS

(1) Connected transaction

On 5 September 2006, Concept Creator Fashion Limited ("**Concept Creator Fashion**"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement ("**Agreement**") with Mr. DING Xinger (being an elder brother of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer, the executive Directors), Mr. YE Ai Min, Ms. JIN Xiao Ying and Mr. FU Xiao Bo ("**Vendors**"), under which, Concept Creator Fashion agreed to acquire 92% of the registered capital in 浙江華鼎集團有限責任公司 (Zhejiang China Ting Group Company Limited) ("**Zhejiang China Ting**") from the Vendors at a total consideration of RMB174,292,768 ("**Acquisition**"). Before completion of the Acquisition, Mr. DING Xinger, Mr. YE Ai Min, Ms. JIN Xiao Ying and Mr. FU Xiao Bo held 82%, 6%, 6% and 6% of the registered capital in Zhejiang China Ting respectively. After completion of the Acquisition, Mr. DING Xinger, Mr. FU Xiao Bo, Mr. YE Ai Min and Ms. JIN Xiao Ying held 2%, 3%, 3% and nil of the registered capital in Zhejiang China Ting respectively.

Pursuant to the then lease agreements entered into between Zhejiang China Ting and members of the Group, Zhejiang China Ting leased to such members of the Group certain office premises, factory plant, staff quarters and guest house for an annual rental of RMB13.94 million. With the increasing demand for industrial land in Zhejiang Province, the PRC, the Directors expected that the price of land in Zhejiang Province, the PRC and the amount of rental payment to Zhejiang China Ting upon expiry of the terms of the then existing lease agreements would continue to increase in the future. The Directors therefore considered that the Group would not be required to continue to pay substantial amount of rental each year as a result of the Acquisition, and the Acquisition would achieve the effective control of the relevant properties without going through the procedure of revising the building ownership certificates of such properties.

Following completion of the Acquisition, Zhejiang China Ting became a 92% owned subsidiary of the Company and hence, the then existing lease agreements entered into between Zhejiang China Ting and members of the Group, as disclosed in the prospectus of the Company dated 30 November 2005 and sub-paragraphs (2)(a) to (2)(d) below, ceased to be non-exempt continuing connected transactions for the Company and were terminated.

The Directors (including the independent non-executive Directors) confirmed that the transactions contemplated under the Agreement are fair and reasonable and in the interests of the Group and its shareholders as a whole and in the ordinary and usual course of business of the Company and the terms of the Agreement are on normal commercial terms.

(2) Continuing Connected Transactions

During the financial year 2006, the Group entered into the following non-exempt continuing connected transactions:–

(a) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hangzhou Fuding Fashion Company Limited ("**Hangzhou Fuding**"), a member of the Group. Zhejiang China Ting 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 2006, the aggregate amount payable by Huangzhou Fuding to Zhejiang China Ting for the lease amounted to HK$1.0 million (Financial year ended 31 December 2005: HK$327,700). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

(b) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hangzhou China Ting Fashion Company Limited ("**Hangzhou China Ting Fashion**"), a member of the Group. Zhejiang China Ting 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 2006, the aggregate amount payable by Hangzhou China Ting Fashion to Zhejiang China Ting for the lease amounted to HK$1.3 million (Financial year ended 31 December 2005: HK$317,800). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

(c) A lease agreement dated 9 September 2005 and entered into between Zhejiang China Ting and Hong Kong Fuhowe Fashion Company Limited ("**Hong Kong Fuhowe**"), a member of the Group, Zhejiang China Ting 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 China Ting. For the financial year ended 31 December 2006, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang China Ting for the lease amounted to HK$2.8 million (Financial year ended 31 December 2005: HK$903,100). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

(d) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hong Kong Fuhowe. Zhejiang China Ting 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 2006, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang China Ting for the lease amounted to HK$5.5 million (Financial year ended 31 December 2005: HK$1,802,900). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

(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, which is owned by Mr. DING Minger (who is a director of one of the subsidiaries of the Company and is the eldest brother of Mr. TING Man Yi, Mr. DING Jianer and Mr. TING Hung Yi, all being executive Directors) as to 58%, 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 2006, the aggregate amount payable by Zhejiang Huali to Yuhang Huaming Group for the lease amounted to HK$824,917 (Financial year ended 31 December 2005: 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 other 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 2006, the aggregate amount payable by Hangzhou Fuding to Yuhang Huaming Group for the lease amounted to HK$597,311 (Financial year ended 31 December 2005: 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. Hangzhou Fuze is owned by two individuals, namely Mr. FEI Bin Song and Mr. QIU Jian Ping. Mr. FEI Bin Song has been nominated a director of Jiangsu Fuze Textile Company Limited ("**Jiangsu Fuze**", a 52% owned subsidiary of the Company), by virtue of Hangzhou Fuze's 26.2% equity interest in this joint venture. For the financial year ended 31 December 2006, the aggregate purchase of silk fabric by members of the Group from Hangzhou Fuze amounted to HK$0.3 million (Financial year ended 31 December 2005: HK$3.8 million), which was below the annual cap of HK$5.8 million (Financial year ended 31 December 2005: 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. Hangzhou Huaze is owned by two individuals, namely, Ms. QIU Li Juan and Mr. LU Yong Gen. Ms. QIU Li Juan has been nominated as a director of Jiangsu Fuze by virtue of Hangzhou Huaze's 21.8% equity interest in this joint venture. For the financial year ended 31 December 2006, the aggregate purchase of velour by members of the Group from Hangzhou Huaze amounted to HK$2.0 million (Financial year ended 31 December 2005: HK$6.3 million), which was below the annual cap of HK$7.4 million (Financial year ended 31 December 2005: 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, which is owned by Ms. ZHOU Shi Min (who is the spouse of Mr. DING Jianer, being an executive Director) as to 75%, 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 2006, the aggregate purchase of plastic bags and hangers by the Group from Huasheng Accessories amounted to HK$9.9 million (Financial year ended 31 December 2005: HK$7.5 million), which was below the annual cap of HK$10.6 million (Financial year ended 31 December 2005: 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. Zhejiang Huayue is owned by Haiyan Feixiang Handicraft and Embroidery Products Company Limited ("**Haiyan Feixiang**") and Manfame Investments Limited ("**Manfame**", a wholly owned subsidiary of the Company), as to 45% and 55% respectively. As Haiyan Feixiang is a substantial shareholder of Zhejiang Huayue which is a subsidiary of the Company, Haiyan Feixiang is a connected person of the Company under the Listing Rules. Haiyan Feixiang is owned by five individuals, namely, Ms. LIU Lian Ying, Ms. SUN Yun Zhen, Ms. YANG Shui Zhen, Mr. CHEN Ai Feng and Mr. SUN Xian Ming as to 1.33%, 0.93%, 10%, 47.27% and 40.47% respectively. Ms. LIU Lian Ying and Ms. SUN Yun Zhen have been nominated as directors of Zhejiang Huayue by virtue of the 45% equity interest held by Haiyan Feixiang in Zhejiang Huayue. As such, Zhejiang Huayue is also a connected person of the Company under the Listing Rules. For the financial year ended 31 December 2006, the aggregate purchase of silk fabric by members of the Group from Zhejiang Huayue amounted to HK$55.2 million (Financial year ended 31 December 2005: HK$54.3 million), which was below the annual cap of HK$90.0 million (Financial year ended 31 December 2005: 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 as set out in note 32(a) to the financial statements, being the significant related party transactions of the Group, constituted continuing connected transactions of the Group. The disclosure requirements in respect of these continuing connected transactions, details of which are set out in sub-paragraph (i) above, 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 annual 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 33 to the 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 for the financial year ended 31 December 2006.

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, 28 March 2007

Auditor´s Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA TING GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Ting Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 152, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2007

Financial Statements

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**452,509**	237,783
Investment properties	7	**4,940**	4,940
Leasehold land and land use rights	8	**74,339**	36,128
Interest in associates	10	**72,250**	59,540
Intangible assets	11	**43,903**	27,688
Deferred income tax assets	19	**4,153**	4,321
		652,094	370,400
Current assets			
Inventories	12	**348,197**	218,140
Due from associates	32	**3,107**	1,104
Trade and other receivables	13	**375,496**	293,567
Tax recoverable		**5,288**	2,097
Pledged bank deposits	14	**12,310**	1,128
Term deposits with initial term of over three months	15	**327,829**	300,000
Cash and cash equivalents	15	**497,429**	669,542
		1,569,656	1,485,578
Total assets		**2,221,750**	1,855,978
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**206,625**	199,000
Retained earnings	17	**597,470**	433,805
Other reserves	17	**1,003,139**	807,556
		1,807,234	1,440,361
Minority interests		**35,550**	13,979
Total equity		**1,842,784**	1,454,340

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	**–**	4,368
Deferred income tax liabilities	19	**19,752**	779
		19,752	5,147
Current liabilities			
Trade and other payables	20	**337,803**	286,205
Borrowings	18	**2,225**	59,420
Due to associates	32	**5,922**	7,541
Current income tax liabilities		**13,264**	43,325
		359,214	396,491
Total liabilities		**378,966**	401,638
Total equity and liabilities		**2,221,750**	1,855,978
Net current assets		**1,210,442**	1,089,087
Total assets less current liabilities		**1,862,536**	1,459,487

Ting Man Yi
Director

Ting Hung Yi
Director

The notes on pages 70 to 152 are an integral part of these financial statements.

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**478,054**	478,054
Current assets			
Due from subsidiaries	32	**945,098**	429,274
Other receivables, deposits and prepayments	13	**7,840**	15,759
Term deposits with initial term of over three months	15	**313,897**	300,000
Cash and cash equivalents	15	**9,544**	333,458
		1,276,379	1,078,491
Total assets		**1,754,433**	1,556,545
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**206,625**	199,000
Retained earnings	17	**170,349**	95,038
Other reserves	17	**1,375,108**	1,233,729
Total equity		**1,752,082**	1,527,767
LIABILITIES			
Current liabilities			
Other payables and accruals	20	**2,276**	28,778
Current income tax liabilities		**75**	–
		2,351	28,778
Total equity and liabilities		**1,754,433**	1,556,545
Net current assets		**1,274,028**	1,049,713
Total assets less current liabilities		**1,752,082**	1,527,767

Ting Man Yi
Director

Ting Hung Yi
Director

The notes on pages 70 to 152 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2006

	Note	**2006 HK$'000**	2005 HK$'000
Turnover	5	**1,920,068**	1,894,835
Cost of sales	24	**(1,249,738)**	(1,202,126)
Gross profit		**670,330**	692,709
Other income	5	**732**	664
Other gains, net	21	**23,065**	21,882
Selling, marketing and distribution costs	24	**(117,960)**	(102,667)
Administrative expenses	24	**(152,985)**	(160,089)
Operating profit		**423,182**	452,499
Finance income	22	**35,909**	10,249
Finance costs	22	**(423)**	(8,951)
Finance income, net	22	**35,486**	1,298
Share of profit of associates	10	**6,823**	9,023
Profit before income tax		**465,491**	462,820
Income tax expense	23	**(54,690)**	(72,715)
Profit for the year		**410,801**	390,105
Attributable to:			
Equity holders of the Company		**408,539**	380,997
Minority interests		**2,262**	9,108
		410,801	390,105
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	27	**19.79 cents**	25.15 cents
– diluted	27	**19.70 cents**	25.13 cents
Dividends	28	**276,798**	351,260

The notes on pages 70 to 152 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

		Attributable to the equity holders of the Company						
		Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006		199,000	763,773	43,783	433,805	1,440,361	13,979	1,454,340
Currency translation differences	17	–	–	36,480	–	36,480	771	37,251
Profit for the year		–	–	–	408,539	408,539	2,262	410,801
Acquisition of subsidiaries	31	–	–	–	–	–	13,897	13,897
Contribution from a minority shareholder		–	–	–	–	–	4,641	4,641
Issue of shares	16, 17	7,500	144,375	–	–	151,875	–	151,875
Share issuance costs	17	–	(4,898)	–	–	(4,898)	–	(4,898)
Employee share option scheme:								
– proceeds from share issues	16	125	–	–	–	125	–	125
– value of employee services	17	–	–	1,902	–	1,902	–	1,902
– transfer to share premium	17	–	1,902	(1,902)	–	–	–	–
2005 final dividend paid	28	–	–	–	(94,990)	(94,990)	–	(94,990)
2006 interim dividend paid	28	–	–	–	(132,160)	(132,160)	–	(132,160)
Profit appropriation	17	–	–	17,724	(17,724)	–	–	–
At 31 December 2006		206,625	905,152	97,987	597,470	1,807,234	35,550	1,842,784

The notes on pages 70 to 152 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

		Attributable to the equity holders of the Company						
		Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005		10,000	–	41,269	389,379	440,648	95,515	536,163
Currency translation differences	17	–	–	11,967	–	11,967	–	11,967
Profit for the year		–	–	–	380,997	380,997	9,108	390,105
Capital contribution to subsidiaries by Controlling Shareholders	17	–	–	2,338	–	2,338	–	2,338
Issue of shares in connection with the Listing	16,17	50,000	962,500	–	–	1,012,500	–	1,012,500
Capitalisation of share premium account	16,17	139,000	(139,000)	–	–	–	–	–
Share issuance costs	17	–	(59,727)	–	–	(59,727)	–	(59,727)
Employee share option scheme:								
– value of employee services	17	–	–	1,902	–	1,902	–	1,902
Acquisition of a subsidiary		–	–	–	–	–	4,874	4,874
Contribution from a minority shareholder		–	–	–	–	–	8,683	8,683
Acquisition of additional interest in subsidiaries		–	–	–	–	–	1,414	1,414
Dividend	28	–	–	–	(256,270)	(256,270)	(15,551)	(271,821)
Profit appropriation	17	–	–	12,134	(12,134)	–	–	–
Deemed distribution	17	–	–	(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

The notes on pages 70 to 152 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	29	**312,839**	470,470
Interest paid		**(423)**	(8,951)
Income tax paid		**(90,910)**	(43,034)
Net cash generated from operating activities		**221,506**	418,485
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	31	**(167,826)**	575
Acquisition of associates	10	**–**	(9,360)
Incorporation of an associate	10	**(1,425)**	–
Increase in loan to an associate	10	**(3,325)**	–
Purchases of property, plant and equipment	6	**(86,592)**	(104,542)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	29	**21,988**	33,298
Purchase of leasehold land and land use rights	8	**(16,102)**	(16,611)
Increase in term deposits with initial term of over three months		**(27,829)**	(298,308)
(Increase)/decrease in pledged deposits		**(11,182)**	16,722
Interest received		**29,526**	10,249
Cash outflow from deemed distribution		**–**	(64,206)
Net cash used in investing activities		**(262,767)**	(432,183)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**152,000**	1,012,500
Proceeds from issuance of ordinary shares of subsidiaries from Controlling Shareholders		**–**	2,338
Payment of shares issuance costs		**(4,898)**	(59,727)
Proceeds from borrowings		**2,180**	293,802
Repayment of borrowings		**(64,506)**	(446,169)
Dividend paid to equity holders	28	**(227,150)**	(256,270)
Capital contribution by minority interests		**4,641**	8,683
Dividends paid to minority interests		**–**	(15,551)
Net cash (used in)/generated from financing activities		**(137,733)**	539,606
Net (decrease)/increase in cash and cash equivalents		**(178,994)**	525,908
Cash and cash equivalents at 1 January		**669,542**	137,936
Exchange gains on cash and cash equivalents		**6,881**	5,698
Cash and cash equivalents at 31 December		**497,429**	669,542

The notes on pages 70 to 152 are an integral part of these financial statements.

1 GENERAL INFORMATION

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 principal office is 28th Floor, Futura Plaza, 111-113 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

The Company and its subsidiaries (together the "Group") are engaged in the manufacturing and sale of garments on an OEM basis and retailing of branded fashion apparel.

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 "Listing").

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 after the completion of the Reorganisation had been in existence throughout the period presented.

These consolidated financial statements are presented in HK dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

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.

2.1 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 financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

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 Group'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.

(a) Amendments to published standards effective in 2006

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2007, but it does not have any impact on the classification and valuation of the Group's financial instruments;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation should not have significant impact on the Group's accounting policies as the Group has already assessed whether embedded derivatives should be separated using principles consistent with HK(IFRIC)-Int 9;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC)-Int 11, HKFRS 2 – Group and treasury share transfer (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFIC)-Int 11 from 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006).

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations (Continued)*

- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

(a) *Subsidiaries*

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group except for the Reorganisation which has been accounted for under merger 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 income statement.

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.

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

(b) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) 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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) 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 HK$, which is the Company's presentation currency. The functional currency of the Company is US dollar ("USD").

(b) 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 income statement.

(c) 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:

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

(ii) 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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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 partially disposed of or 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.

2.5 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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 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.

2.6 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 consolidated group, is classified as investment property.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties *(Continued)*

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.

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 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 period in which they are incurred.

Changes in fair values are recognised in the income statement, as part of the other gains, net.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition 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 on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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.

(b) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite 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 lives of 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 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.

2.11 Cash and cash equivalents

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

2.12 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.

2.13 Trade payables

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

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Borrowing costs

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

2.16 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 consolidated financial statements. However, the deferred income tax is not accounted for if it 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 income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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)*

2.17 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 these 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 these plans do not hold sufficient assets to pay all employees the benefits relating to employee services 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)*

2.17 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 vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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.

2.18 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 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)*

2.19 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 the amount has been reliably estimated. 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.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(a) *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.

(b) *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.

(c) *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.

(d) *Dividend income*

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

(e) *Rental income*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 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 will comply with all attached conditions.

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.22 Leases (as the lessee for 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 income statement on the straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 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.

(a) 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 Renminbi ("RMB") and Euro, primarily with respect to USD which is the Group's functional 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.

(b) 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 except for bank fixed deposits. The Group's exposure to changes in interest rates is mainly attributable to its bank fixed deposits and borrowings. Bank fixed deposits and borrowings at variable rates expose the Group to cash flow interest-rate risk. The interest rates of the Group's bank fixed deposits and the rates and terms of repayment of the Group's borrowings are disclosed in Notes 15 and 18 respectively.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, trade and bills receivables, 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.

(d) Concentration risk

During the year ended 31 December 2006, the Group's sales to top 5 customers accounted for approximately 49.8% (2005: 59.8%) of the total revenue. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(e) 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.

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including due from associates, trade and other receivables, pledged bank deposits, terms deposits with initial term of over three months, cash and cash equivalents, and financial liabilities including trade and other payables, borrowings, due to associates are assumed to approximate their fair values due to their short maturities.

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 18.

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.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(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 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.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Notes 10 and 11).

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(a) Turnover and other income

(i) Turnover

The Group is principally engaged in the manufacturing and sale of garments on an OEM basis and retailing of branded fashion apparel. Revenues recognised are HK$1,920,068,000 for the year ended 31 December 2006 (2005: HK$1,894,835,000).

(ii) Other income

	2006	2005
	HK$'000	HK$'000
Rental income	**732**	664

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments

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

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, interest in associates, intangible assets, inventories, receivables and operating cash. They exclude items such as corporate assets, deferred income tax assets and tax recoverable.

Segment liabilities comprise operating liabilities. They exclude items such as current income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises 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 (Notes 6, 8, 11 and 31).

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2006

The segment results for the year ended 31 December 2006 are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Gross segment sales	1,726,554	198,477	1,925,031
Elimination of inter-segment sales	(3,113)	(1,850)	(4,963)
Turnover	1,723,441	196,627	1,920,068
Other income	732	–	732
	1,724,173	196,627	1,920,800
Segment results	368,838	38,934	407,772
Unallocated gains			15,410
Operating profit			423,182
Finance income			35,909
Finance costs			(423)
Finance income, net			35,486
Share of profit of associates	6,823	–	6,823
Profit before income tax			465,491
Income tax expense			(54,690)
Profit for the year			410,801

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2006

Other segment items included in the income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Depreciation of property, plant and equipment (Note 6)	26,024	2,136	28,160
Amortisation of leasehold land and land use rights (Note 8)	970	31	1,001
Amortisation of intangible assets (Note 11)	–	3,122	3,122
Reversal of provision for impairment of receivables (Note 24)	(188)	(979)	(1,167)

The segment assets and liabilities as at 31 December 2006 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	1,550,859	257,919	340,722	2,149,500
Associates	72,250	–	–	72,250
Total assets	1,623,109	257,919	340,722	2,221,750
Liabilities	225,665	118,009	35,292	378,966
Capital expenditure	297,925	1,095	–	299,020

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2005

The segment results for the year ended 31 December 2005 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	664	–	664
	1,722,716	172,783	1,895,499
Segment results	422,479	14,114	436,593
Unallocated gains			15,906
Operating profit			452,499
Finance income			10,249
Finance costs			(8,951)
Finance income, net			1,298
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

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting segment – business segments *(Continued)*

As at and for the year ended 31 December 2005 *(Continued)*

Other segment items included in the income statement are as follows:

	OEM garment sales HK$'000	Retailing of branded fashion apparel HK$'000	Total HK$'000
Depreciation of property, plant and equipment (Note 6)	23,531	3,075	26,606
Amortisation of leasehold land and land use rights (Note 8)	1,061	–	1,061
Amortisation of intangible assets (Note 11)	–	3,381	3,381
Provision for impairment of receivables (Note 24)	1,203	1,866	3,069
Bad debts written off (Note 24)	78	–	78
Inventory write-down (Note 24)	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	Retailing of branded fashion apparel	Corporate and others	Total
	HK$'000	HK$'000	HK$'000	HK$'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

(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.

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting segment – geographical segments *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
North America	**1,476,517**	1,547,703
European Union	**90,958**	84,427
The PRC (including Hong Kong)	**331,603**	214,419
Other countries	**20,990**	48,286
	1,920,068	1,894,835

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

	2006	2005
	HK$'000	HK$'000
The PRC		
– Mainland China	**1,434,788**	721,143
– Hong Kong	**777,640**	1,134,293
North America	**9,322**	542
	2,221,750	1,855,978

5 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting segment – geographical segments *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
The PRC		
– Mainland China	**297,266**	121,177
– Hong Kong	**405**	1,390
North America	**1,349**	–
	299,020	122,567

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant & machinery HK$'000	Vehicles HK$'000	Furniture, fittings and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2005							
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
Year ended 31 December 2005							
Opening net book amount	168,504	1,560	71,593	9,660	18,974	4,423	274,714
Exchange differences	3,588	(44)	1,777	163	329	425	6,238
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	(84,625)	–	(4,815)	(1,971)	(5,222)	(12,561)	(109,194)
Depreciation	(8,884)	(601)	(9,934)	(2,987)	(4,200)	–	(26,606)
Closing net book amount	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
Year ended 31 December 2006							
Opening net book amount	98,883	1,972	88,908	10,257	14,873	22,890	237,783
Exchange differences	5,746	50	4,318	372	773	1,509	12,768
Additions	12	2,353	16,893	1,366	10,038	55,930	86,592
Acquisition of subsidiaries (Note 31)	122,202	–	–	1,279	8,283	16,866	148,630
Transfers	1,962	–	38,637	–	981	(41,580)	–
Disposals	(3,676)	(606)	(607)	(18)	(197)	–	(5,104)
Depreciation	(7,312)	(832)	(11,643)	(2,826)	(5,547)	–	(28,160)
Closing net book amount	217,817	2,937	136,506	10,430	29,204	55,615	452,509
At 31 December 2006							
Cost	239,383	8,175	168,577	23,598	44,209	55,615	539,557
Accumulated depreciation	(21,566)	(5,238)	(32,071)	(13,168)	(15,005)	–	(87,048)
Net book amount	217,817	2,937	136,506	10,430	29,204	55,615	452,509

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of HK$18,940,000 (2005: HK$14,909,000) has been charged in cost of sales and HK$9,220,000 (2005: HK$11,697,000) in administrative expenses.

At 31 December 2005, certain bank borrowings were secured on buildings for the value of HK$4,813,000 (Note 18) and had been fully repaid in 2006.

7 INVESTMENT PROPERTIES

	2006	2005
	HK$'000	HK$'000
At beginning of year	**4,940**	4,310
Fair value gains (Note 21)	**–**	630
At end of year	**4,940**	4,940

In 2005, 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. The Directors consider the fair value of the investment properties as at 31 December 2005 and 2006 is approximately the same as this valuation.

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

8 LEASEHOLD LAND AND LAND USE RIGHTS

	2006 HK$'000	2005 HK$'000
At beginning of year	**36,128**	43,622
Exchange differences	**2,018**	713
Additions	**16,102**	16,611
Acquisition of subsidiaries (Note 31)	**28,359**	293
Disposals	**(7,267)**	(8,903)
Deemed distribution	**–**	(15,147)
Amortisation	**(1,001)**	(1,061)
At end of year	**74,339**	36,128

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:

	2006 HK$'000	2005 HK$'000
In Hong Kong, held on:		
– Leases of between 10 to 50 years	**2,200**	9,587
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	**72,139**	26,541
	74,339	36,128

At 31 December 2005, certain bank borrowings were secured on land for the carrying amount of HK$9,587,000 (Note 18) and had been fully repaid in 2006.

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**478,054**	478,054

The particulars of the Group's principal subsidiaries as at 31 December 2006 are set out as follows:

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars 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%
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%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
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%
Hangzhou Ding Jia Textile Company Limited	The PRC	Home textile and garment manufacturing in the PRC	US$4,010,000	100%
Hangzhou Fucheng Fashion Company Limited	The PRC	Garment manufacturing in the PRC	RMB13,000,000	100%
Hangzhou Fuding Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%
Hangzhou Fuxi Fashion Company Limited	The PRC	Garment retailing in the PRC	US$200,000	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
Indirectly held:				
Jiangsu Fuze Textile Company Limited	The PRC	Jacquard and velvet fabric weaving in the PRC	US$2,625,000	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%
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 Fashion Company Limited	The PRC	Textile fashion manufacturing and trading in the PRC	US$20,000,000	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

Name	Country/ place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ paid-in capital	Equity interest attributable to the Group
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$2,000,000	100%
Zhejiang Fuhowe Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,500,000	100%
Zhejiang China Ting Group Company Limited	The PRC	Properties holding and garment trading in the PRC	RMB50,000,000	92%
Zhejiang Huali Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$936,300	100%
Zhejiang Huayue Silk Products Company Limited	The PRC	Spun silk fabric weaving in the PRC	US$2,500,000	55%
Zhejiang Xinan Fashion Company Limited	The PRC	Garment manufacturing in the PRC	US$2,000,000	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
Share of net assets	**51,246**	41,861
Loan to an associate (Note)	**3,325**	–
Goodwill	**17,679**	17,679
	72,250	59,540

Note: The loan to an associate is unsecured, interest-free and not repayable within one year.

Movements of interest in associates are as follows:

	2006	2005
	HK$'000	HK$'000
At beginning of year	**59,540**	45,117
Exchange differences	**1,137**	(4)
Acquisitions	**–**	9,360
Incorporation of an associate	**1,425**	–
Loan to an associate	**3,325**	–
Share of profit	**6,823**	9,023
Change of status from associates to subsidiaries upon acquisitions of additional interests	**–**	(3,956)
At end of year	**72,250**	59,540

10 INTEREST IN ASSOCIATES *(Continued)*

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

	2006 **HK$'000**	2005 HK$'000
Total assets	**171,561**	146,109
Total liabilities	**(35,371)**	(37,769)
Revenues	**112,722**	122,226
Profit for the year	**17,310**	22,356

Impairment test for goodwill

Goodwill is allocated to the cash-generating units (CGUs) identified for Interfield Industrial Limited and its subsidiaries ("Interfield Group").

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Interfield Group
Gross margin (a)	40%
Growth rate (b)	0%
Discount rate (c)	11.5%

10 INTEREST IN ASSOCIATES *(Continued)*

Note:

(a) Budgeted gross margin.

(b) Weighted average growth rate used to extrapolate cash flows beyond the budget period.

(c) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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

Name of companies	County/ place of incorporation/ establishment	Particular of issued/paid-in capital	Equity interest attributable to the Group	Principal activities
Hangzhou Huasheng Accessories Company Limited	The PRC	US$250,000	25%	Accessories and plastic bags manufacturing
Interfield Industrial Limited	Hong Kong	23,400,000 shares of HK$1 each	40%	Fabric printing and dyeing
Jiaxing Feiyue Knitwear Garment Limited	The PRC	US$660,000	45.5%	Garment manufacturing
Lee Cooper China (HK) Limited	Hong Kong	300,000 shares of Euro 1 each	50%	Retailing

11 INTANGIBLE ASSETS

	Goodwill HK$'000	Trademark HK$'000	Total HK$'000
At 1 January 2005			
Cost	–	31,216	31,216
Accumulated amortisation	–	(1,561)	(1,561)
Net book amount	–	29,655	29,655
Year ended 31 December 2005			
Opening net book amount	–	29,655	29,655
Acquisition of subsidiaries	1,414	–	1,414
Amortisation	–	(3,381)	(3,381)
Closing net book amount	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
Year ended 31 December 2006			
Opening net book amount	1,414	26,274	27,688
Acquisition of subsidiaries (Note 31)	19,337	–	19,337
Amortisation	–	(3,122)	(3,122)
Closing net book amount	20,751	23,152	43,903
At 31 December 2006			
Cost	20,751	31,216	51,967
Accumulated amortisation	–	(8,064)	(8,064)
Net book amount	20,751	23,152	43,903

11 INTANGIBLE ASSETS *(Continued)*

The trademark represents the right to use the brand FINITY in the PRC and Hong Kong. Amortisation is charged to selling, marketing and distribution costs during the year.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

A segment-level summary of the goodwill allocation is presented below.

	2006 HK$'000
OEM garment sales	20,751

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the OEM garment business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	OEM garment sales
Gross margin (a)	35%
Growth rate (b)	3%
Discount rate (c)	11%

11 INTANGIBLE ASSETS *(Continued)*

Impairment tests for goodwill *(Continued)*

Note:

(a) Budgeted gross margin.

(b) Weighted average growth rate used to extrapolate cash flows beyond the budget period.

(c) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

12 INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**103,589**	83,290
Work in progress	**112,598**	94,545
Finished goods	**155,644**	63,939
	371,831	241,774
Less: inventory write-down	**(23,634)**	(23,634)
	348,197	218,140

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$810,867,000 (2005: HK$816,261,000).

During the year, no provision for inventory write-down has been made (2005: HK$17,102,000).

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**307,632**	235,479	**–**	–
Less: Provision for impairment of receivables	**(2,527)**	(4,555)	**–**	–
Trade and bills receivables – net	**305,105**	230,924	**–**	–
Other receivables, deposits and prepayments	**70,391**	62,643	**7,840**	15,759
	375,496	293,567	**7,840**	15,759

The ageing analysis of trade and bills receivables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**221,304**	167,341
31 to 60 days	**62,059**	49,356
61 to 90 days	**17,343**	11,750
Over 90 days	**6,926**	7,032
	307,632	235,479

13 TRADE AND OTHER RECEIVABLES *(Continued)*

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	Group	
	2006	2005
	HK$'000	HK$'000
HK$	**1,995**	1,804
RMB	**41,057**	31,842
USD	**240,027**	194,350
Euro	**24,553**	7,483
	307,632	235,479

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 not more 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.

Retail sales are settled 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 receivables are with average maturity dates of within 2 months.

The carrying amounts of trade and other receivables approximate their fair values.

13 TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2006, the reversal of provision for impairment of receivables amounted to HK$1,167,000 (2005: provision of HK$3,147,000). These have been included in administrative expenses in the income statement.

14 PLEDGED BANK DEPOSITS

Bank deposits of HK$12,310,000 (2005: HK$1,128,000) have been pledged for trade finance facilities made available to the Group.

The effective interest rate on pledged bank deposits was 1.8% per annum (2005: 1.71% per annum).

15 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**293,381**	408,396	**9,544**	83,458
Short-term bank deposits	**204,048**	261,146	**–**	250,000
Cash and cash equivalents	**497,429**	669,542	**9,544**	333,458
Term deposits with initial term of over three months	**327,829**	300,000	**313,897**	300,000
Pledged bank deposits (Note 14)	**12,310**	1,128	**–**	–
	837,568	970,670	**323,441**	633,458

15 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS/CASH AND CASH EQUIVALENTS *(Continued)*

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Denominated in:				
HK$	**323,093**	635,565	**320,441**	633,458
RMB	**260,824**	73,296	**–**	–
USD	**238,142**	261,460	**2,981**	–
Euro	**15,509**	349	**19**	–
	837,568	970,670	**323,441**	633,458

(i) The effective interest rate on short-term bank deposits and term deposits was 4.84% per annum (2005: 4.27% per annum); these deposits have a maturity ranging from 7 to 180 days.

(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.

16 SHARE CAPITAL

Details of share capital of the Company as at 31 December 2006 are as follows:

	Note	Authorised ordinary shares Number of shares (in thousands)	Total HK$'000
At date of incorporation on 31 May 2005	(i)	10,000	1,000
Increase in authorised share capital	(iii)	9,990,000	999,000
At 31 December 2005 and 31 December 2006		10,000,000	1,000,000

	Note	Issued and fully paid ordinary shares Number of shares (in thousands)	Total HK$'000
At date of incorporation on 31 May 2005	(i)	–	–
Ordinary shares allotted and issued nil paid	(ii)	–	–
Issue of ordinary shares in respect of the Reorganisation	(iii)	100,000	10,000
New issue of shares	(iv)	500,000	50,000
Capitalisation of share premium account	(v)	1,390,000	139,000
At 31 December 2005		1,990,000	199,000
Issue of shares	(vi)	75,000	7,500
Exercise of share options		1,250	125
At 31 December 2006		2,066,250	206,625

16 SHARE CAPITAL *(Continued)*

Note:

(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 at nil paid to the initial subscriber of the Company which was subsequently transferred to Gainchoice Investment Limited ("Gainchoice") which is wholly owned by Longerview Investments Limited ("Longerview"). Longerview is owned by Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer ("Controlling Shareholders") on the same date.

(ii) On 17 June 2005, 99 Shares were allotted and issued at nil paid to Gainchoice. On 27 July 2005, 100 Shares were transferred from Gainchoice to Longerview.

(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 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 shares of the Company were listed on the Main Board of the HKSE on 15 December 2005.

(v) On 14 December 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.

(vi) 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.

16 SHARE CAPITAL *(Continued)*

Share options

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered into 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. 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:

	2006		2005	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January/date of incorporation	**0.10**	**10,000**	–	–
Granted	**–**	**–**	0.10	10,000
Exercised	**0.10**	**(1,250)**	–	–
At 31 December	**0.10**	**8,750**	0.10	10,000

At 31 December 2005, all the options were not exercisable. Options exercised in 2006 resulted in 1,250,000 shares being issued at HK$0.10 each. The related weighted average share price at the time of exercise was HK$2.06 per share.

8,750,000 outstanding options at 31 December 2006 were not exercisable as at that date and will be exercisable at an exercise price of HK$0.10 per share over the period up to 15 December 2013. They will be expired on 15 December 2013.

17 RESERVES

(a) Group

	Share premium HK$'000	Capital reserve HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (ii))	Statutory reserves HK$'000 (Note (iii))	Share based compensation reserve HK$'000 (Note (iv))	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2006	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Currency translation differences	–	–	–	–	–	36,480	–	36,480
Issue of shares	144,375	–	–	–	–	–	–	144,375
Profit for the year	–	–	–	–	–	–	408,539	408,539
Share issuance costs	(4,898)	–	–	–	–	–	–	(4,898)
Employee share option scheme:								
– value of employee services	–	–	–	–	1,902	–	–	1,902
– transfer to share premium	1,902	–	–	–	(1,902)	–	–	–
2005 final dividend paid	–	–	–	–	–	–	(94,990)	(94,990)
2006 interim dividend paid	–	–	–	–	–	–	(132,160)	(132,160)
Profit appropriation	–	–	–	17,724	–	–	(17,724)	–
At 31 December 2006	905,152	7,746	(4,624)	42,695	1,902	50,268	597,470	1,600,609
Representing:								
2006 final dividend proposed							90,915	
2006 special dividend proposed							53,723	
Others							452,832	
							597,470	

17 RESERVES *(Continued)*

(a) Group *(Continued)*

	Share premium HK$'000	Capital reserve HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (ii))	Statutory reserves HK$'000 (Note (iii))	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	962,500	–	–	–	–	–	–	962,500
Capitalisation of share premium account	(139,000)	–	–	–	–	–	–	(139,000)
Share issuance costs	(59,727)	–	–	–	–	–	–	(59,727)
Employee share option scheme: – value of employee services	–	–	–	–	1,902	–	–	1,902
Dividend paid	–	–	–	–	–	–	(256,270)	(256,270)
Profit appropriation	–	–	–	12,134	–	–	(12,134)	–
Deemed distribution	–	(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	

17 RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note (ii))	Share based compensation reserve HK$'000 (Note (iv))	Retained earnings HK$'000	Total HK$'000
At 1 January 2006	763,773	468,054	1,902	95,038	1,328,767
Profit for the year	–	–	–	302,461	302,461
Issues of shares	144,375	–	–	–	144,375
Share issuance costs	(4,898)	–	–	–	(4,898)
Employee share option scheme:					
– value of employee services	–	–	1,902	–	1,902
– transfer to share premium	1,902	–	(1,902)	–	–
2005 final dividend paid	–	–	–	(94,990)	(94,990)
2006 interim dividend paid	–	–	–	(132,160)	(132,160)
At 31 December 2006	905,152	468,054	1,902	170,349	1,545,457
Representing:					
2006 final dividend proposed				90,915	
2006 special dividend proposed				53,723	
Others				25,711	
				170,349	

17 RESERVES *(Continued)*

(b) Company *(Continued)*

	Share premium HK$'000	Contributed surplus HK$'000 (Note (ii))	Share based compensation reserve HK$'000 (Note (iv))	Retained earnings HK$'000	Total HK$'000
At date of incorporation	–	–	–	–	–
Profit for the period	–	–	–	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	962,500	–	–	–	962,500
Capitalisation of share premium account	(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	

17 RESERVES *(Continued)*

Note:

(i) Capital reserve

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

(ii) Contributed surplus

Contributed surplus 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.

Contributed 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.

(iii) 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 for the year 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.

(iv) Share based compensation reserve

Employee share option reserve represents value of employee services under the Group's Pre-IPO Share Option Scheme.

18 BORROWINGS

	2006 HK$'000	2005 HK$'000
Non-current		
Bank borrowings	–	4,368
Current		
Bank borrowings	**2,225**	59,420
Total borrowings	**2,225**	63,788
Representing:		
– secured	–	38,806
– unsecured	**2,225**	24,982
Total borrowings	**2,225**	63,788

At 31 December 2006, the Group's bank borrowings were wholly repayable within five years as follows:

	2006 HK$'000	2005 HK$'000
Within 1 year	**2,225**	59,420
Between 1 and 2 years	–	1,143
Between 2 and 5 years	–	3,225
	2,225	63,788

At 31 December 2005, secured bank borrowings are secured by buildings and leasehold land and land use rights of the Group (Notes 6 and 8) (2006: Nil).

At 31 December 2005 and 2006, the trade finance facilities of the Group were secured by pledged bank deposits (Note 14).

18 BORROWINGS *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
HK$ at floating rates	**231**	12,865
RMB at fixed rates	**1,994**	50,923
Total borrowings	**2,225**	63,788

The effective interest rates per annum at the balance sheet date were as follows:

	2006	2005
HK$	**7.75%**	5.49%
RMB	**5.88%**	5.34%

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

At 31 December 2005, 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.

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

	2006	2005
	HK$'000	HK$'000
Carrying amounts	**–**	4,368
Fair value	**–**	3,861

The fair value as at 31 December 2005 was based on cash flow discounted using a rate based on the borrowing rates of 3.10% per annum for that year.

19 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:

	2006	2005
	HK$'000	HK$'000
Deferred income tax assets	**(4,153)**	(4,321)
Deferred income tax liabilities	**19,752**	779
	15,599	(3,542)

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

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

	2006	2005
	HK$'000	HK$'000
At beginning of year	**(3,542)**	(1,065)
Exchange differences	**242**	(38)
Acquisition of subsidiaries (Note 31)	**18,924**	–
Recognised in the income statement (Note 23)	**(25)**	(2,439)
At end of year	**15,599**	(3,542)

19 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	Revaluation of buildings and land use rights	Total
	HK$'000	HK$'000	HK$'000
Deferred income tax liabilities			
At 1 January 2005	108	–	108
Recognised in the income statement	671	–	671
At 31 December 2005	779	–	779
Exchange differences	–	364	364
Acquisition of subsidiaries (Note 31)	–	18,924	18,924
Recognised in the income statement	–	(315)	(315)
At 31 December 2006	779	18,973	19,752

19 DEFERRED INCOME TAX *(Continued)*

	Accelerated tax deprecation HK$'000	Provisions HK$'000	Pre-operating expenses HK$'000	Total HK$'000
Deferred income tax assets				
At 1 January 2005	(35)	(791)	(347)	(1,173)
Exchange differences	–	(37)	(1)	(38)
Recognised in the income statement	(59)	(3,060)	9	(3,110)
At 31 December 2005	(94)	(3,888)	(339)	(4,321)
Exchange differences	–	(114)	(8)	(122)
Recognised in the income statement	–	76	214	290
At 31 December 2006	(94)	(3,926)	(133)	(4,153)

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$3,014,000 (2005: HK$2,308,000) in respect of losses amounting to HK$11,785,000 (2005: HK$20,793,000), that can be carried forward against future taxable income. The tax losses expire from 2008 to 2012 (2005: 2007 to 2009).

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade and bills payables	**223,976**	182,719	**–**	–
Other payables and accruals	**113,827**	103,486	**2,276**	28,778
	337,803	286,205	**2,276**	28,778

20 TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of trade and bills payables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**172,735**	108,996
31 to 60 days	**31,367**	49,702
61 to 90 days	**6,299**	8,359
Over 90 days	**13,575**	15,662
	223,976	182,719

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

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	Group	
	2006	2005
	HK$'000	HK$'000
HK$	**6,239**	9,940
RMB	**198,776**	162,118
USD	**14,903**	10,661
Euro	**4,058**	–
	223,976	182,719

The carrying amounts of trade and other payables approximate their fair values.

21 OTHER GAINS, NET

	2006 HK$'000	2005 HK$'000
Gain on disposal of property, plant and equipment and leasehold land and land use rights	9,617	6,489
Fair value gain on investment properties	–	630
Government grants	7,655	11,771
Exchange gains	527	272
Others	5,266	2,720
	23,065	21,882

22 FINANCE INCOME AND COSTS

	2006 HK$'000	2005 HK$'000
Finance income – Interest income on bank deposits	35,909	10,249
Finance costs – Interest on bank loans	(423)	(8,951)
Net finance income	35,486	1,298

23 INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current income tax		
– Hong Kong profits tax (Note (a))	28,803	50,623
– PRC enterprise income tax (Note (b))	30,823	24,531
Deferred income tax (Note 19)	(25)	(2,439)
Overprovision in prior years	(4,911)	–
	54,690	72,715

23 INCOME TAX EXPENSE *(Continued)*

(a) Hong Kong profits tax

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

(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 these 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 Zhejiang China Ting Group Company Limited, Jiangsu Fuze Textile Company Limited and Hangzhou Fuxi Fashion 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%.

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.

23 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2006	2005
	HK$'000	HK$'000
Profit before income tax	**465,491**	462,820
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**81,461**	80,994
Effect from different income tax rates in other jurisdictions	**21,502**	20,404
Effects of tax exemption	**(36,832)**	(29,912)
Income not subject to tax	**(11,286)**	(4,085)
Expenses not deductible for tax purposes	**1,903**	2,420
Utilisation of previously unrecognised tax losses	**(275)**	(244)
Overprovision in prior years	**(4,911)**	–
Tax losses for which no deferred income tax asset was recognised	**2,479**	2,826
Others	**649**	312
Income tax expense	**54,690**	72,715

24 EXPENSES BY NATURE

	2006	2005
	HK$'000	HK$'000
Auditors' remuneration	**4,052**	4,131
Amortisation of leasehold land and land use rights (Note 8)	**1,001**	1,061
Amortisation of intangible assets (Note 11)	**3,122**	3,381
Depreciation of property, plant and equipment (Note 6)	**28,160**	26,606
Employee benefit expenses (including directors' emolument) (Note 25)	**279,043**	229,202
Changes in inventories of finished goods and work in progress	**(109,758)**	64,708
Raw materials and consumables used	**920,625**	751,553
Direct operating expenses arising from investment properties that generate rental income	**84**	81
Operating lease rental in respect of property, plant and equipment	**14,911**	6,307
Provision for inventory write-down (Note 12)	**–**	17,102
(Reversal of)/provision for impairment of receivables (Note 13)	**(1,167)**	3,069
Bad debts written off (Note 13)	**–**	78
Other expenses	**380,610**	357,603
Total cost of sales, selling, marketing and distribution costs and administrative expenses	**1,520,683**	1,464,882

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	HK$'000
Salaries, wages and bonuses	**257,640**	207,585
Pension costs – defined contribution plans (Note)	**12,032**	10,974
Staff welfare	**9,371**	10,643
	279,043	229,202

Note:

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 19% of employees' basic salary to the scheme to fund the retirement benefits of the employees.

The Group has also established a mandatory provident fund scheme ("MPF scheme") in Hong Kong. The assets of the MPF scheme are held in separate trustee-administrated funds. Both the Group and the employees are required to contribute 5% of the employee's relevant income up to a maximum of HK$1,000 per employee per month.

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of each director of the Company for the year ended 31 December 2006 is set out below:

Name	Fees	Basic salaries, housing allowances, other allowances and benefits in kind	Contributions to pension plans	Discretionary bonus	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Ting Man Yi	–	3,000	12	2,250	5,262
Ding Jianer	–	2,000	12	770	2,782
Ting Hung Yi	–	3,000	12	2,250	5,262
Wong Sin Yung	–	800	12	400	1,212
Cheung Ting Yin, Peter (i)	–	515	5	417	937
Cheng Chi Pang	300	–	–	–	300
Wong Chi Keung	200	–	–	–	200
Leung Man Kit	200	–	–	–	200
	700	9,315	53	6,087	16,155

Note:

(i) Appointed on 3 August 2006

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' and senior management's emoluments *(Continued)*

The remuneration of each director of the Company for the year ended 31 December 2005 is set out below:

Name	Fees	Basic salaries, housing allowances, other allowances and benefits in kind	Contributions to pension plans	Discretionary bonus	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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
	84	4,581	48	7,200	11,913

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.

25 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) directors of the Company whose emoluments are reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining one (2005: two) individuals during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind (Note)	**3,017**	4,177
Contributions to pension plans	**12**	24
Discretionary bonuses	**1,300**	3,100
	4,329	7,301

Note: Other benefits in kind include share option value.

The emoluments fell within the following bands:

	2006	2005
HK$2,500,001 – HK$3,000,000	**–**	1
HK$4,000,001 – HK$4,500,000	**1**	1

None of the 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.

26 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$302,461,000 (2005: HK$95,038,000).

27 EARNINGS PER SHARE

(a) Basic

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.

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**408,539**	380,997
Weighted average number of ordinary shares in issue (thousands)	**2,064,541**	1,514,658
Basic earnings per share (HK cents per share)	**19.79**	25.15

(b) Diluted

Diluted earnings per share is calculated by 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.

27 EARNINGS PER SHARE *(Continued)*

(b) Diluted *(Continued)*

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**408,539**	380,997
Weighted average number of ordinary shares in issue (thousands)	**2,064,541**	1,514,658
Adjustments for share options (thousands)	**9,359**	1,147
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,073,900**	1,515,805
Diluted earnings per share (HK cents per share)	**19.70**	25.13

28 DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim		
Interim dividend, paid, of HK5.4 cents per ordinary share (Note (i))	**111,510**	256,270
Special dividend, paid, of HK1.0 cent per ordinary share	**20,650**	–
Final		
Proposed final dividend of HK4.4 cents (2005: HK4.6 cents) per ordinary share (Note (ii))	**90,915**	94,990
Proposed special dividend of HK2.6 cents (2005: Nil) per ordinary share (Note (ii))	**53,723**	–
	276,798	351,260

28 DIVIDENDS *(Continued)*

Note:

(i) Interim dividend

Dividend for the year ended 31 December 2005 represented (i) the dividend declared and paid by Zhejiang China Ting Group Company Limited to its then shareholders of which HK$15,270,000 was paid to the then equity holders of the Company and HK$13,985,000 was paid to minority shareholders of Zhejiang China Ting Group Company Limited; (ii) the dividend of HK$1,566,000 declared and paid by Zhejiang China Ting Jincheng Silk 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 their then shareholders 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 28 March 2007, the directors proposed a special dividend of HK2.6 cents per ordinary share in addition to a final dividend of HK4.4 cents per ordinary share. The proposed dividends are not reflected as a dividend payable in the financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

29 CASH GENERATED FROM OPERATIONS

	2006 HK$'000	2005 HK$'000
Operating profit	**423,182**	452,499
Adjustments for:		
– Depreciation of property, plant and equipment	**28,160**	26,606
– Amortisation of leasehold land and land use rights	**1,001**	1,061
– Amortisation of intangible assets	**3,122**	3,381
– Gain on disposal of property, plant and equipment and leasehold land and land use rights (see below)	**(9,617)**	(6,489)
– Fair value gain on investment properties	**–**	(630)
– Amortisation of share option scheme	**1,902**	1,902
Changes in working capital:		
– Inventories	**(122,569)**	(30,242)
– Trade and other receivables	**(59,669)**	(49,981)
– Due from/to related companies	**–**	156,527
– Due from/to directors	**–**	(116,994)
– Due from/to associates	**(3,622)**	10,684
– Trade and other payables	**50,949**	22,146
Cash generated from operations	**312,839**	470,470

29 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
Net book amount of:		
Property, plant and equipment (Note 6)	**5,104**	17,906
Leasehold land and land use rights (Note 8)	**7,267**	8,903
	12,371	26,809
Gain on disposal of property, plant and equipment and leasehold land and land use rights (Note 21)	**9,617**	6,489
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	**21,988**	33,298

30 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	2005
	HK$'000	HK$'000
Property, plant and machinery		
Contracted but not provided for	**2,183**	10,547
Investment in an associate, Lee Cooper China (HK) Limited	**10,220**	–
	12,403	10,547

30 COMMITMENTS *(Continued)*

(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:

	2006 **HK$'000**	2005 HK$'000
Land and buildings		
– Not later than 1 year	**3,259**	6,246
– Later than 1 year and not later than 5 years	**–**	4,465
	3,259	10,711
Plant and equipment		
– Not later than 1 year	**169**	132
– Later than 1 year and not later than 5 years	**381**	44
	550	176
	3,809	10,887

31 BUSINESS COMBINATIONS

On 23 October 2006, the Group acquired 92% of the share capital of Zhejiang China Ting Group Company Limited ("Zhejiang China Ting") from Mr. DING Xinger, an elder brother of the Controlling Shareholders, and certain third parties. Zhejiang China Ting and its subsidiary are engaged in properties holding. The acquired business contributed turnover of HK$218,000 and net loss of HK$867,000 to the Group for the period from 24 October 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, the turnover and net loss contributed by the acquired business would have been HK$874,000 and HK$6,728,000 respectively and the Group would have saved rental expenses by HK$10,507,000.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration – Cash paid	172,368
Fair value of net assets acquired – shown as below	(153,031)
Goodwill (Note 11)	19,337

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Zhejiang China Ting.

31 BUSINESS COMBINATIONS *(Continued)*

The separately identifiable assets and liabilities as of 23 October 2006 arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment (Note 6)	148,630	107,499
Leasehold land and land use rights (Note 8)	28,359	13,056
Other receivables, deposits and prepayments	14,507	14,507
Cash and cash equivalents	4,542	4,542
Other payables and accruals	(7,394)	(7,394)
Current income tax liabilities	(2,792)	(2,792)
Deferred income tax liabilities (Note 19)	(18,924)	–
Net assets	166,928	
Minority interests	(13,897)	
Net assets acquired	153,031	

	HK$'000
Purchase consideration settled in cash	172,368
Cash and cash equivalents in subsidiaries acquired	(4,542)
Cash outflow on acquisition	167,826

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Longerview which owns 72.11% of the Company's shares. The remaining 27.89% of the shares are widely held.

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

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

Name	**Relationship with the Group**
Hangzhou Huasheng Accessories Company Limited ("Huasheng Accessories")	An associate company
Interfield Industrial Limited ("Interfield")	An associate 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.

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with related parties:

Apart from disclosed elsewhere, the Group entered into the following transactions with related parties during the year. In the opinion of the Directors, these transactions 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 these related parties.

	2006 **HK$'000**	2005 HK$'000
Purchases of accessories from Huasheng Accessories	**9,896**	7,525
Subcontracting charges paid to Interfield	**29,207**	18,904
Sales of property, plant and equipment and leasehold land to Ting Man Yi	**–**	19,900

(b) Key management compensation

	2006 **HK$'000**	2005 HK$'000
Salaries and other short-term employee benefits	**21,094**	18,663
Post-employment benefits	**96**	96
Share-based payments	**1,902**	1,902
	23,092	20,661

32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Year-end balances

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Receivables from related parties				
– associates	**3,107**	1,104	**–**	–
– subsidiaries	**–**	–	**945,098**	429,274
	3,107	1,104	**945,098**	429,274
Payables to related parties				
– associates	**5,922**	7,541	**–**	–

Note:

All amounts are unsecured, interest-free and repayable on demand, except for the amount due from an associate of HK$4,984,000 (2005: Nil) which bears interest at 4.8%.

The carrying amounts of receivables/payables from/to related parties approximate their fair values.

33 EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

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

	For the financial years ended 31 December (Amounts expressed in HK$'000, unless specified)				
	2002	2003	2004	2005	**2006**
Turnover	711,903	980,015	1,401,465	1,894,835	**1,920,068**
Cost of sales	(527,024)	(702,082)	(967,807)	(1,202,126)	**(1,249,738)**
Gross profit	184,879	277,933	433,658	692,709	**670,330**
Other income	178	510	663	664	**732**
Other gains, net	24,283	19,918	26,637	21,882	**23,065**
Selling, marketing and distribution costs	(60,448)	(80,600)	(108,716)	(102,667)	**(117,960)**
Administrative expenses	(51,243)	(107,018)	(114,930)	(160,089)	**(152,985)**
Operating profit	97,649	110,743	237,312	452,499	**423,182**
Finance income	566	392	5,842	10,249	**35,909**
Finance costs	(1,142)	(6,974)	(10,191)	(8,951)	**(423)**
Finance income, net	(576)	(6,582)	(4,349)	1,298	**35,486**
Share of profit of associates	3,317	3,669	10,391	9,023	**6,823**
Profit before income tax	100,390	107,830	243,354	462,820	**465,491**
Income tax expense	(6,050)	(12,799)	(30,186)	(72,715)	**(54,690)**
Profit before minority interests	94,340	95,031	213,168	390,105	**410,801**
Minority interests	(7,307)	(9,759)	(20,365)	(9,108)	**(2,262)**
Profit attributable to shareholders	87,033	85,272	192,803	380,997	**408,539**

Five-year Financial Summary

	As at 31 December (Amounts expressed in HK$'000, unless specified)				
	2002	2003	2004	2005	**2006**
Non-current Assets	204,493	362,499	398,591	370,400	**652,094**
Current Assets	555,921	671,772	780,258	1,485,578	**1,569,656**
Total Assets	760,414	1,034,271	1,178,849	1,855,978	**2,221,750**
Non-current Liabilities	266	9,585	13,339	5,147	**19,752**
Current Liabilities	515,391	687,965	629,347	396,491	**359,214**
Total Liabilities	515,657	697,550	642,686	401,638	**378,966**
Total Equity	244,757	336,721	536,163	1,454,340	**1,842,784**
Net Current Assets/(Liabilities)	40,530	(16,193)	150,911	1,089,087	**1,210,442**
Total Assets Less Current Liabilities	245,023	346,306	549,502	1,459,487	**1,862,536**

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 2006 and its assets and liabilities as at 31 December 2005 and 2006 are set forth on pages 66 and 63 to 64, respectively, and are presented on the basis set out in note 2.1 to the financial statements.

CBHU 383877
22G1
30.480 KG
67.200 LB
2.220 KG
4.890 LB
28.260 KG
62.310 LB
33.2 CU.M.
1.170 CU.FT.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Lee Cooper