



Addchance Holdings Limited

互益集團有限公司

*(a company incorporated in the Cayman Islands with limited liability)*  
(Stock Code:3344)



# Annual Report 2005



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## FINANCIAL HIGHLIGHTS

	Key Financial Results				
	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000	Changes +/- %	2003 HK\$'000	2002 HK\$'000
Turnover	900,482	772,202	17%	609,296	670,688
Gross profit	233,019	176,256	32%	136,464	144,385
Profit for the year	75,417	47,745	58%	31,194	29,570
Profit attributable to :					
Equity holders of the Company	75,413	42,021	79%	25,856	22,773
Minority interests	4	5,724	-100%	5,338	6,797
Earnings per share (in HK cents)	23.27	14.01	66%	8.62	7.59

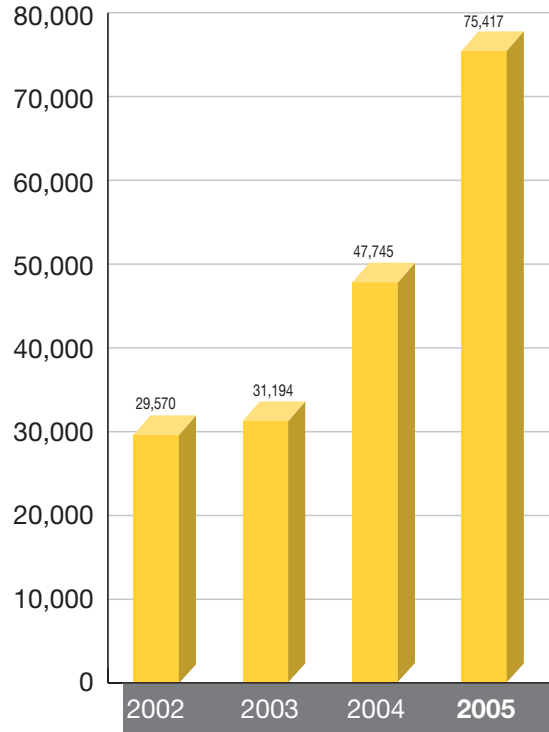
	Financial Ratios			
	Year ended 31 December			
	2005	2004	2003	2002
Profitability ratios:				
Gross margin (%)	25.9	22.8	22.4	21.5
Net margin (%)	8.4	6.2	5.1	4.4
Liquidity ratios:				
Current ratio (times)	1.4	1.4	1.1	1.6
Stock turnover (days) (Note 1)	101	116	112	60
Debtors turnover (days) (Note 2)	70	64	84	63
Creditors turnover (days) (Note 3)	31	50	54	9
Capital adequacy ratio				
Gearing ratio (%) (Note 4)	30.2	33.1	30.4	19.9

### Notes:

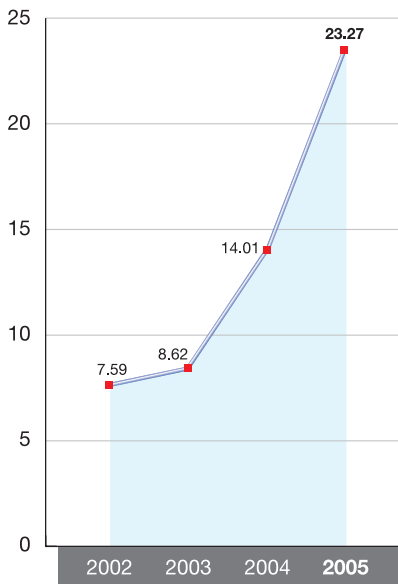
1. The number of stock turnover days is equal to inventory at the end of year divided by the cost of sales for the year and then multiplied by 365 days.
2. The number of debtors' turnover days is equal to trade and bills receivables at the end of year divided by the sales of the year and then multiplied by 365 days.
3. The number of creditors' turnover days is equal to trade and bills payable at the end of year divided by the cost of sales for the year and then multiplied by 365 days.
4. The gearing ratio is equal to total bank borrowings at the end of the year divided by total assets at the end of the year.

# FINANCIAL HIGHLIGHTS

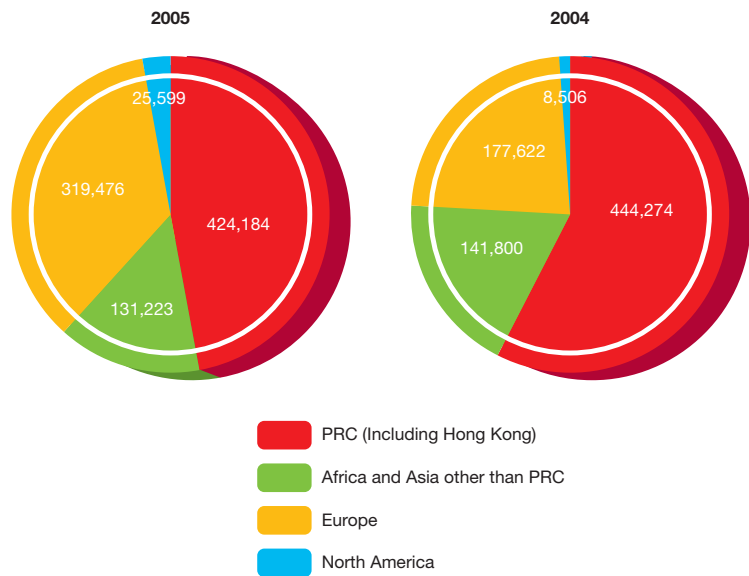
Profit for the year  
(HK\$'000)



Earnings per share  
(HK cents)



TURNOVER BY  
GEOGRAPHICAL LOCATION  
(HK\$'000)



# CORPORATE INFORMATION

## Executive Directors

Dr. SUNG Chung Kwun (Chairman)  
Mr. WONG Chiu Hong  
Ms. MOK Pui Mei  
Mr. IP Siu Lam  
Ms. SUNG Lam Ching

## Non-Executive Director

Mr. LAU Gary Q.

## Independent Non-Executive Directors

Mr. CHAN Tsz Fu, Jacky  
Mr. NG Man Kin  
Professor CAI Xiu Ling

## Company Secretary and Qualified Accountant

Ms. FUNG Ka Lai

## Members of Audit Committee, Remuneration Committee and Nomination Committee

Mr. CHAN Tsz Fu, Jacky (Chairman)  
Mr. NG Man Kin  
Professor CAI Xiu Ling

## Authorized representatives

Mr. WONG Chiu Hong  
Ms. MOK Pui Mei

## Head office and principal place of business in Hong Kong

Sung's Tower  
15-19 Lam Tin Street  
Kwai Chung  
New Territories  
Hong Kong

## Registered office

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

## Principal bankers

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
DBS Bank (Hong Kong) Limited  
Industrial and Commercial Bank of China (Asia) Limited

## Principal share registrar and transfer office

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

## Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17/F  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Joint Auditors

Deloitte Touche Tohmatsu  
Stephen Liu And Company

## Legal advisors as to Hong Kong Law

F. Zimmern & Co.

## Website

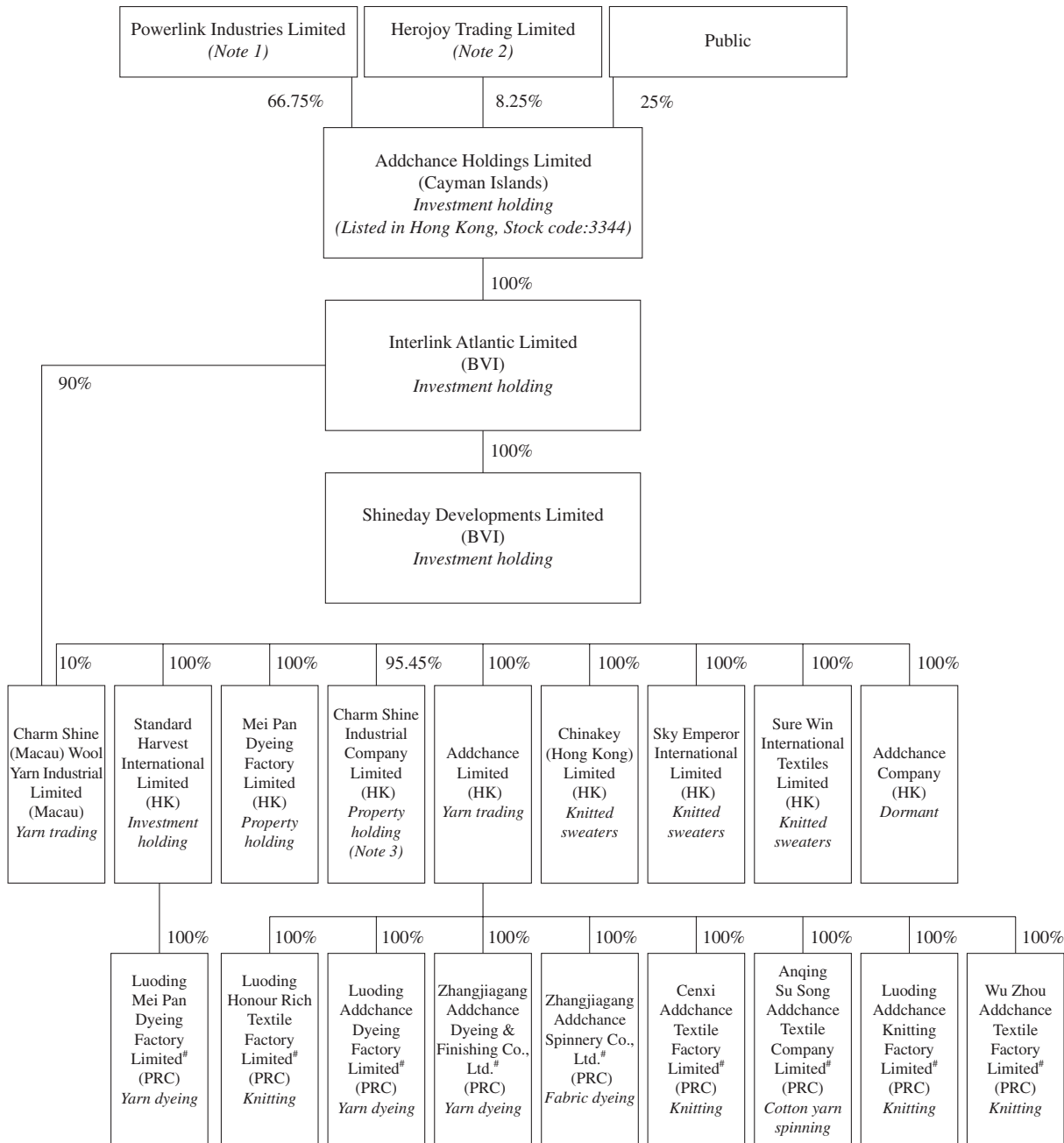
[www.addchance.com.hk](http://www.addchance.com.hk)

## Stock code

3344

# CORPORATE STRUCTURE

Corporate structure of the Group as at 31st December, 2005



# for identification purpose only

## CORPORATE STRUCTURE

*Notes:*

1. Powerlink Industries Limited is ultimately beneficially owned by GZ Trust Corporation in the capacity as trustee of The CK Sung's Trust, a discretionary family trust set up by Dr. Sung Chung Kwun ("Dr. Sung") as founder (as defined in the Securities and Futures Ordinance), the discretionary objects of which are Mrs. Sung (Ms. Tse Mui Chu, the spouse of Dr. Sung), Ms. Sung Lam Ching and Mr. Sung Kim Hung, the youngest son of Dr. Sung.
2. Herojoy Trading Limited is ultimately beneficially owned by GZ Trust Corporation in the capacity as trustee of The Addchance Employee' Trust, a discretionary trust set up by Dr. Sung as settlor and founder (as defined in the Securities and Futures Ordinance) for the benefit of employees of the Group, the discretionary objects of which are the employees of the Group from time to time including Mr. Wong Chiu Hong, Ms. Mok Pui Mei and Mr. Ip Siu Lam but excluding Ms. Sung Lam Ching.
3. The remaining 4.55% interest in Charm Shine Industrial Company Limited is owned by Mr. Sung Chung Man, the youngest brother of Dr. Sung.

## CHAIRMAN'S STATEMENT



Sung Chung Kwun  
*Chairman*

On behalf of the board of directors (the "Board") of Addchance Holdings Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (the "Group") since listing of the shares of the Company on the Main Board of the Hong Kong Stock Exchange.

2005 is a memorable year for the Group. As a result of the Group's pragmatic yet aggressive efforts, the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange as a company with a prudent business approach and robust operating foundation. It's a mark of success and is a milestone for the Company's history. The Group believes that the listing on 5th October, 2005 would give a boost to its brand awareness, as well as strengthen the management's governance and open up more opportunities for our international expansion, ultimately benefiting the shareholders with generous return.

### Dividend

The Board has resolved to recommend the payment of a final dividend of HK\$4.7 cents per share for the year ended 31st December, 2005 to shareholders appearing on the register of members of the Company as at 29th May, 2006, which is subject to approval of the shareholders at the annual general meeting.



# CHAIRMAN'S STATEMENT

## Business Review

The Group started its business in the dyeing industry when it was incepted in 1981. After years of development, the Group diversified its business to knitting and textile trading businesses through vertical integration. In line with its strategy on production origins, the Group has set up production facilities not only in Hong Kong, but also in four provinces in China, namely Guangdong, Guangxi, Jiangsu and Anhui, as well as contracted facilities in Cambodia. As a result of its effective and flexible planning of the management, the finished products of the Group may be exported from Hong Kong, China and Cambodia to Europe and the US, thereby circumventing the



*Zhangjiagang Addchance Dyeing and Finishing Co., Ltd*

impact of trade disputes on textile products between China, Europe and the US. This series of secured export channels enhanced the Group's reputation among customers in the international market.

## Outlook

After the successful listing of the shares of the Company (the "Shares") on The Stock Exchange Hong Kong Limited (the "Stock Exchange"), the Group continues to carry out its vertical integration strategy by and developing a one-stop business portfolio of knitting, dyeing and textile trading, which complement each other and create the synergy that substantially improves the Group's production capacity and competitiveness.

With the successful conclusion of textile negotiations between China, Europe and the US, uncertainties arising from the sustained pressure imposed on China's textile products have been removed. As a result, international merchandisers have been placing huge orders with suppliers possessing robust production capacity and good reputation. In view of such international trend and the market situation, the Group agreed to invest RMB50 million for the construction of a large-scaled knitting mill for sweaters in Wuzhou, Guangxi Province on 13th December, 2005 and US\$10 million in a 50,000-spindle expansion project of Susong Spinning Mill in Anqing on 30th December, 2005. Continual enhancement of production facilities is critical for achieving the Group's overall competitiveness.

Susong Spinning Mill is the spinning arm of the Group and the new investment made in Anqing will allow the Group to enhance its existing production facilities and to produce more high quality cotton yarn to keep abreast of the development of spinning in the PRC. In view of the increasing demand from its overseas and domestic customers for the Group's knitted sweaters and in order to reduce its reliance on subcontractors, the Group made an investment in Wuzhou for the continual expansion of its knitted sweaters production facilities.

The Group believes that the above new facilities will facilitate the development of the Group, regain of momentum in terms of our sales and bring long term benefits to the Group.

Every member of the Group will unite its efforts and strive for satisfactory returns for the shareholders.

## Appreciation

On behalf of the Board, I would like to express my heartfelt gratitude to our management team, staff and shareholders for their dedication and contribution to the Group in the past year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

### Business Review

2005 was a successful year for Addchance. With the advantage on advanced dyeing facilities and production know-how associated with the strategically located production bases, persistent vertical integration and good market reputation, the Company was successfully listed on the Stock Exchange last October.



*Zhangjiagang Addchance Dyeing & Finishing Co., Ltd  
Zhangjiagang Addchance Spinnery Co., Ltd*

The Group proactively developed itself as a one-stop service provider for garment customers with selection of production for yarn products at different stages: whether from a simply supply of cotton yarn, or a production of a well-knitted sweater; from the spinning of cotton into yarn, to the provision of yarn dyeing service.

The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarn, the provision of dyeing services, knitting services and trading of cotton and yarns. Its major products include over 200 different types of dyed yarns made of cotton, cashmere, ramie, rayon, acrylic, polyester, silk, wool, nylon, linen and mixtures of the above and knitted sweaters including cardigans and pullovers.

Despite the uncertainties in the industry arising from the quota elimination, the Group has continued to grow. During the year under review, the Group focused on the production of knitted sweaters and the market demands for knitted sweater continued to expand, both contributed to the increases in the sale of knitted sweaters to 7.7 million pieces, compared with 4.4 million pieces last year. The results of the Group for the year under review was significantly better, with an increase in net profit of approximately 58% and an increase in net margin from 6.2% to 8.4% over last year. The Board has recommended a final dividend of HK\$4.7 cents per ordinary share for the year ended 31st December, 2005.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Turnover

The turnover of the Group is primarily generated from production and sale of dyed yarns and knitted sweaters. With the continuous expansion in the production and sale of knitted sweaters, Addchance recorded a double-digit growth in turnover. For the year under review, total turnover increased by approximately 17% over last year, from approximately HK\$772.2 million to about HK\$900.5 million.

### Turnover by operation

(Amount)

	Changes				
	2005 HK\$'000	2004 HK\$'000	+/- %	2003 HK\$'000	2002 HK\$'000
Production and sale of dyed yarns	393,663	421,107	-7%	396,954	433,909
Production and sale of knitted sweaters	356,627	190,278	87%	84,974	130,318
Production and sale of cotton yarn	49,716	36,528	36%	25,099	3,502
Provision of dyeing and knitting services	31,392	20,818	51%	20,949	15,663
Trading of cotton and yarns	69,084	103,471	-33%	81,320	87,296
	<u>900,482</u>	<u>772,202</u>	<u>17%</u>	<u>609,296</u>	<u>670,688</u>

### Turnover by operation

(in % of total)

	2005	2004	2003	2002
Production and sale of dyed yarns	43.7%	54.6%	65.2%	64.7%
Production and sale of knitted sweaters	39.6%	24.6%	13.9%	19.4%
Production and sale of cotton yarn	5.5%	4.7%	4.1%	0.5%
Provision of dyeing and knitting services	3.5%	2.7%	3.4%	2.3%
Trading of cotton and yarns	7.7%	13.4%	13.4%	13.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

Turnover of the sweater business grew by about 87%, from approximately HK\$190.2 million to about HK\$356.6 million. This represented approximately 40% of the Group's total turnover and made a significant contribution to the Group, surged from approximately 25% of the Group's total turnover last year to approximately 40% in 2005. Revenue growth was mainly driven by the higher average selling prices, sustainable economies of scale and improved operational efficiency. The textile quota disputes and the re-introduction of quota in 2005 had no adverse effect on the Group's business and order flow of the Group had been stable in the year of 2005.

*Cenxi Addchance Textile Factory Limited*



Our sweaters products were still mainly exported to the EU during the year under review. Sale of sweater products made to international retail chainstores accounted for approximately HK\$316.3 million, which represented approximately 88.7% of the Group's sales of knitted sweaters for the year of 2005.

Dyed yarn is still being the core product of Addchance. Annual turnover from the production and sale of dyed yarns was approximately HK\$393.7 million, a slight decrease of approximately 7% as compared with last year, and accounted for approximately 44% of the Group's total turnover for the year 2005. Revenue generated from the provision of dyeing services increased from approximately HK\$20.8 million last year to about HK\$31.4 million in the year of 2005, a 51% increase as compared with last year. Most of the Group's dyed yarn was sold in the PRC and Hong Kong and it accounted for approximately 81% of the Group's sales of dyed yarn while the remaining represented exports to overseas countries including Thailand, Taiwan, Cambodia and Indonesia.

Turnover of the yarn-spinning business surged to approximately HK\$49.7 million for the year of 2005 from approximately HK\$36.5 million last year, representing an increase of 36%. The Group has expanded vertically to enhance its competitiveness and the Susong Spinning Mill is the yarn production arm of the Group, the production of cotton yarn can cater the demand for the production and sale of dyed yarn. During the year under review, about 56% of yarn produced by the Group was used in its dyeing function.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cost of Sales

(Amount)

	2005	2004	Changes	2003	2002
	HK\$'000	HK\$'000	+/- %	HK\$'000	HK\$'000
Raw materials	423,679	420,117	0.8	327,779	348,742
Fuel, coal and water					
treatment materials	27,367	31,090	-12.0	17,842	29,218
Direct Labour	33,846	33,333	1.5	23,448	18,269
Subcontracting - dyeing	2,857	231	>100	21,343	50,744
Subcontracting - knitting	98,139	51,997	88.7	23,848	39,253
Factory Overheads	73,227	53,270	37.5	48,743	36,202
Others	8,348	5,908	41.3	9,829	3,875
	<u>667,463</u>	<u>595,946</u>	<u>12.0</u>	<u>472,832</u>	<u>526,303</u>

With the continuous implementation of stringent cost control measures and enhancement in overall operational efficiency, the Group's cost of sales increased by 12.0% from HK\$595.9 million last year to HK\$667.5 million for the year under review despite the 17% increase in turnover. Raw materials continued to be the major component in the cost of sales, which accounted for approximately 63.5% of the Group's overall cost of sales for the year 2005. In line with the sharp increase in the sales of knitted sweaters by approximately 88% in 2005, the subcontracting charges for knitting increased accordingly.

### Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$233.0 million for the year under review, representing an increase of approximately 32% as compared to approximately HK\$176.3 million last year. With the increase in the production and sale of knitted sweaters with higher gross profit margin, which led to the Group's gross profit margin increased from 22.8% for the previous year to 25.9% for the year of 2005. The strategic expansion and vertical integration enhanced the competitive advantage of Addchance and facilitate the Group with stable raw materials supply, optimized factory utilization rate and lower production cost, the gross profit margin therefore improved continuously with the effectiveness of the Group's sales and production planning and strengthened cost control.

Sweater business continued to be the most profit-generating segment of the Group. With the continuous expansion of customer base, almost the twofold increase in sales volume and the increasing economies of scale, the Group enjoyed a lower production cost. Allied with this, the 17.1% increase in the average selling price of knitted sweaters in 2005 drove the gross profit margin of sweater business increased from 28.2% for the previous year to 31.4% for the year of 2005.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net profit margin

The net profit margin of the Group increased from 6.2% last year to 8.4% this year. Despite the surge in gross profit margin, the Group continuously implemented cost control measures to improve the net profit margin. Save for the inclusion of the listing expenses of approximately HK\$14.2 million and the imputed interest expense on an amount due to Dr. Sung Chung Kwun (“Dr. Sung”) of approximately HK\$3.1 million with the adoption of the new and revised International Financial Reporting Standards, the net profit and the net margin of the Group would be increased further to approximately HK\$92.7 million and 10.3% respectively.

## Other revenue

Other revenue of approximately HK\$7.4 million mainly comprised interest income and rental income from investment properties of the Group located in Hong Kong and the PRC. They are all industrial and commercial buildings located in Hong Kong and the PRC.

## Distribution costs

Distribution costs mainly included the transportation costs, accessories and packing expenses. For the year ended 31st December, 2005, the Group's distribution costs amounted to approximately HK\$51.8 million representing an increase of 16.8% when compared with the previous year. In line with the expansion in the market and business volume, the distribution costs increased accordingly.

## Administrative expenses

Administrative expenses of approximately HK\$82.2 million mainly represented the staff costs including the salary expenses and staff welfare expenses, listing expenses, bank charges, traveling expenses and depreciation. During the year under review, the administrative expenses increased by 28.7% from HK\$63.9 million for the previous year to HK\$82.2 million, accounting for 9.1% of the Group's turnover. The increment was mainly due to the listing expenses of approximately HK\$14.2 million arose upon the listing of the Company's shares on the Stock Exchange on 5th October, 2005.

## Finance costs

Finance costs mainly comprised the interest on bank borrowings and obligations under finance leases. Amount increased by 33.2% from HK\$17.3 million for the previous year to HK\$23.1 million for the year under review. The increase was mainly due to the imputed interest expense on an amount due to Dr. Sung of approximately HK\$3.1 million.

## Borrowings

As at 31st December, 2005, the Group had outstanding borrowings of approximately HK\$263.1 million, comprising bank borrowings of approximately HK\$254.1 million and obligations under finance leases of approximately HK\$9.0 million. Of the total amount, an amount of approximately HK\$248.5 million was due within one year and the remaining amount of approximately HK\$14.6 million was due over one year.

## MANAGEMENT DISCUSSION AND ANALYSIS

Upon completion of the reorganisation in preparation for the listing on the Stock Exchange, an amount due to Dr. Sung of approximately HK\$192.2 million was capitalized and therefore the borrowings level decreased by around 54.6% from HK\$579.5 million for the previous year to HK\$263.1 million this year. Gearing ratio, being the total bank borrowings divided by total assets, was 33.1% last year as compared to 30.2% as at 31st December, 2005.

The guarantees and assets pledged by Dr. Sung were all released since the listing of the Shares on the Stock Exchange. As at 31st December, 2005, certain land and buildings and machinery and equipment with an aggregated net book value of approximately HK\$37.6 million and bank balances of approximately HK\$21.3 million of the Group were utilized as security for the Group's borrowings.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group remained strong. The cash and cash equivalents amounted to HK\$86.1 million as at 31st December, 2005. The Group met its funding requirements in its usual course of operation by cash flows from operations, long-term and short-term borrowings, as well as issuance of equity securities.

Net cash inflow in the amount of HK\$128.6 million was generated from operating activities, reflecting primarily growth in the Group's core business. Also, the settlement of the debt due from related companies of approximately HK\$48.1 million also increased the net cash inflow generated from operating activities.

For the year under review, the net cash used in financing activities amounted to HK\$58.2 million, increased by approximately HK\$54.7 million compared with last year. The increase was mainly due to the aggregate effect of the net repayment of bank loan of approximately HK\$17.3 million, the repayment of the amount due to Dr. Sung of approximately HK\$111.3 million during the year and the net proceeds of about HK\$101.0 million raised associated with the listing expenses of approximately HK\$22.0 million arisen from the issue of new shares of the Company in October 2005.

With ample financial resources and strong financial position, the Group has confidence in taking advantage of any favourable opportunities in the coming years.

#### Stock turnover days

The stock turnover days of the Group for the year ended 31st December, 2005 was approximately 101 days as compared to 116 days last year. With the tightened procurement policy and the clearance of the piled up raw material stock, the stock turnover days was continuously reduced to a more healthy level by 15 days for the year under review.

#### Debtors' turnover days

The debtors' turnover days was slightly lengthened by 6 days from 64 days last year to 70 days this year with the increase in the sales volume in the last quarter this year compared with that of last year. The Group offered credit terms to its trade customers of 30 days to 120 days subject to the trading history and the individual creditability of the customers.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Dividend Policy

The declaration of dividends is subject to the discretion of the Directors, which is expected to take into account factors such as the Group's financial results, shareholders' interests, general business conditions and strategies, the Group's capital requirements, contractual restrictions on the payment of dividends by the Company to the shareholders or by the Group's subsidiaries to the Company, taxation considerations, possible effects on the Group's creditworthiness, statutory and regulatory restrictions and any other factors as the Directors may deem relevant. The Directors expect that the interim and final dividends will be declared and/or paid from time to time in an aggregate amount of not less than 25% of profits attributable to equity holders of the Company.



*Sure Win International Textiles Limited*

The Board has recommended the payment of a final dividend of HK\$4.7 cents per share for the year ended 31st December, 2005 payable to shareholders whose name appear on the register of members on 29th May, 2006. Subject to the approval of the shareholders at the forthcoming annual general meeting, the total dividend for the year will be HK\$4.7 cents per share, which represented 25% payout of the profit for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 36.6% of the total sales. The top five suppliers accounted for approximately 28.3% of the total purchases for the year under review. In addition, the Group's largest customer accounted for approximately 23.8% of the total sales and the Group's largest supplier accounted for approximately 8.0% of the total purchases for the year.

Save as disclosed in Note 42 to the consolidated financial statements, at no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.



# CORPORATE GOVERNANCE REPORT

*The Company is committed to the establishment of good corporate governance practices and procedures and the identification and formalization of best practices of corporate governance.*

Code on Corporate Governance Practices (the “Code on Corporate Governance Practices”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

During the period commencing from 5th October, 2005, the date of the listing of the Shares commenced on the Main Board of the Stock Exchange (the “Listing Date”) up to the date of the bulk printing of this report (the “Relevant Period”), none of the directors of the Company (the “Directors”) is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules, save that:-

- (a) Code provision A.1.1 requires that board meetings should be held at least four times a year at approximately quarterly intervals. As the Shares are listed on the Stock Exchange on 5th October, 2005, only two meetings of the Board were held from the Listing Date to 31st December, 2005. Board meetings will be held at least four times a year in the year 2006.
- (b) Code provision A.2.1 requires that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Sung Chung Kwun is the Chairman of the Board and there is no chief executive officer appointed by the Company and the day-to-day management of the Group is led by Dr. Sung Chung Kwun. There is no time schedule to change this structure as the Directors consider that this structure provides the Group with strong and consistent leadership in the Company’s decision making and operational efficiency.

The Company has adopted some of the recommended best practices as set out in the Code on Corporate Governance Report.

## Directors’ securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the Directors. Having made specific enquires with all the Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code during the Relevant Period.



# CORPORATE GOVERNANCE REPORT

## The board of Directors

The Board is chaired by Dr. Sung Chung Kwun. There are five executive Directors, namely, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Ip Siu Lam, Ms. Mok Pui Mei and Ms. Sung Lam Ching, one non-executive Director, namely, Mr. Lau Gary Q. and three independent non-executive Directors, namely Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling. The Directors' biographical information are set out in pages 20 to 21 of this report. Since the shares of the Company were listed on the Stock Exchange on the Listing Date, two Board meetings were held from the Listing Date up to 31st December, 2005. Their individual attendance was as follows:-

Dr. Sung Chung Kwun (2/2), Mr. Wong Chiu Hong (2/2), Mr. Ip Siu Lam (1/2), Ms. Mok Pui Mei (2/2), Ms. Sung Lam Ching (2/2), Mr. Lau Gary Q. (1/2), Mr. Chan Tsz Fu, Jacky (0/2), Mr. Ng Man Kin (0/2) and Professor Cai Xiu Ling (0/2).

The Board assumes responsibility for leadership and control of the Company and its members are collectively responsible for promoting the success of the Company by formulating the Group's overall strategies and policies, approval of business plans, evaluating the performance of the Group in pursuit of the Group's overall strategy objectives and oversight of the management of the Group. The Board has established three committees, namely the audit committee, the remuneration committee and the nomination committee. Management of the Group is responsible for the day-to-day operations of the Group with the efforts of the executive Directors and members of the senior management of the Company to implement the business strategies and plans formulated and approved by the Board.

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing and are independent. Mr. Chan Tsz Fu, Jacky is the independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise who is a practicing certified public accountant. The independent non-executive Directors represent one-third of the Board.

Ms. Sung Lam Ching, an executive Director, is the daughter of Dr. Sung Chung Kwun, the Chairman of the Company and is the spouse of Mr. Lau Gary Q., a non-executive Director.

Each of the non-executive Directors (including the independent non-executive Directors) is appointed for a specific term. Each of the appointment is for a term of one (1) year from 1st September, 2005 to 31st August, 2006 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles of Association of the Company.



## CORPORATE GOVERNANCE REPORT

The Chairman takes the lead to ensure that the Board works effectively and discharges its responsibilities and encourages all directors to make a full and active contribution to the Board's affairs for the best interests of the Company. The Chairman has designated the Company Secretary of the Company for drawing up the agenda for each board meeting and is primarily responsible for approving the agenda taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda.

The Company is in the course of arranging appropriate insurance cover in respect of legal action against the Directors.

### Remuneration Committee

According to the Code on Corporate Governance Practices, the Company shall establish a remuneration committee with a majority of the members thereof being independent non-executive Directors. The Company has established its remuneration committee (the "**Remuneration Committee**") in August 2005. The members of the Remuneration Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. The terms of reference of the Remuneration Committee has posted on the website of the Company and are available upon request. It is expected that members of the Remuneration Committee will meet once a year and shall meet as and when required. The Remuneration Committee will consult the Chairman about its proposals relating to the remuneration of other executive Directors.

### Nomination Committee

The Company has established its nomination committee (the "**Nomination Committee**") in August 2005 to adopt one of the recommended best practices as set out in the Code on Corporate Governance Practices. The members of the Nomination Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Nomination Committee.

The principal responsibility of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee has posted on the website of the Company and are available upon request. It is expected that members of the Nomination Committee will meet once a year and shall meet as and when required.



# CORPORATE GOVERNANCE REPORT

## Audit Committee

As required under Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practices, the Company shall establish an audit committee comprising at least three members who must be non-executive Directors only, and the majority of the members thereof being independent non-executive Directors and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has established its audit committee (the “**Audit Committee**”) in August 2005. The members of the Audit Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to review the relationship with the Auditors of the Company, review the financial information of the Group and oversight of the Group’s financial reporting system and internal control procedures. The terms of reference of the Audit Committee has posted on the website of the Company and are available upon request. During the Relevant Period, two Audit Committee meetings were held. Their individual attendance was as follows:-

Mr. Chan Tsz Fu, Jacky (2/2), Mr. Ng Man Kin (2/2) and Professor Cai Xiu Ling (2/2).

## Auditors’ remuneration

For the year ended 31st December, 2005, the Auditors of the Company received approximately HK\$2,161,425 for audit service and Stephen Liu And Company received approximately HK\$91,575 for taxation fee.

## Directors’ Responsibility for the Financial Statements

The Directors acknowledge responsibility for preparing the financial statements of the Group.

The Statement by the auditors of the Company about their reporting responsibilities are set out on page 33 of this report.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

Dr. SUNG Chung Kwun (宋忠官博士), aged 61, is the Chairman of the Group. Dr. Sung is responsible for overseeing the strategic planning of the Group as well as maintaining the Group's relationships with outside parties. Dr. Sung has over 20 years of experience in the textile dyeing industry. Dr. Sung has been a committee member of the Ninth Chinese People's Political Consultative Conference of Fujian Province (中國人民政治協商會議福建省第九屆委員會委員), the Tenth Chinese People's Political Consultative Conference of Fuzhou City, Fujian Province (中國人民政治協商會議福州市第十屆委員會委員) and the Third Chinese People's Political Consultative Conference of Yunfu City, Guangdong Province (中國人民政治協商會議雲浮市第三屆委員會委員). Dr. Sung is also the honorary chairman of the Hong Kong Association for the Foochow Association (福州十邑旅港同鄉會名譽會長) and the Hong Kong Medium and Small Enterprises Association (香港中小型企業聯合會名譽會長), and the vice chairman of Jiangsu Overseas Chinese Enterprise Federation (江蘇省僑聯華商總會 (江蘇僑商總會) 理事會副會長). In January 2005, Dr. Sung obtained his Honorary Doctorate Degree in Philosophy from the Morrison University, the U.S., and was awarded the title of "World Outstanding Chinese Award (世界傑出華人獎)" by the World Outstanding Chinese Association.

Mr. WONG Chiu Hong (王昭康先生), aged 54, is the Managing Director of the Group. Mr. Wong is responsible for the supervision of the operations, general administration, strategic development and marketing of the Group. Mr. Wong has over 30 years of experience in the textile dyeing industry with extensive experience in administrative management and dyeing techniques. Mr. Wong joined the Group as a general manager in May 1982, and was appointed a director in December 1990. Mr. Wong has been a committee member of the Third Chinese People's Political Consultative Conference of Yunfu City, Guangdong Province (中國人民政治協商會議雲浮市第三屆委員會委員) and the Seventh Chinese People's Political Consultative Conference of Luoding City, Guangdong Province (中國人民政治協商會議羅定市第七屆委員會委員), the Vice President of the Third Yunfu Overseas Friendship Association (雲浮海外聯誼會第三屆副會長). He was also awarded the title of "Excellent General Manager of Foreign Invested Enterprise (外商投資企業優秀總經理)" by the People's Government of Zhangjiagang City, Jiangsu Province in 2002 and 2003 consecutively.

Mr. IP Siu Lam (葉少林先生), aged 50, is the Executive Director and the Technical Controller of the Group's yarn-dyeing section. Mr. Ip is responsible for the supervision of the production, technological research and technical support of the dyeing function of the Group. Mr. Ip obtained an Ordinary Certificate in Mechanical Engineering and a Higher Certificate in Textile Technology from the Hong Kong Polytechnic in 1975 and 1979 respectively. He has over 20 years of experience in textile industry with extensive knowledge in the dyeing technique. Mr. Ip joined the Group in November 1982 and was appointed the executive director of Addchance in April 1993. He has been the Technical Controller of Luoding Composite Mill since 2000.

Ms. MOK Pui Mei (莫佩薇女士), aged 44, is the Executive Director of the Group. Ms. Mok is responsible for the financial management, corporate finance matters and administrative management of the Group. Ms. Mok has over 17 years of experience in accounting and financial management in the textile industry. Ms. Mok joined the Group as accountant in April 1988 and was appointed the executive director of Addchance in April 1993.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. SUNG Lam Ching (宋林貞女士), aged 33, is the executive Director and a daughter of Dr. Sung. Ms. Sung is responsible for the sales and marketing of the knitted sweater business of the Group and overseeing the Group's information technology systems. Ms. Sung joined the Group in October 1998 after obtaining her Bachelor's degree in Computer Science from the St. John's University, US. During the period from July 2001 to November 2002, Ms. Sung worked as software engineer with the Management Information Systems team of the University of Hong Kong (SPACE) while retaining her directorships at Addchance and Chinakey.

### Non-executive Director

Mr. LAU Gary Q. (劉均賀先生), aged 31, is a senior sales manager at Alcatel China Ltd.. Mr. Lau graduated from the University of Toronto in 1996 with a Bachelor's degree in Applied Science majoring in Electrical Engineering and attained a Master's degree in Business Administration from the University of Hong Kong in 2000. Prior to his current role at Alcatel China Ltd., Mr. Lau worked in Nortel Networks from March 1998 to January 2003. Mr. Lau was appointed as the non-executive Director on 6th September, 2004 and is the spouse of Ms. Sung.

### Independent non-executive Directors

Mr. CHAN Tsz Fu, Jacky (陳子虎先生), aged 31, is the sole proprietor of Jacky Chan & Co. Mr. Chan has practised as Jacky Chan & Co since 2005 and has over 11 years of experience in auditing. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, a member of Hong Kong Institute of Certified Public Accountants, a member of the Taxation Institute of Hong Kong and a practising certified public accountant. He was appointed as the independent non-executive Director on 6th June, 2005.

Mr. NG Man Kin (吳文堅先生), aged 42, is a solicitor and a partner of Kwok, Ng & Chan Solicitors. Mr. Ng graduated from the University of Hull with a Bachelor's degree of Laws with Honours in 1988 and obtained a Master degree of Laws from University of London in 1991. In 1989, Mr. Ng passed the Solicitors' Final Examination held by the Law Society of England and Wales. Mr. Ng was appointed as the independent non-executive Director on 6th September, 2004.

Professor CAI Xiu Ling (蔡秀玲教授), aged 43, is the head of Fujian and Taiwan Economics Research Centre and the head of the Department of Economics at the 福建師範大學 (Fujian Normal University). Professor Cai is experienced in economic research and has been teaching at the Fujian Normal University for 21 years. Professor Cai graduated with a bachelor's degree in Economics from the 廈門大學 (Xiamen University) in 1984 and obtained a Master degree and PhD in Economics from the 福建師範大學 (Fujian Normal University) in 1989 and 2001 respectively. She was appointed as the independent non-executive Director on 2nd August, 2005.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

Mr. LIN Chun Ming (連振明先生), aged 53, is a Senior Manager of the sales department of the Group. Mr. Lin is responsible for the sales and marketing of the Group's yarn dyeing and sweater knitting sections. Mr. Lin obtained a Diploma in Business Management from the Hong Kong Baptist University in 1977. Mr. Lin has over 27 years of sales and marketing experience in the textile industry. Mr. Lin first joined the Group as a sales representative of Addchance in April 1985 but vacated in April 1990 and founded his own textile business, Lynn's Trading Company. He re-joined the Group in January 2004.

Mr. CHEUNG Yung Fat (張容發先生), aged 56, is the General Manager and the Operating Controller of the Group's sweater knitting section. Mr. Cheung is responsible for all the operations of the Group's sweater knitting section, including the setting of business development strategies and product marketing. Mr. Cheung has over 30 years of experience in the textile industry. He worked as the production and marketing supervisors in sweater and garment manufacturing companies in Hong Kong and Canada, and has accumulated over 20 years of experience in the sweater knitting industry. Mr. Cheung joined the Group as the General Manager of Chinakey in January 2003 and has been the operating controller of the Group's sweater knitting section since then.

Ms. FUNG Ka Lai (馮嘉勵女士), aged 30, is the Financial Controller, Qualified Accountant and Company Secretary of the Group. Ms. Fung had almost 9 years of extensive experience in the field of auditing, accounting and corporate finance. Prior to joining the Group in January 2005, she worked in Deloitte Touche Tohmatsu for over 5 years and later joined St. Teresa's Hospital in 2003. Ms. Fung is responsible for financial management and formulating business strategies for corporate restructuring of the Group. She has obtained a bachelor's degree in Accountancy from the City University of Hong Kong with first class honours. Ms. Fung is a member of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a practising certified public accountant in Hong Kong.

Ms. LEUNG Chi Ying (梁熾英女士), aged 38, is the Group's Purchasing and Shipping Manager. She is responsible for the cotton and yarn purchasing as well as logistics management of the Group. Ms. Leung has over 15 years experience in textile industry with over 11 years of experience in yarn purchasing. Ms. Leung first joined the Group as sales coordinator in October 1987 but vacated in April 1992. She re-joined the Group in October 1994 as Purchasing and Shipping Supervisor and was appointed the Purchasing and Shipping Manager in November 2003.

Mr. NIU Zhenjiang (牛振江先生), aged 51, is the Factory Manager of Anqing Addchance. Mr. Niu is responsible for the production and operation management of the Group's yarn spinning section. Mr. Niu graduated from the People's Liberation Army Forces Airforce Engineering College in 1981 and since then he joined the textile industry. He worked as the managers in various textile companies in Shenzhen and Wuhan, the PRC, and has accumulated over 10 years of experience in the textile industry. Mr. Niu joined the Group in February 2002 as the sales manager of Zhangjiagang Addchance and was appointed the factory manager of Anqing Addchance since December 2002.



## DIRECTORS AND SENIOR MANAGEMENT

Mr. TSANG Fai (曾暉先生), aged 33, is the Assistant General Manager of the Group's sweater knitting section. Mr. Tsang is responsible for the operations and administration of the Group's sweater knitting section. Mr. Tsang obtained his Bachelor's degree in Mathematical Science and Master degree in Scientific Computing from the Hong Kong Baptist University in 1998 and in 2003 respectively. He joined the Group in January 1999 as an Assistant to Sales Manager of Addchance and was appointed the Assistant General Manager of the Group's sweater knitting section in January 2004.

Mr. YEUNG Choi Yee (楊賽儀先生), aged 31, is the Quality Assurance Manager of the Group. Mr. Yeung is responsible for the supervision of the Group's Information Technology department, and the development of the Group's ISO9001:2000 management system, quality system and technological research in the Group's yarn-dyeing section. Mr. Yeung obtained his Bachelor's degree in Mathematical Science and Master degree in Scientific Computing from the Hong Kong Baptist University in 1998 and in 2003 respectively. He joined the Group in August 1998 as an Assistant to Managing Director and was appointed the Quality Assurance Manager of the Group in November 2003.





## DIRECTORS' REPORT

The directors present their first annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31st December, 2005.

### GROUP REORGANISATION AND LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 9th June, 2004.

Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 29th August, 2005.

Details of the reorganisation are set out in note 1 to the consolidated financial statements.

The shares of the Company are listed on the Stock Exchange with effect from the Listing Date.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 34.

The Board has resolved to recommend the payment of a final dividend of HK\$4.7 cents per share for the year ended 31st December, 2005 to the shareholders on the register of members of the Company on 29th May, 2006, amounting to approximately HK\$18,853,000.

### PROPERTY, PLANT AND EQUIPMENT

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

## DIRECTORS' REPORT

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the Listing Date and up to 31st December, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

### DISTRIBUTABLE RESERVE OF THE COMPANY

The Company's reserve available for distribution to shareholders as at 31st December, 2005 amounted to HK\$439,074,000 (2004: Nil).

### DIRECTORS

The directors of the Company since the date of incorporation and up to the date of this report were:

#### Executive directors:

Dr. Sung Chung Kwun	(appointed on 29th June, 2004)
Mr. Wong Chiu Hong	(appointed on 29th June, 2004)
Ms. Mok Pui Mei	(appointed on 29th June, 2004)
Mr. Ip Siu Lam	(appointed on 29th June, 2004)
Ms. Sung Lam Ching	(appointed on 6th September, 2004)

#### Non-executive director:

Mr. Lau Gary Q.	(appointed on 6th September, 2004)
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#### Independent non-executive directors:

Mr. Ng Man Kin	(appointed on 6th September, 2004)
Mr. Chan Tsz Fu, Jacky	(appointed on 6th June, 2005)
Professor Cai Xiu Ling	(appointed on 2nd August, 2005)
Mr. Lai Shi Hong, Edward	(resigned on 6th June, 2005)
Mr. Chu Ching	(resigned on 8th July, 2005)
Mr. Lam Hok Po	(deceased on 2nd December, 2004)

In accordance with Article 86(3) of the Company's Article of Association, Mr. Chan Tsz Fu, Jacky and Professor Cai Xiu Ling shall hold office as directors only until the forthcoming annual general meeting and being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 87(1) and (2) of the Company's Articles of Association, Ms. Mok Pui Mei and Mr. Ip Siu Lam shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years commencing from 1st September, 2005, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive director and independent non-executive directors of the Company has entered into letter of appointment with the Company and is appointed for a period of one year commencing from 1st September, 2005 subject to retirement by rotation under the Company's Articles of Association.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31st December, 2005, the interests of the directors and chief executive of the Company in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long positions in the shares of HK\$0.01 each of the Company (the "Shares")

Name of directors	Capacity	Number of ordinary Shares held	Notes	Percentage of shareholding
Dr. Sung Chung Kwun ("Dr. Sung")	Founder of discretionary trusts	300,000,000	1	75%
Ms. Sung Lam Ching ("Ms. Sung")	Beneficiary of discretionary trust	267,000,000	2	66.75%
Mr. Lau Gary Q.	Interest of spouse	267,000,000	3	66.75%
Mr. Wong Chiu Hong ("Mr. Wong")	Beneficiary of discretionary trust	33,000,000	4	8.25%
Ms. Mok Pui Mei ("Ms. Mok")	Beneficiary of discretionary trust	33,000,000	5	8.25%
Mr. Ip Siu Lam ("Mr. Ip")	Beneficiary of discretionary trust	33,000,000	6	8.25%

## DIRECTORS' REPORT

### Notes:

1. Dr. Sung is deemed to be interested in 300,000,000 Shares in the capacity as the founder of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited and founder and settlor of The Addchance Employee's Trust. Under the SFO, Dr. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited, the associated corporation of the Company holding 267,000,000 Shares, representing 66.75% of the issued share capital of the Company.
2. Ms. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited. Ms. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited under the SFO.
3. Mr. Lau Gary Q., the spouse of Ms. Sung, is deemed to be interested in 267,000,000 Shares under the SFO.
4. Mr. Wong is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.
5. Ms. Mok is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.
6. Mr. Ip is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.

Other than as disclosed above, none of the directors or the chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

### SHARE OPTION SCHEME

The Company has adopted a share option scheme on 29th August, 2005 (the "Scheme") which enables the Company to grant options to eligible persons as incentive or rewards for their contributions to the Group. Pursuant to the Scheme, the Company may grant options to (a) any full time employee or director of any member of the Group; (b) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the option is offered to such part time employee; or (c) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The total number of the Shares which may be issued upon exercised of all options to be granted under the Scheme must not exceed 40,000,000 Shares, representing 10 per cent. of the Shares in issue as at the date of this report. The total number of the Shares issued and to be issued upon exercise of the options granted to a participant under the Scheme (including both exercised and outstanding options) in any 12 month period must not exceed 1 per cent. of the Shares in issue from time to time unless approval from the shareholders of the Company in general meeting is obtained with such participant and his/her associates abstaining from voting.

## DIRECTORS' REPORT

The exercise period of an option under the Scheme will be notified by the Board to each participant which shall not exceed 10 years from the date upon which the option is deemed to be granted and accepted. The Scheme does not require a minimum period for which an option must be held before an option can be exercised. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the Shares subject to options will be a price determined by the Board and will be at least the highest of (i) the closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share. Subject to the termination provisions, the Scheme will remain valid for a period of 10 years commencing on 29th August, 2005.

No options were granted, exercised, cancelled or lapsed during the year.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as provided in the paragraph headed "Connected Transactions" below, no contracts of significance to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' REPORT

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON IN SHARES AND UNDERLYING SHARES

As at 31st December, 2005, the following substantial shareholders and other person (other than a director or chief executive of the Company) had interested in the share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions in Shares

##### Interests of Substantial shareholders

Name	Capacity	Number of Shares	Notes	Percentage of shareholding
GZ Trust Corporation ("GZ Trust")	Trustee of discretionary trusts	300,000,000	1	75%
Powerlink Industries Limited ("Powerlink")	Beneficial owner	267,000,000	2	66.75%
Ms. Tse Mui Chu ("Mrs. Sung")	Beneficiary of discretionary trust	267,000,000	3	66.75%
Mr. Sung Kim Hung	Beneficiary of discretionary trust	267,000,000	4	66.75%

##### Notes:

1. The entire issued share capital of Powerlink and Herojoy Trading Limited is owned by GZ Trust in its capacity as the trustee of (i) The CK Sung's Trust, a discretionary trust the founder (as defined in the SFO) of which is Dr. Sung and the discretionary objects of which are Mrs. Sung, Ms. Sung and Mr. Sung Kim Hung (excluding Dr. Sung himself), and (ii) The Addchance Employee's Trust, a discretionary trust the founder (as defined in the SFO) and the settlor of which is Dr. Sung and the discretionary objects of which are the employees of the Group from time to time including Mr. Wong, Ms. Mok and Mr. Ip (excluding Ms. Sung). Accordingly, GZ Trust is deemed to be interested in the 300,000,000 Shares under the SFO.
2. The 267,000,000 Shares are beneficially owned by Powerlink.
3. Mrs. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.
4. Mr. Sung Kim Hung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.

## DIRECTORS' REPORT

### Interest of other person

Name	Capacity	Number of Shares	Percentage of shareholding
Herojoy Trading Limited	Beneficial owner	33,000,000	8.25%

Save as disclosed above, as at 31st December, 2005, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

### CONNECTED TRANSACTIONS

The Company entered into a sale and purchase agreement with Wai Yee Knitting Factory Limited ("Wai Yee") on 20th September, 2005 pursuant to which the Group agreed to supply raw white yarn and dyed yarn to Wai Yee from 20th September, 2005 to 31st December, 2007 (the "Wai Yee Raw Material Agreement"). Wai Yee is owned as to 99.99% by Ms. Sung Kit Ching, a daughter of Dr. Sung, and 0.01% by Ms. Wong Chun Fong, a daughter-in-law of Dr. Sung. Wai Yee is principally engaged in the business of production and sale of knitted sweaters, therefore, it has a substantial demand for raw materials such as raw white yarn and dyed yarn for the production of sweaters. For the year ended 31st December, 2005, sales of raw white yarn and dyed yarn under the Wai Yee Raw Material Agreement amounted to approximately HK\$4,084,000.

The Company entered into a sale and purchase agreement with PT Shinetama Interfashion ("PT Shinetama") on 20th September, 2005 pursuant to which PT Shinetama agreed to supply cotton yarn to the Group from 20th September, 2005 to 31st December, 2007 (the "Shinetama Cotton Yarn Agreement"). PT Shinetama is wholly-owned by Mr. Sung Chung Man, the youngest brother of Dr. Sung, and his associates. Mr. Sung Chung Man and his associates control the board of directors of PT Shinetama. This transaction was entered into as the Group has a substantial demand for cotton yarn made of cotton outside the PRC for further processing into dyed yarn and/or knitted sweaters, and trading with independent third parties. For the year ended 31st December, 2005, purchase of cotton yarn from PT Shinetama under the Shinetama Cotton Yarn Agreement amounted to approximately HK\$43,951,000.

Particulars of transactions under the Wai Yee Raw Material Agreement and the Shinetama Cotton Yarn Agreement (the "Transactions") constituted continuing connected transactions pursuant to Chapter 14A of the Listing Rules which are also related party transactions, particulars of which are disclosed in note 42 of the consolidated financial statements in accordance with IAS 24 "Related Party Disclosures" promulgated by International Accounting Standards Board.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged one of the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.



## DIRECTORS' REPORT

Each of the independent non-executive directors of the Company has confirmed that the Transactions have been entered into by the Company in the ordinary and usual course of its business, either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and in accordance with the terms of the agreements governing the Transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### NON-COMPETITION DEED

In accordance with the terms of a deed of non-competition undertakings in favour of the Company dated 20th September, 2005 (the "Non-competition Deed"), each of Dr. Sung, Ms. Sung, Mr. Wong, Ms. Mok and Mr. Ip (all being the executive directors of the Company) has provided with the Company an annual confirmation in respect of his/her compliance with the terms of the Non-competition Deed. Under the terms of the Non-competition Deed, each of the executive directors of the Company has undertaken to the Company to, among others, procure that he/she or any of his/her associates will not directly or indirectly be interested in any business which may compete with or similar to the business of the Group from time to time.

### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The remuneration of the non-executive directors (including the independent non-executive directors) of the Company are recommended by the Remuneration Committee.

The Company has adopted the Scheme as an incentive to the Directors and eligible employees, details of the Scheme are set out in the paragraph headed "Share Option Scheme" above.

### PRE-EMPTIVE RIGHTS

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



## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 36.6% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 23.8% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the Group's total purchases.

Save as disclosed in Note 42 to the consolidated financial statements, at no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors and prior to the issue of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### AUDITORS

Messrs. Deloitte Touche Tohmatsu and Stephen Liu And Company were appointed as joint auditors of the Company after its incorporation. Both of them will retire at the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as the sole auditor of the Company.

On behalf of the Board

*CHAIRMAN*

**SUNG CHUNG KWUN**

Hong Kong, 20th April, 2006

## AUDITORS' REPORT

**Deloitte.**  
**德勤**



TO THE MEMBERS OF ADDCHANCE HOLDINGS LIMITED  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Addchance Holdings Limited ("the Company") and its subsidiaries ("the Group") from pages 34 to 80 which have been prepared in accordance with International Financial Reporting Standards.

### Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion to you, as a body, in accordance with our agreed terms of the engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

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

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

### Opinion

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

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
Hong Kong  
20th April, 2006

Stephen Liu And Company  
*Certified Public Accountants*  
Hong Kong  
20th April, 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	6	900,482	772,202
Cost of sales		(667,463)	(595,946)
Gross profit		233,019	176,256
Other income		7,426	3,950
Distribution costs		(51,813)	(44,368)
Administrative expenses		(82,235)	(63,880)
Finance costs	8	(23,051)	(17,306)
Profit before taxation		83,346	54,652
Taxation	9	(7,929)	(6,907)
Profit for the year	10	75,417	47,745
Profit attributable to:			
Equity holders of the parent		75,413	42,021
Minority interests		4	5,724
		75,417	47,745
Earnings per share, in cents	14		
Basic		23.27	14.01

# CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties	15	8,599	8,814
Property, plant and equipment	16	274,112	284,955
Prepaid lease payments	17	38,100	33,233
Available-for-sale investments	18	2,325	2,325
Club debentures	20	1,070	1,070
Deposit paid for acquisition of land use rights/property, plant and equipment/investment property	19	962	2,440
Deferred tax assets	21	487	568
		<u>325,655</u>	<u>333,405</u>
<b>CURRENT ASSETS</b>			
Prepaid lease payments	17	955	832
Inventories	22	185,383	189,770
Trade receivables, bills receivables and other receivables, deposits and prepayments	23	194,166	149,189
Amounts due from related companies	24	2,584	50,684
Investments held for trading	18	—	780
Taxation recoverable		3,939	1,713
Pledged bank deposits	25	21,266	37,497
Bank balances and cash	26	106,710	26,335
		<u>515,003</u>	<u>456,800</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	27	77,692	71,412
Bills payable	28	26,751	39,194
Amount due to a director	29	180	—
Bank borrowings - due within one year	30	243,987	198,589
Obligations under finance leases - due within one year	31	4,546	8,674
Taxation payable		8,983	2,501
		<u>362,139</u>	<u>320,370</u>
<b>NET CURRENT ASSETS</b>		<u>152,864</u>	<u>136,430</u>
		<u><u>478,519</u></u>	<u><u>469,835</u></u>

Addchance Holdings Limited

# CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	32	4,000	78
Reserves		456,895	92,725
		<hr/>	<hr/>
Equity attributable to equity holders of the parent		460,895	92,803
Minority interests		154	150
		<hr/>	<hr/>
Total equity		461,049	92,953
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings - due after one year	30	10,080	62,937
Obligations under finance leases - due after one year	31	4,505	8,993
Deferred tax liabilities	21	2,885	4,602
Amount due to a shareholder	33	—	300,350
		<hr/>	<hr/>
		17,470	376,882
		<hr/>	<hr/>
		478,519	469,835
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 34 to 80 were approved and authorised for issue by the Board of Directors on 20th April, 2006 and are signed on its behalf by:

Dr. Sung Chung Kwun  
*DIRECTOR*

Mr. Wong Chiu Hong  
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the parent									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (Note a)	Special reserves HK\$'000 (Note b)	Statutory reserves HK\$'000 (Note c)	Translation reserve HK\$'000	Retained profits HK\$'000	Subtotal HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2004	4,616	—	—	—	9,481	(9,823)	24,519	28,793	14,040	42,833
Exchange differences arising on translation of operations outside Hong Kong directly recognised in equity	—	—	—	—	—	1,860	—	1,860	515	2,375
Profit for the year	—	—	—	—	—	—	42,021	42,021	5,724	47,745
Total recognised income and expenses for the year	—	—	—	—	—	1,860	42,021	43,881	6,239	50,120
Transfer to statutory reserves	—	—	—	—	2,811	—	(2,817)	(6)	6	—
Contribution from shareholders	—	—	—	20,135	—	—	—	20,135	(20,135)	—
Effect of share swap	(4,538)	—	—	4,538	—	—	—	—	—	—
At 31st December, 2004	78	—	—	24,673	12,292	(7,963)	63,723	92,803	150	92,953
Exchange differences arising on translation of operations outside Hong Kong directly recognised in equity	—	—	—	—	—	7,308	—	7,308	—	7,308
Profit for the year	—	—	—	—	—	—	75,413	75,413	4	75,417
Total recognised income and expenses for the year	—	—	—	—	—	7,308	75,413	82,721	4	82,725
Transfer to statutory reserves	—	—	—	—	55	—	(55)	—	—	—
Arising from group reorganisation	(78)	—	78	—	—	—	—	—	—	—
Capitalisation of amount due to a shareholder	200	—	191,965	—	—	—	—	192,165	—	192,165
Issue of shares by capitalisation of share premium account	2,800	(2,800)	—	—	—	—	—	—	—	—
Issue of shares for placing and public offer	1,000	100,000	—	—	—	—	—	101,000	—	101,000
Share issue expenses	—	(7,794)	—	—	—	—	—	(7,794)	—	(7,794)
At 31st December, 2005	4,000	89,406	192,043	24,673	12,347	(655)	139,081	460,895	154	461,049

Notes:

- The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Atlantic Limited (being the holding company of companies comprising the group before group reorganisation set out in note 1), over the nominal value of the share capital of the Company issued in exchange thereof pursuant to the group reorganisation set out in note 1.
- The special reserve of the Group represents (i) the difference between the nominal value of share capital issued by Interlink Atlantic Limited and the nominal value of the share capital of subsidiaries acquired by Interlink Atlantic Limited on 23rd September, 2004; and (ii) the contribution from minority shareholders of net assets value shared by them to Dr. Sung Chung Kwun, the shareholder of Interlink Atlantic Limited.
- The Group's statutory reserve represents reserves required to be appropriated from profit after taxation of the Company's PRC subsidiaries under PRC laws and regulations.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	NOTE	2005 HK\$'000	2004 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		83,346	54,652
Adjustments for:			
Finance costs		23,051	17,306
Interest income		(1,926)	(816)
Depreciation of property, plant and equipment		32,509	33,194
Depreciation of investment properties		215	360
Amortisation of prepaid lease payments		929	868
Loss on disposal of property, plant and equipment		15	826
Share issue expenses charged to consolidated income statement		14,224	—
Gain on disposal of a subsidiary		—	(850)
Operating cash flows before movements in working capital		152,363	105,540
Decrease (increase) in inventories		4,387	(45,019)
(Increase) decrease in trade receivables, bills receivables and other receivables, deposits and prepayments		(44,977)	360
Decrease (increase) in amounts due from related companies		48,100	(10,223)
Decrease in amounts due from related parties		—	3,426
Decrease in bills payable		(12,443)	(201)
Increase in trade and other payables		6,280	9,765
Increase in amount due to a director		180	—
Decrease in amounts due to related companies		—	(14,634)
Decrease in amounts due to related parties		—	(207)
Cash generated from operations		153,890	48,807
Tax paid		(5,308)	(15,890)
Interest paid		(19,951)	(17,306)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>128,631</b>	<b>15,611</b>
<b>INVESTING ACTIVITIES</b>			
Prepaid lease payments		(5,438)	(7,593)
Purchase of property, plant and equipment		(14,657)	(4,605)
Purchase of investment properties		—	(6,023)
Sales proceeds on investments held for trading		780	—
Increase in deposit paid for acquisition of land use rights/ property, plant and equipment/investment property		(962)	(8,853)
Decrease in amounts due from directors		—	14,012
Interest received		1,926	816
Proceeds from disposal of property, plant and equipment		—	7,440
Proceeds from disposal of a subsidiary (net of cash and cash equivalent disposed of)	36	—	(170)
Decrease (increase) in pledged bank deposits		16,231	(3,267)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,120)</b>	<b>(8,243)</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK\$'000	2004 HK\$'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	101,000	—
Decrease in amount due to a shareholder	(111,285)	(26,448)
Repayment of bank loans	(611,470)	(581,079)
Expenditure on issue of new shares	(22,018)	—
New bank loans raised	594,195	619,318
Repayment of obligations under finance leases	(8,616)	(15,304)
	<u>(58,194)</u>	<u>(3,513)</u>
NET CASH USED IN FINANCING ACTIVITIES		
	68,317	3,855
INCREASE IN CASH AND CASH EQUIVALENTS		
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,242	2,376
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>15,527</u>	<u>9,296</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>86,086</u></u>	<u><u>15,527</u></u>
Bank balances and cash	106,710	26,335
Bank overdrafts	(20,624)	(10,808)
	<u><u>86,086</u></u>	<u><u>15,527</u></u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted Company with limited liability in the Cayman Islands under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 9th June, 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 5th October, 2005. Its holding company is Powerlink Industries Limited, a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are set out in the section headed "Corporate Information" of the annual report.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the group in preparation for the listing of the Company's share on the Stock Exchange, on 29th August, 2005, the Company issued shares in exchange for the entire issued share capital of Interlink Atlantic Limited and thereby became the holding company of the company now comprising the group. Further details of the Group Reorganisation were set out in the prospectus issued by the Company dated 23rd September, 2005.

The group comprising the Company and its subsidiaries (the "Group") resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st December, 2004 and 31st December, 2005 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of pooling of interests.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 43.

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

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial instruments: Disclosures
IFRIC 3	Emission Rights
IFRIC 4	Determining whether an Arrangement contain a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRIC 2 (Share-based payment transaction)
Amendments to IAS 21	The Effects of Changes in Foreign Exchange Rates at Investment in a Foreign Operation

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2005*

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for the financial instruments which are measured at fair values, as explained in the accounting policies below. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### **Basis of consolidation**

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

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

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

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

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Revenue recognition**

Turnover represents the fair value of the net amounts received and receivable for goods sold by the Group less discount allowances, and goods returned.

Sale of goods is recognised when goods are delivered and title has passed.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the respective leases.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

### Property, plant and equipment

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

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

Construction in progress represents the properties and plant and machinery in the course of development for production or administrative purposes and are stated at cost, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

### Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of investment properties, using the straight line method.

### Leasing

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2005*

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

### Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the period in which they arise, except for exchange difference arising on a monetary items that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purpose of presenting financial information, the assets and liabilities of Group's foreign operations (including comparatives) are expressed in Hong Kong Dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Borrowing costs

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

### Retirement benefits costs

Payments to state-managed retirement benefit scheme and Mandatory Provident Fund Scheme are charged as expenses as the fall due.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

### Taxation - continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

### Intangible assets

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

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

### Inventories

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

### Impairment

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments

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

### *Financial assets*

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

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above).

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### *Loans and receivables*

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

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

#### *Financial liabilities and equity*

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

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

#### *Other financial liabilities*

Other financial liabilities include trade and other payables, bills payable, amount due to a director and bank borrowings which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

#### *Equity instrument*

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2005*

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have most significant effect on the amounts recognised in the financial statements which are dealt with below.

### Depreciation

The net book value of the Group's property, plant and equipment as at 31st December, 2005 were HK\$274,112,000. The Group depreciates the leasehold improvement and buildings on a straight line basis over the term of the lease and depreciates the plant and machinery, furniture and fixtures and motor vehicles on a straight line basis over the estimated useful life of three to twenty-five years respectively, commencing from the date the assets are placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

### Allowances for bad and doubtful debts

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of the debts and on managements' judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties, failure to perform their obligations as at 31st December, 2005 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

### Currency risk

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

### Reliance on major customers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 36.6% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 23.8% of the Group's total sales. It expose the Group to the reliance on its major customers and the management currently are seeking new customers base to explore the market in order to reduce the reliance on several major customers.

### Floating rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans. Certain bank loans of the Group are denominated in floating interest rate. The Group currently does not have interest rate swap policy in respect of floating interest rate. However, management monitors the interest rate exposure closely and will consider interest rate swapping should the need arise.

## 6. TURNOVER

Turnover represents the net amounts received and receivable for goods sold exclusive of value added taxes, less returns and allowances by the Group to outside customers during the years.

	2005 HK\$'000	2004 HK\$'000
Production and sale of cotton yarn	49,716	36,528
Production and sale of knitted sweaters	356,627	190,278
Production and sale of dyed yarns	393,663	421,107
Provision of dyeing and knitting services	31,392	20,818
Trading of cotton and yarns	69,084	103,471
	<u>900,482</u>	<u>772,202</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. SEGMENT INFORMATION

### Business segments

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

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

For the year ended 31st December, 2005

	Production and sale of cotton yarn HK\$'000	Production and sale of knitted sweaters HK\$'000	Production and sale of dyed yarns HK\$'000	Provision of dyeing and knitting services HK\$'000	Trading of cotton and yarns HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>TURNOVER</b>							
External	49,716	356,627	393,663	31,392	69,084	—	900,482
Inter - segment sales	63,344	167,529	364,839	2,471	123,508	(721,691)	—
	<u>113,060</u>	<u>524,156</u>	<u>758,502</u>	<u>33,863</u>	<u>192,592</u>	<u>(721,691)</u>	<u>900,482</u>
<b>RESULTS</b>							
Segment results	<u>3,670</u>	<u>43,254</u>	<u>57,163</u>	<u>4,881</u>	<u>(2,533)</u>	<u>—</u>	106,435
Unallocated corporate expense							(38)
Finance costs							(23,051)
Profit before taxation							83,346
Taxation							(7,929)
Profit for the year							<u>75,417</u>
Inter segment sales were charged at cost plus margin basis as agreed between both parties.							
<b>As at 31st December, 2005</b>							
<b>ASSETS</b>							
Segment assets	117,971	184,575	317,286	24,790	64,178	—	708,800
Unallocated corporate assets							131,858
CONSOLIDATED TOTAL ASSETS							<u>840,658</u>
<b>LIABILITIES</b>							
Segment liabilities	12,895	27,249	51,497	3,109	9,873	—	104,623
Unallocated corporate liabilities							274,986
CONSOLIDATED TOTAL LIABILITIES							<u>379,609</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. SEGMENT INFORMATION - continued

For the year ended 31st December, 2005

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

For the year ended 31st December, 2004

	Production and sale of cotton yarn HK\$'000	Production and sale of knitted sweaters HK\$'000	Production and sale of dyed yarns HK\$'000	Provision of dyeing and knitting services HK\$'000	Trading of cotton and yarns HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER							
External	36,528	190,278	421,107	20,818	103,471	—	772,202
Inter - segment sales	65,718	113,963	401,318	—	60,444	(641,443)	—
	<u>102,246</u>	<u>304,241</u>	<u>822,425</u>	<u>20,818</u>	<u>163,915</u>	<u>(641,443)</u>	<u>772,202</u>
RESULTS							
Segment results	<u>(3,844)</u>	<u>19,182</u>	<u>51,085</u>	<u>5,253</u>	<u>282</u>	<u>—</u>	<u>71,958</u>
Finance costs							(17,306)
Profit before taxation							54,652
Taxation							(6,907)
Profit for the year							<u>47,745</u>

Inter segment sales were charged at cost plus margin basis as agreed between both parties.

As at 31st December, 2004

ASSETS							
Segment assets	126,159	155,400	403,686	16,230	20,155	—	721,630
Unallocated corporate assets							68,575
CONSOLIDATED TOTAL ASSETS							<u>790,205</u>
LIABILITIES							
Segment liabilities	20,147	11,756	71,983	1,860	4,860	—	110,606
Unallocated corporate liabilities							586,646
CONSOLIDATED TOTAL LIABILITIES							<u>697,252</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. SEGMENT INFORMATION - continued

For the year ended 31st December, 2004

	Production and sale of cotton yarn HK\$'000	Production and sale of knitted sweaters HK\$'000	Production and sale of dyed yarns HK\$'000	Provision of dyeing and knitting services HK\$'000	Trading of cotton and yarns HK\$'000	Elimination HK\$'000	Total HK\$'000
OTHER INFORMATION:							
Capital expenditure	3,928	11,526	14,759	547	76	—	30,836
Depreciation of property, plant and equipment	5,948	6,242	19,904	788	312	—	33,194
Depreciation of investment properties	—	—	360	—	—	—	360
Amortisation of prepaid lease payments	25	80	754	9	—	—	868
Loss on disposal of property, plant and equipment	—	—	807	19	—	—	826
Recovery of bad and doubtful debts	—	—	(65)	(3)	—	—	(68)

### Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC") (including Hong Kong).

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

	Turnover by geographical market	
	2005 HK\$'000	2004 HK\$'000
PRC (including Hong Kong)	424,184	444,274
Africa and Asia other than PRC	131,223	141,800
Europe	319,476	177,622
North America	25,599	8,506
	<u>900,482</u>	<u>772,202</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. SEGMENT INFORMATION - continued

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

	Carrying amount of segment assets	
	2005 HK\$'000	2004 HK\$'000
PRC	440,484	487,888
Hong Kong	399,194	301,622
Macau	980	695
	<u>840,658</u>	<u>790,205</u>

	Additions to investment properties and property, plant and equipment	
	2005 HK\$'000	2004 HK\$'000
PRC	16,479	22,656
Hong Kong	600	8,174
Macau	18	6
	<u>17,097</u>	<u>30,836</u>

## 8. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	19,231	16,287
Bank borrowings wholly repayable over five years	139	185
Finance lease	581	834
Imputed interest expense on amount due to a shareholder	3,100	—
	<u>23,051</u>	<u>17,306</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 9. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax - Current year	9,275	5,143
Taxation in PRC	290	945
Deferred taxation (note 21)	<u>(1,636)</u>	<u>819</u>
	<u><u>7,929</u></u>	<u><u>6,907</u></u>

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

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

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

	2005 HK\$'000	2004 HK\$'000
Applicable tax rate ( <i>Note</i> )	17.5%	17.5%
Profit before taxation	<u>83,346</u>	<u>54,652</u>
Taxation at the applicable tax rate	14,586	9,564
Effect of tax exemption granted to PRC subsidiaries	(6,863)	(351)
Tax effect of income not taxable in determining taxable profit	(726)	(666)
Tax effect of expenses not deductible in determining taxable profit	707	530
Tax effect of unrecognised tax losses	53	520
Utilisation of tax losses not previously recognised	—	(3,051)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<u>172</u>	<u>361</u>
Taxation charge for the year	<u><u>7,929</u></u>	<u><u>6,907</u></u>

*Note:* The domestic tax in the jurisdiction where the operation of the Group is substantially based is used.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 10. PROFIT FOR THE YEAR

	2005 HK\$'000	2004 HK\$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 11)	4,852	4,184
Other staff costs	66,409	56,968
Retirement benefits scheme contributions, excluding directors	2,120	787
	<hr/>	<hr/>
Total staff costs	73,381	61,939
	<hr/>	<hr/>
Allowance for (recovery of) bad and doubtful debts	1,513	(68)
Amortisation of prepaid lease payments	929	868
Auditors' remuneration	2,253	433
Cost of inventories expensed	667,463	595,946
Depreciation of property, plant and equipment	32,509	33,194
Depreciation of investment properties	215	360
Exchange loss	1,501	267
Loss on disposal of property, plant and equipment	15	826
and after crediting:		
Gain on disposal of a subsidiary	—	850
Interest income	1,926	816
	<hr/>	<hr/>
Gross rental income from investment properties	1,011	1,032
Less: outgoings	(299)	(307)
	<hr/>	<hr/>
	712	725
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of 9 (2004: 5) directors were as follows:

For the year ended 31st December, 2005

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

The bonus payment for the year ended 31st December, 2005 is determined at the discretion of the board of directors.

For the year ended 31st December, 2004

	Dr. Sung Chung Kwun HK\$'000	Mr. Wong Chiu Hong HK\$'000	Ms. Mok Pui Mei HK\$'000	Mr. Ip Siu Lam HK\$'000	Ms. Sung Lam Ching HK\$'000	Total HK\$'000
<b>Directors</b>						
- fees	—	—	—	—	—	—
- salaries and other benefits	1,500	1,133	770	467	256	4,126
- bonus	—	—	—	—	—	—
- retirement benefit scheme contributions	12	12	12	12	10	58
	<u>1,512</u>	<u>1,145</u>	<u>782</u>	<u>479</u>	<u>266</u>	<u>4,184</u>

No directors waived any emoluments for the years ended 31st December, 2005 and 31st December, 2004.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Employees		
- salaries and other benefits	1,475	1,442
- retirement benefit scheme contributions	24	27
	<u>1,499</u>	<u>1,469</u>

Their emoluments were within the following band:

	2005 No. of employees	2004 No. of employees
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

During the years ended 31st December, 2005 and 31st December, 2004, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of HK\$4.7 cents (2004: Nil) per share	<u>18,853</u>	<u>—</u>

The directors have resolved to recommend the payment of a final dividend of approximately HK\$18,853,000 (2004: Nil) representing HK\$4.7 cents (2004: Nil) per share in respect of the year ended 31st December, 2005. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the parent of HK\$75,413,000 (2004: HK\$42,021,000) and on the weighted average number of 324,109,589 (2004: 300,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation had been completed on 1st January, 2004.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 15. INVESTMENT PROPERTIES

	HK\$'000
<b>COST</b>	
At 1st January, 2004	13,035
Addition	1,599
Transferred from property, plant and equipment	765
Transferred to property, plant and equipment	(2,127)
Disposal of a subsidiary	(1,599)
	<hr/>
At 31st December, 2004 and 31st December, 2005	11,673
<b>ACCUMULATED DEPRECIATION</b>	
At 1st January, 2004	2,499
Provided for the year	360
	<hr/>
At 31st December, 2004	2,859
Provided for the year	215
	<hr/>
At 31st December, 2005	3,074
<b>NET BOOK VALUES</b>	
At 31st December, 2005	8,599
	<hr/> <hr/>
At 31st December, 2004	8,814
	<hr/> <hr/>

All of the investment properties were held under medium term lease in Hong Kong and are rented out under operating leases. The investment properties are amortised over the lease term on a straight-line basis.

The fair value of the Group's investment properties at 31st December, 2005 was HK\$10,972,000 (2004: HK\$10,898,000). The fair value has been arrived at based on a valuation carried out by Vigers Appraisal & Consulting Limited, independent valuers not connected with the Group. The valuation, which confirms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$'000	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>							
At 1st January, 2004	246	97,645	263,898	13,791	18,247	7,637	401,464
Additions	—	2,162	11,533	825	1,261	13,456	29,237
Transfer	—	5,491	1,364	—	—	(6,855)	—
Transfer from investment properties	—	2,127	—	—	—	—	2,127
Transfer to investment properties	—	(1,538)	—	—	—	—	(1,538)
Disposal of a subsidiary	—	—	—	(134)	(307)	—	(441)
Disposals	—	(4,326)	(799)	—	(940)	—	(6,065)
At 31st December, 2004	246	101,561	275,996	14,482	18,261	14,238	424,784
Exchange adjustments	—	1,567	4,767	61	173	274	6,842
Additions	—	2,014	4,784	781	370	9,148	17,097
Transfer	—	1,531	2,585	—	—	(4,116)	—
Written off	—	—	(58)	—	(345)	—	(403)
At 31st December, 2005	246	106,673	288,074	15,324	18,459	19,544	448,320
<b>DEPRECIATION</b>							
At 1st January, 2004	88	15,943	71,423	9,657	12,967	—	110,078
Provided for the year	10	3,430	25,519	1,332	2,903	—	33,194
Disposal of a subsidiary	—	—	—	(24)	(97)	—	(121)
Eliminated on disposals	—	(1,170)	(439)	—	(940)	—	(2,549)
Transfer to investment properties	—	(773)	—	—	—	—	(773)
At 31st December, 2004	98	17,430	96,503	10,965	14,833	—	139,829
Exchange adjustments	—	175	1,906	39	138	—	2,258
Provided for the year	148	3,923	24,757	1,242	2,439	—	32,509
Eliminated on written off	—	—	(12)	—	(376)	—	(388)
At 31st December, 2005	246	21,528	123,154	12,246	17,034	—	174,208
<b>NET BOOK VALUES</b>							
At 31st December, 2005	—	85,145	164,920	3,078	1,425	19,544	274,112
At 31st December, 2004	148	84,131	179,493	3,517	3,428	14,238	284,955

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

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

The net book value of plant and machinery of approximately HK\$20,082,000 (2004: HK\$39,329,000) is in respect of assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 16. PROPERTY, PLANT AND EQUIPMENT - continued

The net book value of the Group's buildings comprises:

	2005 HK\$'000	2004 HK\$'000
Properties in the PRC held under land use rights		
- short term	925	1,003
- medium term	74,954	72,185
Properties held under medium terms lease in Hong Kong	9,266	10,943
	<u>85,145</u>	<u>84,131</u>

## 17. PREPAID LEASE PAYMENTS

	HK\$'000
<b>COST</b>	
At 1st January, 2004	35,675
Additions	12,655
Disposal of a subsidiary	(5,062)
Disposals	(6,336)
	<u>36,932</u>
At 31st December, 2004	36,932
Exchange adjustments	502
Additions	5,438
	<u>42,872</u>
At 31st December, 2005	42,872
<b>AMORTISATION</b>	
At 1st January, 2004	3,585
Provided for the year	868
Disposals	(1,586)
	<u>2,867</u>
At 31st December, 2004	2,867
Exchange adjustments	21
Provided for the year	929
	<u>3,817</u>
At 31st December, 2005	3,817
<b>NET BOOK VALUES</b>	
At 31st December, 2005	<u>39,055</u>
At 31st December, 2004	<u>34,065</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 17. PREPAID LEASE PAYMENTS - continued

The cost of land use rights is amortised over the term of the land use rights on a straight line basis.

	2005 HK\$'000	2004 HK\$'000
The Group's land use right comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	6,844	7,077
Leasehold land outside Hong Kong:		
Medium-term lease	31,815	26,558
Short lease	396	430
	<u>39,055</u>	<u>34,065</u>
Analysed for reporting purposes as:		
Current asset	955	832
Non-current asset	38,100	33,233
	<u>39,055</u>	<u>34,065</u>

## 18. AVAILABLE FOR SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

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

### (b) Investments held for trading

Investments held for trading as at 31st December, 2004 represented the investment of US\$100,000 in DBS Bank 107% Guaranteed Notes issued by a bank with maturity date in November 2005.

## 19. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS/PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The amount represented the deposit paid for the acquisition of land use rights, property, plant and equipment and investment property in relation to the acquisition of the Group's plant and machinery and Group's investment properties respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 20. CLUB DEBENTURES

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

## 21. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Unrealised (loss) profit on inventory HK\$'000	Total HK\$'000
At 1st January, 2004	3,555	(1,392)	1,052	3,215
(Credit) charge to consolidated income statements for the year	<u>(1,148)</u>	<u>824</u>	<u>1,143</u>	<u>819</u>
At 31st December, 2004	2,407	(568)	2,195	4,034
(Credit) charge to consolidated income statements for the year	<u>(569)</u>	<u>81</u>	<u>(1,148)</u>	<u>(1,636)</u>
At 31st December, 2005	<u><u>1,838</u></u>	<u><u>(487)</u></u>	<u><u>1,047</u></u>	<u><u>2,398</u></u>

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

	2005 HK\$'000	2004 HK\$'000
Deferred tax liabilities	2,885	4,602
Deferred tax assets	<u>(487)</u>	<u>(568)</u>
	<u><u>2,398</u></u>	<u><u>4,034</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 21. DEFERRED TAXATION - continued

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

	2005 HK\$'000	2004 HK\$'000
Unused tax losses		
- Recognised as deferred tax asset	2,783	3,246
- Unrecognised tax losses ( <i>Note</i> )	3,473	3,169
	<u>6,256</u>	<u>6,415</u>

Included in unused tax losses as at 31st December, 2005, were amount of HK\$3,128,000 (2004: HK\$2,961,000) which will be expired between 2009 to 2010; all other unused tax losses may be carried forward indefinitely.

*Note:* No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

## 22. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Raw materials	135,171	158,262
Work in progress	25,500	5,252
Finished goods	24,712	26,256
	<u>185,383</u>	<u>189,770</u>

All the inventories are carried at cost.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 23. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

An aging analysis of trade receivables, is as follows:

	2005 HK\$'000	2004 HK\$'000
Aged:		
0 - 30 days	75,550	31,403
31 - 60 days	37,656	23,278
61 - 90 days	19,799	11,218
91 - 120 days	14,324	24,243
Over 120 days	15,222	22,789
	<u>162,551</u>	<u>112,931</u>
Bills receivable ( <i>Note</i> )	9,840	21,665
Other receivables, deposits and prepayments	<u>21,775</u>	<u>14,593</u>
	<u><u>194,166</u></u>	<u><u>149,189</u></u>

The fair value of the Group's trade receivables, bill receivables, other receivables and deposits at 31st December, 2005 and 31st December, 2004 approximated to the corresponding carrying amount.

*Note:* Included in bills receivable is an amount of approximately HK\$1,793,000 (2004: HK\$14,907,000) representing bills discounted with recourse.

## 24. AMOUNTS DUE FROM RELATED COMPANIES

Details of amounts due from related companies are as follows:

	Notes	2005 HK\$'000	2004 HK\$'000
Anford Trading Limited	(ii)	—	440
China Light Investment Limited	(iii)	—	743
Chung Fai Knitwear Factory Limited	(i)	—	27,670
Elaine Knitting Factory Limited	(iv)	—	132
Harvest Cosmos Textile Limited	(i)	—	49
Lynn's Trading Company	(i)	—	111
May Type Fashion Limited	(v)	—	933
P.T. Shinetama Interfashion ("P.T. Shinetama")	(i)	1,573	10,453
Soundyet Enterprises Limited	(iii)	—	116
Trenex (Hong Kong) Limited	(ii)	—	1,395
Wai Yee Knitting Factory Limited	(i)	1,011	494
Winner Knitting Factory Limited	(i)	—	8,148
		<u>2,584</u>	<u>50,684</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 24. AMOUNTS DUE FROM RELATED COMPANIES - continued

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

Note:

- (i) Details of the relationship of the above companies with the Group are set out in note 42.
- (ii) Dr. Sung Chung Kwun, Wong Chiu Hong and Mok Pui Mei, being directors of the Company, have beneficial interest in the company.
- (iii) Dr. Sung Chung Kwun, Wong Chiu Hong, Sung Kim Ping and Sung Kim Wa have beneficial interest in this company. Sung Kim Ping and Sung Kim Wa are the sons of Dr. Sung Chung Kwun.
- (iv) Dr. Sung Chung Kwun, Sung Kit Ching (being a daughter of Dr. Sung Chung Kwun) and Sung Kim Ping had beneficial interest in this company.
- (v) Dr. Sung Chung Kwun, Tse Mui Chu (being wife of Dr. Sung Chung Kwun), Sung Kim Ping, Sung Kim Wa and Sung Kim Hung have beneficial interest in this company.

Maximum amounts outstanding during the year:

	2005 HK\$'000	2004 HK\$'000
Anford Trading Limited	447	440
China Light Investment Limited	765	791
Chung Fai Knitwear Factory Limited	27,670	27,715
Elaine Knitting Factory Limited	132	132
Harvest Cosmos Textile Limited	49	783
Lynn's Trading Company	117	839
May Type Fashion Limited	933	933
P.T. Shinetama	11,150	21,856
Soundyet Enterprises Limited	121	116
Trenex (Hong Kong) Limited	1,395	1,395
Wai Yee Knitting Factory Limited	1,659	1,151
Winner Knitting Factory Limited	17,610	8,148

## 25. PLEDGED BANK DEPOSITS

The amount represents bank deposits pledged to banks to secure bank overdraft and trust receipts loans facilities granted to the Group and therefore are classified as current asset. The amount bears interest at ranged from 1% to 5% per annum (2004: 1% to 5% per annum). The fair value of the Group's pledged bank deposits approximated its carrying value.

## 26. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximated their fair value. The amounts bear interest at ranged from 2% to 3% per annum (2004: 2% to 3% per annum).

The bank balances and cash of the Group are mainly denominated in Renminbi, Hong Kong dollars, United States dollar and MOP dollars. Included in the bank balances and cash as at 31st December, 2005 was an amount in Renminbi approximately of RMB21,373,000 (2004: RMB23,556,000). Renminbi is not freely convertible into other currencies.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 27. TRADE AND OTHER PAYABLES

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

	2005 HK\$'000	2004 HK\$'000
Aged:		
0 - 60 days	21,762	32,340
61 - 90 days	2,686	4,351
Over 90 days	6,106	5,982
	<hr/>	<hr/>
	30,554	42,673
Other payables and accruals	47,138	28,739
	<hr/>	<hr/>
	77,692	71,412
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the Group's trade and other payables at 31st December, 2005 and 31st December, 2004 approximated to the corresponding carrying amount.

## 28. BILLS PAYABLES

The amount is bear interest ranged from 1% to 6% per annum (2004: 1% to 6% per annum) and repayable on demand or within three months. The fair value of the Group's bills payable approximated the corresponding carrying amount.

## 29. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and is repayable on demand. The fair value of the Group's amount due to a director approximated to the corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 30. BANK BORROWINGS

	2005 HK\$'000	2004 HK\$'000
Bank overdrafts	20,624	10,808
Bank loans	125,607	131,256
Trust receipt loans	107,836	119,462
	<u>254,067</u>	<u>261,526</u>
Analysed by:		
Secured	172,346	174,061
Unsecured	81,721	87,465
	<u>254,067</u>	<u>261,526</u>
The bank borrowings are repayable as follows:		
On demand or within one year	243,987	198,589
In more than one year but not more than two years	3,817	59,780
In more than two years but not more than three years	2,970	453
In more than three years but not more than four years	1,446	468
In more than four years but not more than five years	485	481
In more than five years	1,362	1,755
	<u>254,067</u>	<u>261,526</u>
Less: Amounts due within one year shown under current liabilities	<u>(243,987)</u>	<u>(198,589)</u>
Shown under non-current liabilities	<u>10,080</u>	<u>62,937</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 30. BANK BORROWINGS - continued

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

	Hong Kong Dollars HK\$'000	Renminbi HK\$'000	US Dollars HK\$'000	Total HK\$'000
As at 31st December, 2005				
Bank overdrafts	20,624	—	—	20,624
Bank loans	28,003	82,692	14,912	125,607
Trust receipt loans	50,037	—	57,799	107,836
	<u>98,664</u>	<u>82,692</u>	<u>72,711</u>	<u>254,067</u>
As at 31st December, 2004				
Bank overdrafts	10,808	—	—	10,808
Bank loans	8,400	98,203	24,653	131,256
Trust receipt loans	9,556	—	109,906	119,462
	<u>28,764</u>	<u>98,203</u>	<u>134,559</u>	<u>261,526</u>

The average variable interest rate ranged from 3% to 6% for the bank overdraft for the years ended 31st December, 2004 and 31st December, 2005. Interest is repricing every three months.

The average variable interest rate ranged from 4% to 6% for the bank loans for the year ended 31st December, 2004 and 5% to 8% for the year ended 31st December, 2005 respectively. Interest is repricing every three months.

The average variable interest rate ranged from 5% to 8% for trust receipt loans for the year ended 31st December, 2004 and 6% to 9% for the year ended 31st December, 2005 respectively. Interest is repricing every three months.

The fair value of the above Group's bank borrowings at 31st December, 2005 and 31st December, 2004 approximated its carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	As at 31st December,		As at 31st December,	
	2005	2004	2005	2004
	HK'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:				
Within one year	4,992	9,143	4,546	8,674
In more than one year but not more than two years	4,319	4,831	4,148	4,592
In more than two years but not more than three years	358	4,167	357	4,077
In more than three years but not more than four years	—	325	—	324
	<u>9,669</u>	<u>18,466</u>	<u>9,051</u>	<u>17,667</u>
Less: future finance charges	(618)	(799)	—	—
Present value of lease obligations	<u>9,051</u>	<u>17,667</u>	<u>9,051</u>	<u>17,667</u>
Less: Amount due for settlement within one year and shown under current liabilities			(4,546)	(8,674)
Amount due for settlement after one year			<u>4,505</u>	<u>8,993</u>

It is the Group's policy to lease certain of its plant and machinery and furniture and fixtures under finance leases. The average lease term is three years. The average effective interest rate is 3% (2004: 4.1%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

The fair value of the Group's financial lease obligations approximates their carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 32. SHARE CAPITAL

	Number of share	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised share capital:		
At date of incorporation and 31st December, 2004	30,000,000	300
Increase in authorised share capital	9,970,000,000	99,700
	<u>10,000,000,000</u>	<u>100,000</u>
At 31st December, 2005	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At date of incorporation	1	—
Allotted and issued nil paid	999,999	—
	<u>1,000,000</u>	<u>—</u>
At 31st December, 2004	1,000,000	—
Credit as fully paid the 1,000,000 ordinary shares issued nil paid to Dr. Sung Chung Kwun	—	10
Issue of shares on Group Reorganisation	19,000,000	190
Issue of shares by capitalisation of share premium account	280,000,000	2,800
Issue of shares for placing and public offer	100,000,000	1,000
	<u>400,000,000</u>	<u>4,000</u>
At 31st December, 2005	<u>400,000,000</u>	<u>4,000</u>

The Company was incorporated in the Cayman Islands on 9th June, 2004 with an authorised capital of HK\$300,000 divided into 30,000,000 ordinary shares of HK\$0.01 each, of which one subscriber share, nil paid, was transferred to Dr. Sung Chung Kwun as initial shareholder at the meeting of the provisional directors held on 29th June, 2004. Moreover, 999,999 new ordinary shares of HK\$0.01 each were allotted and issued nil paid to Dr. Sung Chung Kwun on 13th October, 2004.

Pursuant to written resolutions of the sole shareholder of the Company on 29th August, 2005 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the authorised and issued share capital of the Company took place:

- (a) the authorised share capital of the Company was increased from HK\$300,000 to HK\$100,000,000 by the creation of an addition 9,970,000,000 share of HK\$0.01 each to rank pari passu with the then existing shares in issue in all respects;

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 32. SHARE CAPITAL - continued

- (b) 19,000,000 shares of HK\$0.01 each were allotted and issued, credited as fully paid and credited the 1,000,000 ordinary shares of HK\$0.01 each issued nil paid to Dr. Sung Chung Kwun as fully paid to Dr. Sung Chung Kwun, being the sole shareholder of Interlink Altantic Limited as consideration for the acquisition of the entire share capital of Interlink Altantic Limited pursuant to the Group Reorganisation as stated in note 1;
- (c) conditional on the share premium account being credited as a result of the placing and public offer on 5th October, 2005, an amount of HK\$2,800,000 was capitalised and applied to pay up in full at par 280,000,000 shares of HK\$0.01 each for allotment and issue to Dr. Sung Chung Kwun on 29th August, 2005; and
- (d) On 5th October, 2005, by means of placing and public offer, the Company issued a total of 100,000,000 new ordinary shares of HK\$0.01 each at the price of HK\$1.01 per share. The proceeds are to be used by Group for expansion of dyeing variety; linking and finishing operation, strengthening product development capability, enhancement on existing product in facilities and information systems and general working capital.

The share capital as at 31st December, 2004 represented the nominal values of the issued share capital of Interlink Atlantic Limited, the holding company of the companies now comprising the Group prior to the Group Reorganisation.

## 33. AMOUNT DUE TO A SHAREHOLDER

As at 31st December, 2004, the amount was due to Dr. Sung Chung Kwun, a shareholder and director of the Company, and was unsecured, non-interest bearing and is not repayable within twelve months from 31st December, 2004. In consideration of the Company's agreeing to acquire the entire issued share capital of Interlink Altantic Limited from Dr. Sung Chung Kwun pursuant to Note 32 above, Dr. Sung Chung Kwun as assignor executed a deed of assignment dated 29th August, 2005 in favour of the Company as assignee with the consent of Interlink Altantic Limited as debtor pursuant to which Dr. Sung Chung Kwun assigned to the Company the benefit of the majority of the shareholder's loan he had advanced to Interlink Altantic Limited in the sum of amount of approximately HK\$192,165,000 as at 29th August, 2005. The other remaining balance was repaid during the year. The fair value of the amount due to shareholder at 31st December, 2004 approximated the corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 34. BALANCE SHEET OF THE COMPANY

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

	2005 HK\$'000
<b>Non-Current Asset</b>	
Interests in subsidiaries	160,803
<b>Current Assets</b>	
Amounts due from subsidiaries	282,088
Prepayments	145
	<u>282,233</u>
	<u>443,036</u>
<b>Capital and Reserves</b>	
Share capital	4,000
Reserves ( <i>Note</i> )	439,036
	<u>443,036</u>

*Note:*

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2004 and 31st December, 2004	—	—	—	—
Issue of shares by capitalisation of share premium account	(2,800)	—	—	(2,800)
Issue of shares for placing and public offer	100,000	—	—	100,000
Share issue expenses	(7,794)	—	—	(7,794)
Surplus arising from Group Reorganisation	—	349,668	—	349,668
Loss for the year	—	—	(38)	(38)
	<u>89,406</u>	<u>349,668</u>	<u>(38)</u>	<u>439,036</u>
At 31st December, 2005	89,406	349,668	(38)	439,036

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE OPTION SCHEME

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

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

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

## 36. DISPOSAL OF A SUBSIDIARY

On 12th November, 2004, the Group disposed of its 52% interest in Long Mark Enterprise (Hong Kong) Limited for a consideration of HK\$5,000. Details of the disposal of Long Mark Enterprise (Hong Kong) Limited are as follows:

	2004 HK\$'000
Net liabilities disposed of:	
Investment property	1,599
Prepaid lease payments	5,062
Property, plant and equipment	320
Trade and other receivables	2,272
Taxation recoverable	5
Bank balances and cash	867
Trade and other payables	(4,825)
Amount due to a director	(800)
Bank borrowings	(4,377)
Amount due to a related party	(222)
Obligations under finance leases	(54)
Bank overdrafts	(692)
	<hr/>
	(845)
Gain on disposal of subsidiary	850
	<hr/>
Consideration	5
	<hr/> <hr/>
Satisfied by:	
Cash	5
	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 36. DISPOSAL OF A SUBSIDIARY - continued

An analysis of the net cash outflow of cash and cash equivalents in connection with the disposal of subsidiary is as follows:

	2004 HK\$'000
Cash consideration received	5
Bank balances and cash disposed of	(867)
Bank overdrafts disposed of	692
	<hr/>
Net outflow of cash and cash equivalents in connection with the disposal of the subsidiary	<hr/> (170)

The subsidiary disposed during the year ended 31st December, 2004 did not make significant contribution to the Group's turnover and the Group's profit for the year.

## 37. MAJOR NON-CASH TRANSACTION

The Group entered into finance lease arrangements in respect of property, plant and equipment with capital value of HK\$15,500,000 for the year ended 31st December, 2004. No finance lease arrangement in respect of property, plant and equipment was entered by the Group for the year ended 31st December, 2005.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 38. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases:

	2005 HK\$'000	2004 HK\$'000
Office premises	<u>301</u>	<u>81</u>

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

	2005 HK\$'000	2004 HK\$'000
Within one year	187	81
In the second to fifth years inclusive	16	368
Over five years	<u>4</u>	<u>1,242</u>
	<u>207</u>	<u>1,691</u>

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

### The Group as lessor

Property rental income earned was HK\$1,011,000 (2004: HK\$1,032,000). The properties are expected to generate rental yields of 5% on an ongoing basis. All of the properties held have committed tenants for the next year.

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

	As at 31st December,	
	2005 HK\$'000	2004 HK\$'000
Within one year	629	1,101
In the second to fifth years inclusive	<u>408</u>	<u>578</u>
	<u>1,037</u>	<u>1,679</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 39. PLEDGE OF ASSETS

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

	2005 HK\$'000	2004 HK\$'000
Property, plant and equipment	37,576	74,340
Bank deposit	21,266	37,497
Investment in securities	—	780
Investment properties	—	9,603
	<u>58,842</u>	<u>122,220</u>

## 40. COMMITMENTS

	2005 HK\$'000	2004 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment/land use right	<u>5,363</u>	<u>2,946</u>

## 41. PENSION/RETIREMENT BENEFITS SCHEME

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 42. RELATED PARTY DISCLOSURES

Balance with related companies are set out in notes 24, 29 and 33.

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

Company	Relationship	Nature of transactions	2005 HK\$'000	2004 HK\$'000
P.T. Shinetama	(Note 1)	Sales of cotton	24,790	47,229
		Purchases of cotton yarn	43,951	60,725
P.T. Kahatex (Indonesia)	(Note 2)	Purchases of raw white yarn	—	2,974
Well Known International Development Limited	(Note 3)	Sub-contracting fee	—	78
Lynn's Trading Company	(Note 4)	Commission paid	—	81
Harvest Cosmos Textile Limited	(Note 5)	Sales of dyed yarn	—	4,032
		Purchases of twisted yarn	—	187
		Subcontracting fee	88	123
		Commission income	—	1
		Sales discounts	—	86
Wai Yee Knitting Factory Limited ("Wai Yee")	(Note 6)	Sales of raw white and dyed yarn	4,084	6,570
		Sales of sweater	785	384
		Purchases of raw and dyed yarn	294	210
		Subcontracting fee	1,289	1,618
		Sales discounts	60	19
		Rental income	120	40
		Subcontracting fee income	—	313
Chung Fai Knitwear Fty., Ltd ("Chung Fai Knitting")	(Note 7)	Dyeing expenses	892	4,673
		Knitting expenses	—	1,138
		Packaging expenses	—	556
		Transportation expenses	—	179
		Sales of dyed yarn	6,624	15,338
Winner Knitting Factory Limited ("Winner Knitting")	(Note 7)	Knitting expenses	3,806	27,882
		Packaging expenses	239	2,192
		Transportation expenses	764	7,212
		Sales of dyed yarn	—	4,059
P.T. Prima Rajuli Sukses	(Note 8)	Purchases of raw white yarn	—	2,354
Dinghu Yongsheng Textiles Fty., Ltd.	(Note 9)	Purchases of raw white yarn	287	—
Sung Kim Ping	(Note 10)	Sales of property	—	3,980

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2005*

## 42. RELATED PARTY DISCLOSURES - continued

In additions to the above, for the year ended 31st December, 2004, the leasehold land and buildings, and bank deposits held by Dr. Sung Chung Kwun were pledged to secure banking facilities granted to the Group. Certain properties held by Dr. Sung Chung Kwun were occupied by a subsidiary of the Group for nil consideration for the year ended 31st December, 2004 and HK\$180,000 for the year ended 31st December, 2005. During both years, Dr. Sung Chung Kwun had also issued unlimited personal guarantees to banks to secure banking facilities granted to the Group.

As at 31st December, 2005, all these securities and guarantee of Dr. Sung Chung Kwun had been released and replaced by those of the Group as disclosed in note 39 subsequent to the listing of the shares on the Stock Exchange.

- (Note 1) Sung Chung Man, a brother of Dr. Sung Chung Kwun has beneficial interests in this company.
- (Note 2) Sung Liang Hua, a brother of Dr. Sung Chung Kwun, has beneficial interest in this company.
- (Note 3) This company is owned by Sung Kit Ching and Sung Kim Ping, who are the daughter and son of Dr. Sung Chung Kwun.
- (Note 4) Lin Chun Ming is one of the senior management of the Group and has beneficial interest in this company.
- (Note 5) Sung Kim Wa and Sung Kim Ping, sons of Dr. Sung Chung Kwun, have beneficial interest in this company.
- (Note 6) Sung Kim Ping, a son of Dr. Sung Chung Kwun has beneficial interest in this company for the period from 1st January, 2004 to 21st December, 2004. The interest held by Sung Kim Ping was transferred to Sung Kit Ching and Wong Chun Fong, a daughter and daughter-in-law of Dr. Sung Chung Kwun on 21st December, 2004.
- (Note 7) Dr. Sung Chung Kwun has beneficial interest in this company for the year ended 31st December, 2004 and the period from 1st January, 2005 to 28th March, 2005.
- (Note 8) Sung Pui Man, a relative of Dr. Sung Chung Kwun, is one of senior management of this company.
- (Note 9) Sung Liang Hua, a brother of Dr. Sung Chung Kwun, has beneficial interest in this company.
- (Note 10) Sung Kim Ping is a son of Dr. Sung Chung Kwun.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31st December, 2005 are as follows:

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Interlink Atlantic Limited		British Virgin Islands ("BVI") 24th November, 1999	Ordinary share US\$1	100%	—	Investment holding
Shineday Developments Limited		BVI 18th August, 2004	Ordinary share US\$1	—	100%	Investment holding
Addchance Limited		Hong Kong 2nd October, 1981	Ordinary shares HK\$1,500,000	—	100%	Manufacturing and trading of dyed yarn, provision of yarn-dyeing services, trading of cotton raw white yarn and fancy yarn and property holding
Chinakey (Hong Kong) Limited		Hong Kong 22nd October, 1997	Ordinary shares HK\$1,000,000	—	100%	Manufacturing of knitted sweaters
Standard Harvest International Limited		Hong Kong 21st June, 1994	Ordinary shares HK\$6,200 Class "A" Ordinary shares HK\$3,800	—	100%	Investment holding
Charm Shine Industrial Company Limited		Hong Kong 8th October, 1976	Ordinary shares HK\$2,200,000	—	95.45%	Property holding
Sky Emperor International Limited		Hong Kong 12th March, 1997	Ordinary shares HK\$10,000	—	100%	Trading of knitted sweaters and provision of knitting services
Sure Win International Textiles Limited		Hong Kong 15th July, 1993	Ordinary share HK\$15,000	—	100%	Provision of knitting services
Charm Shine (Macau) Wool Yarn Industrial Limited		Macau 15th September, 1987	MOP\$500,000	—	100%	Trading of dyed yarn and raw white yarn
Mei Pan Dyeing Factory Limited		Hong Kong 1st May, 1987	Ordinary shares HK\$1,240,000 Ordinary Shares A HK\$760,000	—	100%	Investment holding
張家港互益染整有限公司 Zhangjiagang Addchance Dyeing & Finishing Co., Ltd. ("Zhangjiagang Addchance")	(i)	PRC 9th March, 2001	Registered capital US\$12,000,000	—	100%	Manufacturing of dyed yarn and provision of dyeing services
羅定互益染整有限公司 Luoding Addchance Dyeing Factory Ltd. ("Luoding Addchance")	(ii)	PRC 6th November, 1986	Registered capital US\$5,044,000	—	100%	Provision of yarn dyeing services

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
羅定市美鵬染廠有限公司 Luoding Mei Pan Dyeing Factory Ltd. ("Luoding Mei Pan")	(iii)	PRC 10th June, 1993	Registered capital US\$8,000,000	—	100%	Provision of yarn dyeing services
安慶市宿松互益紡織有限公司 Anqing Su Song Addchance Textile Co., Ltd. ("Anqing Addchance")	(iv)	PRC 9th September, 2002	Registered capital US\$10,000,000	—	100%	Manufacturing of cotton yarn
羅定忠益織造廠有限公司 Luoding Addchance Knitting Factory Ltd. ("Luoding Addchance Knitting")	(v)	PRC 8th November, 1999	Registered capital US\$10,000,000	—	100%	Provision of knitting services
張家港互益紡織有限公司 Zhangjiagang Addchance Spinnery Co., Ltd. ("Zhangjiagang Addchance Spinnery")	(vi)	PRC 12th December, 2003	Registered capital US\$12,000,000 Paid up capital US\$1,925,872	—	100%	Incorporated for the purpose of manufacturing of fabric dyeing but operation not yet commenced
廣西岑溪互益紡織有限公司 Cenxi Addchance Textile Factory Ltd. ("Cenxi Addchance")	(vii)	PRC 27th September, 2003	Registered capital US\$2,000,000	—	100%	Provision of knitting services
羅定市誠益織造有限公司 Luoding Honour Rich Textile Factory Ltd. ("Luoding Honour")	(viii)	PRC 11th August, 2003	Registered capital US\$1,080,000	—	100%	Provision of knitting services
廣西梧州互益紡織 有限公司 Wu Zhou Addchance Textile Factory Limited ("Wu Zhou Addchance")	(ix)	PRC 16th December, 2005	Registered capital US\$3,500,000	—	100%	Incorporated for the purpose of manufacture and sale of knitted sweaters but operation not yet commenced



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES - continued

Notes:

- (i) Zhangjiagang Addchance is a wholly-foreign owned enterprise. The term of its business licence is from 9th March, 2001 to 8th March, 2051.
- (ii) Luoding Addchance was a sino-foreign cooperative joint venture. The term of the joint venture was 20 years from 6th November, 1986 to 5th November, 2006. Luoding Addchance was changed from a sino-foreign cooperative joint venture to a wholly-owned foreign enterprises on 13th May, 2004. The term of business licence is 30 years from 6th November, 1986 to 5th November, 2016.
- (iii) Luoding Mei Pan is a wholly-owned foreign enterprise. The term of its business licence is from 10th June, 1993 to 9th June, 2013.
- (iv) Anqing Addchance is a wholly-owned foreign enterprise. The term of its business licence is from 9th September, 2002 to 9th September, 2032.
- (v) Luoding Addchance Knitting is a wholly-owned foreign enterprise with the term of its business licence from 8th November, 1999 to 7th November, 2019.
- (vi) Zhangjiagang Addchance Spinnery is a wholly-owned foreign enterprise with the term of its business licence from 12th December, 2003 to 11th December, 2053.
- (vii) Cenxi Addchance is a wholly-owned foreign enterprise with the term of its business licence from 27th September, 2003 to 26th September, 2023.
- (viii) Luoding Honour is a wholly-owned foreign enterprise with the term of its business licence from 11th August, 2003 to 10th August, 2023.
- (ix) Wu Zhou Addchance is a wholly-owned foreign enterprise with the term of its business licence from 16th December, 2005 to 16th December, 2055.

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

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

# FINANCIAL SUMMARY

For the year ended 31st December, 2005

## RESULTS

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
Turnover	670,688	609,296	772,202	900,482
Profit before taxation	34,136	38,718	54,652	83,346
Taxation	(4,566)	(7,524)	(6,907)	(7,929)
Profit for the year	<u>29,570</u>	<u>31,194</u>	<u>47,745</u>	<u>75,417</u>
Profit attributable to:				
Equity holders of the parent	22,773	25,856	42,021	75,413
Minority interests	6,797	5,338	5,724	4
	<u>29,570</u>	<u>31,194</u>	<u>47,745</u>	<u>75,417</u>

## ASSETS AND LIABILITIES

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (Note)	2005 HK\$'000
Total assets	557,888	751,110	790,205	840,658
Total liabilities	(542,216)	(708,277)	(697,252)	(379,609)
	<u>15,672</u>	<u>42,833</u>	<u>92,953</u>	<u>461,049</u>
Equity attributable to equity holders of the parent	6,355	28,793	92,803	460,895
Minority interests	9,317	14,040	150	154
	<u>15,672</u>	<u>42,833</u>	<u>92,953</u>	<u>461,049</u>

*Note:* The Company was incorporated in Cayman Islands on 9th June, 2004 and became the holding company of the Group with effect from 29th August, 2005 as a result of the Group Reorganisation. The results of the Group for each of the three years ended 31st December, 2004 and the assets and liabilities as at 31st December, 2002, 2003 and 2004 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated 23rd September, 2005.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Addchance Holdings Limited (the “Company”) will be held at 3rd Floor, Sung’s Tower, 15-19 Lam Tin Street, Kwai Chung, New Territories, Hong Kong on 29th May, 2006 at 11:00 a.m. for the following purposes :

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2005.
2. To declare a final dividend of 4.7 Hong Kong cents per share for the year ended 31st December, 2005.
3. To re-elect directors and to authorise the board of directors to fix their remuneration.
4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions :

### ORDINARY RESOLUTIONS

A. “THAT:

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or scrip dividend scheme or similar arrangement of the Company or the exercise of the subscription rights under the share option scheme of the Company shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution :

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;

## NOTICE OF ANNUAL GENERAL MEETING

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. “THAT:

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and
- (c) for the purposes of this resolution :

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

## NOTICE OF ANNUAL GENERAL MEETING

- C. "THAT conditional upon resolution no. 5B above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 5B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 5A above."

By Order of the Board  
**Fung Ka Lai**  
*Company Secretary*

Hong Kong, 28th April 2006

Principal Office :  
Sung's Tower  
15-19 Lam Tin Street  
Kwai Chung  
New Territories  
Hong Kong.

*Notes :*

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's principal office in Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) The register of members of the Company will be closed from 25th May, 2006 (Thursday) to 29th May, 2006 (Monday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office 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 not later than 4:00 p.m. on Wednesday, 24th May, 2006.