

# NOTES TO THE FINANCIAL STATEMENTS

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## 1 General information

Nanyang Holdings Limited is a limited liability company incorporated in Bermuda. The address of its office in Hong Kong is 1808 St George's Building, 2 Ice House Street, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (together "the Group") engage in property investment, investment holding and trading and textile trading.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30th March 2007.

## 2 Principal accounting policies

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

### (a) Basis of preparation

The consolidated financial statements of Nanyang Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

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

# NOTES TO THE FINANCIAL STATEMENTS (con't)

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## 2 Principal accounting policies (con't)

### (b) **Standards, interpretations and amendments to standards that are not yet effective**

The HKICPA has issued certain new standards, amendments and interpretations which are not yet effective as at 31st December 2006. Those which are relevant to the Group's operations are as follows:

|                    |  | Effective for<br>accounting<br>periods beginning<br>on or after |
|--------------------|--|---|
| HKAS 1 (Amendment) | Presentation of Financial<br>Statements: Capital Disclosures | 1st January 2007  |
| HKFRS 7            | Financial Instruments:<br>Disclosures                        | 1st January 2007  |

The Group has not early adopted the above standard and amendment in the financial statements for the year ended 31st December 2006. The Group will apply the above standard and amendment from 1st January 2007, but it is not expected to have a significant impact on the Group's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (c) **Group accounting**

#### (i) **Consolidation**

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (c) **Group accounting** *(con't)*

#### (i) **Consolidation** *(con't)*

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

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

#### (ii) **Jointly controlled entities**

A jointly controlled entity is an entity which through contractual arrangements is subject to joint control by the Group and other parties, and none of the participating parties has unilateral control over the entity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

#### (d) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of property, plant and equipment, investment properties, available-for-sale financial assets, financial assets at fair value through profit or loss, receivables and operating

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (d) **Segment reporting** *(con't)*

cash and exclude items such as deferred income tax assets. Segment liabilities comprise operating liabilities and exclude items such as tax and deferred income tax liabilities. Capital expenditure represents additions to fixed assets.

In respect of geographical segment reporting, results from textile and property are presented based on the country of operations and the country in which these properties are located respectively. Results from investments are presented based on the country in which these investments are listed or funded. Total assets and capital expenditure are presented based on where the assets are located.

### (e) **Foreign currency translation**

#### (i) **Functional and presentation currency**

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

#### (ii) **Transactions and balances**

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

# N O T E S   T O   T H E   F I N A N C I A L S T A T E M E N T S   *(con't)*

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## 2 Principal accounting policies   *(con't)*

### (e) **Foreign currency translation**   *(con't)*

#### (ii) **Transactions and balances**   *(con't)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the available-for-sale investments revaluation reserve in equity.

#### (iii) **Group companies**

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (e) **Foreign currency translation** *(con't)*

#### (iii) **Group companies** *(con't)*

- all resulting exchange differences are recognised as a separate component of equity.

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

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

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

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

|           |          |
|-----------|----------|
| Buildings | 25 years |
| Others    | 5 years  |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (f) **Property, plant and equipment** *(con't)*

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

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

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

### (g) **Investment properties**

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

Investment property comprises land held under operating leases and buildings held under finance leases.

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

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed at least annually by external valuers.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (g) **Investment properties** *(con't)*

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

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

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

Changes in fair values are recognised in the income statement.

### (h) **Impairment of non-financial assets**

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

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (i) **Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

### (i) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of sale in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### (ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2(j)).

### (iii) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (i) **Financial assets** *(con't)*

Regular purchases and sales of investments are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. All other financial assets are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement as 'gains and losses on financial assets through profit or loss' in the period in which they arise.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (i) **Financial assets** *(con't)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from available-for-sale financial assets'.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(j).

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (j) **Trade and other receivables**

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

### (k) **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (l) **Deferred income tax**

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

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 **Principal accounting policies** *(con't)*

### (l) **Deferred income tax** *(con't)*

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

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

### (m) **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### (n) **Revenue recognition**

#### (i) Realised and unrealised gains and losses on investments

Realised gains and losses on investments are recognised on conclusion of sales contracts. Unrealised gains and losses on investments are recognised on the basis set out in Note 2(i).

#### (ii) Rental and management fee income

Rental and management fee income on operating leases are recognised on a straight line basis over the lease periods.

#### (iii) Dividend income

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

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 2 Principal accounting policies *(con't)*

### (n) **Revenue recognition** *(con't)*

#### (iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

#### (v) Commission income

Commission income is recognised when services are rendered.

### (o) **Operating leases**

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

## 3 Financial risk management

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The types of financial risk to which the Group is exposed are market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects it may have on the Group's financial performance.

### (a) **Market risk**

#### (i) Price risk

The Group's equity securities are exposed to price risk as they are classified either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 3 Financial risk management *(con't)*

### (a) **Market risk** *(con't)*

#### (ii) Foreign currency risk

As the Group's invests in trading securities worldwide, it is exposed to foreign exchange risk arising from various currency exposures. The Group monitors the proportion of its financial investments denominated in non-US dollars.

#### (iii) Interest rate risk

The Group's borrowings issued at variable rates expose the Group to cash flow interest rate risk.

### (b) **Credit risk**

The Group has no significant credit risk. Generally, the Group's cash is held with highly-rated financial institutions.

### (c) **Liquidity risk**

In order to maintain flexibility in funding, the Group has credit facilities available from a major bank. The Group has bank borrowings as at 31st December 2006 to finance its operations.

## 4 Critical accounting estimates and judgments

### **Estimate of fair value of investment properties**

The Group's investment properties, which are leased to third parties, were revalued at 31st December 2006 by an independent professional property valuer, Prudential Surveyors International Limited, on an open market value basis with reference to recent transaction prices of units in the same building and/or similar properties.

N O T E S   T O   T H E   F I N A N C I A L  
S T A T E M E N T S   (con't)

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**5 Turnover and segment information**

Turnover recognised during the year comprises the following:

|  | 2006     | 2005     |
|--|----------|----------|
|  | HK\$'000 | HK\$'000 |
| Gross rental income from investment properties   | 36,708   | 32,773   |
| Net realised and unrealised gains on financial assets at fair value through profit or loss | 53,023   | 21,368   |
| Dividend income from listed investments  | 2,493    | 2,094    |
| Dividend income from unlisted investments  | 4,717    | 1,862    |
| Interest income  | 8,648    | 4,105    |
| Management fee income from investment properties   | 8,174    | 8,153    |
| Commission income (Note 30(a))   | 7,129    | 7,766    |
|  | 120,892  | 78,121   |
|  | 120,892  | 78,121   |

**(a) Primary reporting format - business segments**

The Group is organised on a worldwide basis into three main business segments:

Textile - manufacture and distribution of textile products  
 Property - investment in and leasing of industrial/office premises  
 Investment - holding and trading of investment securities

There are no sales or other transactions between the business segments.

N O T E S T O T H E F I N A N C I A L  
S T A T E M E N T S (con't)

5 Turnover and segment information (con't)

(a) **Primary reporting format - business segments** (con't)

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

|   | Textile<br>HK\$'000 | Property<br>HK\$'000 | Investment<br>HK\$'000 | Group<br>HK\$'000 |
|---|---------------------|----------------------|------------------------|-------------------|
| Turnover  | 7,129               | 44,882               | 68,881                 | 120,892           |
| Segment results   | <u>6,990</u>        | <u>77,345</u>        | <u>61,445</u>          | <u>145,780</u>    |
| Finance costs   |                     |                      |                        | (1,609)           |
| Share of profits of jointly<br>controlled entities      | 8,714               | -                    | -                      | <u>8,714</u>      |
| Profit before income tax                                |                     |                      |                        | 152,885           |
| Income tax expense                                      |                     |                      |                        | <u>(15,496)</u>   |
| Profit attributable to equity<br>holders of the Company |                     |                      |                        | <u>137,389</u>    |
| Capital expenditure                                     | -                   | 33                   | -                      | 33                |
| Depreciation  | <u>329</u>          | <u>116</u>           | <u>-</u>               | <u>445</u>        |

The segment results for the year ended 31st December 2005 are as follows:

|  | Textile<br>HK\$'000 | Property<br>HK\$'000 | Investment<br>HK\$'000 | Group<br>HK\$'000 |
|--|---------------------|----------------------|------------------------|-------------------|
| Turnover   | 7,766               | 40,926               | 29,429                 | 78,121            |
| Segment results  | <u>3,048</u>        | <u>373,261</u>       | <u>24,113</u>          | <u>400,422</u>    |
| Finance costs  |                     |                      |                        | (46)              |
| Share of profits of jointly<br>controlled entities           | 8,940               | -                    | -                      | <u>8,940</u>      |
| Profit before income tax                                     |                     |                      |                        | 409,316           |
| Income tax expense   |                     |                      |                        | <u>(64,771)</u>   |
| Profit attributable to equity<br>holders of the Company      |                     |                      |                        | <u>344,545</u>    |
| Impairment loss on<br>available-for-sale financial<br>assets | -                   | -                    | 54                     | 54                |
| Capital expenditure  | -                   | 210                  | -                      | 210               |
| Depreciation   | <u>328</u>          | <u>109</u>           | <u>1</u>               | <u>438</u>        |

N O T E S T O T H E F I N A N C I A L  
S T A T E M E N T S (con't)

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5 Turnover and segment information (con't)

(a) **Primary reporting format - business segments** (con't)

The segment assets and liabilities at 31st December 2006 are as follows:

|                                | Textile<br>HK\$'000 | Property<br>HK\$'000 | Investment<br>HK\$'000 | Unallocated<br>HK\$'000 | Group<br>HK\$'000 |
|--------------------------------|---------------------|----------------------|------------------------|-------------------------|-------------------|
| Assets                         | 5,123               | 950,999              | 876,442                | 117                     | 1,832,681         |
| Jointly controlled<br>entities | 109,038             | -                    | -                      | -                       | 109,038           |
| Total assets                   | <u>114,161</u>      | <u>950,999</u>       | <u>876,442</u>         | <u>117</u>              | <u>1,941,719</u>  |
| Total liabilities              | <u>1,490</u>        | <u>38,493</u>        | <u>92,532</u>          | <u>121,397</u>          | <u>253,912</u>    |

The segment assets and liabilities at 31st December 2005 are as follows:

|                                | Textile<br>HK\$'000 | Property<br>HK\$'000 | Investment<br>HK\$'000 | Unallocated<br>HK\$'000 | Group<br>HK\$'000 |
|--------------------------------|---------------------|----------------------|------------------------|-------------------------|-------------------|
| Assets                         | 4,266               | 880,212              | 482,119                | 142                     | 1,366,739         |
| Jointly controlled<br>entities | 102,151             | -                    | -                      | -                       | 102,151           |
| Total assets                   | <u>106,417</u>      | <u>880,212</u>       | <u>482,119</u>         | <u>142</u>              | <u>1,468,890</u>  |
| Total liabilities              | <u>4,393</u>        | <u>34,186</u>        | <u>1,847</u>           | <u>106,781</u>          | <u>147,207</u>    |

(b) **Secondary reporting format - geographical segments**

The Group's three main business segments operate in the following main geographical areas:

People's Republic of China (including Hong Kong) - textile, property and investment

United States of America, Europe and Southeast Asia-investment

N O T E S T O T H E F I N A N C I A L  
S T A T E M E N T S (con't)

5 Turnover and segment information (con't)

(b) **Secondary reporting format - geographical segments** (con't)

There are no sales or other transactions between the geographical segments.

|  | Turnover |          | Operating results |          | Capital expenditure |          |
|--|----------|----------|-------------------|----------|---------------------|----------|
|  | 2006     | 2005     | 2006              | 2005     | 2006                | 2005     |
|  | HK\$'000 | HK\$'000 | HK\$'000          | HK\$'000 | HK\$'000            | HK\$'000 |
| People's Republic of China (including Hong Kong) | 60,705   | 50,806   | 88,276            | 375,197  | 33                  | 210      |
| United States of America                         | 29,058   | 18,054   | 27,779            | 16,993   | -                   | -        |
| Europe   | 18,114   | 3,572    | 17,333            | 3,261    | -                   | -        |
| Southeast Asia                                   | 7,111    | 1,502    | 6,649             | 1,159    | -                   | -        |
| Taiwan   | 4,259    | 1,862    | 4,179             | 1,847    | -                   | -        |
| Other countries                                  | 1,645    | 2,325    | 1,564             | 1,965    | -                   | -        |
|  | 120,892  | 78,121   | 145,780           | 400,422  | 33                  | 210      |

Total assets are allocated based on where the assets are located.

|  | 2006      | 2005      |
|--|-----------|-----------|
|  | HK\$'000  | HK\$'000  |
| People's Republic of China (including Hong Kong) | 972,643   | 917,729   |
| United States of America                         | 302,604   | 253,967   |
| Europe   | 70,918    | 63,297    |
| Southeast Asia                                   | 37,283    | 45,897    |
| Taiwan   | 408,978   | 56,640    |
| Other countries                                  | 40,138    | 29,067    |
|  | 1,832,564 | 1,366,597 |
| Jointly controlled entities                      | 109,038   | 102,151   |
| Unallocated assets                               | 117       | 142       |
|  | 1,941,719 | 1,468,890 |

N O T E S   T O   T H E   F I N A N C I A L  
S T A T E M E N T S   (con't)

**6 Operating profit**

|   | 2006              | 2005              |
|---|-------------------|-------------------|
|   | HK\$'000          | HK\$'000          |
| Operating profit is stated after crediting and charging the following |                   |                   |
| Crediting:  |                   |                   |
| Net exchange gain   | 418               | -                 |
|   | <u>          </u> | <u>          </u> |
| Charging:   |                   |                   |
| Auditors' remuneration  |                   |                   |
| - Provision for the year  | 940               | 820               |
| - Underprovision in prior year  | 75                | -                 |
| Depreciation  | 445               | 438               |
| Direct operating expenses arising from investment properties that     |                   |                   |
| - generated rental income   | 2,412             | 1,353             |
| - did not generate rental income                                      | 242               | 86                |
| Management fee expense in respect of investment properties            | 8,316             | 8,316             |
| Operating leases - land and buildings                                 | 1,209             | 1,193             |
| Employee benefit expense (including directors' emoluments) (Note 7)   | 26,617            | 26,166            |
| Impairment loss on available-for-sale financial assets                | -                 | 54                |
| Net exchange loss   | -                 | 166               |
|   | <u>          </u> | <u>          </u> |

**7 Employee benefit expense**

|   | 2006              | 2005              |
|---|-------------------|-------------------|
|   | HK\$'000          | HK\$'000          |
| Wages and salaries                                  | 26,173            | 25,181            |
| Pension costs - defined contribution plans (Note a) | 444               | 985               |
|   | <u>          </u> | <u>          </u> |
|   | 26,617            | 26,166            |
|   | <u>          </u> | <u>          </u> |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

## 7 Employee benefit expense *(con't)*

### (a) Pensions - defined contribution plans

The Group contributes to a defined contribution retirement scheme which is available to certain Hong Kong senior employees ("Senior Staff Scheme"). With effect from 1st December 2000, a mandatory provident fund scheme has been set up for the other eligible employees of the Group in Hong Kong. Contributions to the schemes by the Group are made at a certain percentage of basic monthly salary. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to the Senior Staff Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There was no contribution forfeited during the year (2005: Nil). Contributions totalling HK\$39,000 (2005: HK\$4,000) were payable to the schemes at the year end, which are included in trade and other payables.

### (b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2006 is set out below:

| Name of Director         | Fees<br>HK\$'000 | Salaries<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Employer's<br>contributions     |                                  | Total<br>HK\$'000 |
|--------------------------|------------------|----------------------|--------------------------------------|---------------------------------|----------------------------------|-------------------|
|                          |                  |                      |                                      | Other<br>benefits #<br>HK\$'000 | to pension<br>scheme<br>HK\$'000 |                   |
| Mr. Yun Cheng Wang       | 24               | 4,097                | 946                                  | 419                             | 12                               | 5,498             |
| Mr. Hung Ching Yung      | 24               | 4,097                | 946                                  | 362                             | 12                               | 5,441             |
| Mr. Lincoln C.K. Yung    | 24               | 4,097                | 946                                  | 300                             | 12                               | 5,379             |
| Mr. Rudolf Bischof       | 216              | -                    | -                                    | -                               | -                                | 216               |
| Mr. Robert Tsai To Sze   | 216              | -                    | -                                    | -                               | -                                | 216               |
| Mr. James Julius Bertram | 180              | -                    | -                                    | -                               | -                                | 180               |
| Ms. Jennie Chen          | 24               | 1,461                | 270                                  | -                               | 202                              | 1,957             |
| <b>Total</b>             | <b>708</b>       | <b>13,752</b>        | <b>3,108</b>                         | <b>1,081</b>                    | <b>238</b>                       | <b>18,887</b>     |

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**7 Employee benefit expense (con't)**

**(b) Directors' and senior management's emoluments (con't)**

The remuneration of every Director for the year ended 31st December 2005 is set out below:

| Name of Director         | Fees<br>HK\$'000 | Salaries<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Other<br>benefits #<br>HK\$'000 | Employer's  | Total<br>HK\$'000 |
|--------------------------|------------------|----------------------|--------------------------------------|---------------------------------|---|-------------------|
|                          |                  |                      |                                      |                                 | contributions<br>to pension<br>scheme<br>HK\$'000 |                   |
| Mr. Yun Cheng Wang       | 24               | 4,042                | 819                                  | 270                             | 12  | 5,167             |
| Mr. Hung Ching Yung      | 24               | 4,042                | 819                                  | 336                             | 12  | 5,233             |
| Mr. Lincoln C.K. Yung    | 24               | 4,042                | 819                                  | 231                             | 559   | 5,675             |
| Mr. Rudolf Bischof       | 216              | -                    | -                                    | -                               | -   | 216               |
| Mr. Robert Tsai To Sze   | 180              | -                    | -                                    | -                               | -   | 180               |
| Mr. James Julius Bertram | 180              | -                    | -                                    | -                               | -   | 180               |
| Ms. Jennie Chen          | 24               | 1,428                | 270                                  | -                               | 197   | 1,919             |
| <b>Total</b>             | <b>672</b>       | <b>13,554</b>        | <b>2,727</b>                         | <b>837</b>                      | <b>780</b>  | <b>18,570</b>     |

# Other benefits include accommodation and motor vehicle expenses.

**(c) Five highest paid individuals**

The five highest paid individuals in the Group include 4 (2005: 4) Directors whose emoluments are reflected in the analysis presented in Note 7(b) above. The emoluments payable to the remaining individual during the year are as follows:

|  | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|--|------------------|------------------|
| Salaries, discretionary bonus and other allowances | 1,561            | 1,415            |
| Employer's contributions to retirement scheme      | 12               | 12               |
|  | <b>1,573</b>     | <b>1,427</b>     |

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**8 Finance costs**

|                                       | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Interest on bank loans and overdrafts | 1,609            | 46               |
|                                       | <u>1,609</u>     | <u>46</u>        |

**9 Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

|                               | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Current income tax            |                  |                  |
| Hong Kong profits tax         | 1,499            | 566              |
| Deferred income tax (Note 25) | 13,997           | 64,205           |
|                               | <u>15,496</u>    | <u>64,771</u>    |

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories where the Group operates, and the difference is set out below:

|   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|---|------------------|------------------|
| Profit before income tax  | 152,885          | 409,316          |
| Less: Share of profits of jointly controlled entities           | (8,714)          | (8,940)          |
|   | <u>144,171</u>   | <u>400,376</u>   |
| Theoretical tax at weighted average rate of 17.5% (2005: 17.5%) | 25,230           | 70,066           |
| Income not subject to tax                                       | (11,222)         | (6,366)          |
| Expenses not deductible for tax purposes                        | 1,448            | 1,086            |
| (Over)/under provision for current income tax in prior years    | (15)             | 17               |
| Effect of unrecognised temporary differences                    | 55               | (32)             |
|   | <u>15,496</u>    | <u>64,771</u>    |
| Income tax expense  | <u>15,496</u>    | <u>64,771</u>    |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 10 Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$13,562,000 (2005: HK\$12,697,000).

## 11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

|   | 2006              | 2005              |
|---|-------------------|-------------------|
| Profit attributable to equity holders of the Company (HK\$'000) | 137,389           | 344,545           |
|   | <u>          </u> | <u>          </u> |
| Weighted average number of ordinary shares in issue (thousands) | 44,257            | 44,934            |
|   | <u>          </u> | <u>          </u> |
| Basic earnings per share (HK\$)                                 | 3.10              | 7.67              |
|   | <u>          </u> | <u>          </u> |

The Company has no dilutive potential ordinary shares.

## 12 Dividends

|   | 2006<br>HK\$'000  | 2005<br>HK\$'000  |
|---|-------------------|-------------------|
| 2005 final dividend paid of HK\$0.35<br>(2005: 2004 final dividend paid of HK\$0.30)<br>per share | 15,468            | 13,507            |
|   | <u>          </u> | <u>          </u> |

At a meeting held on 30th March 2007 the Directors proposed a final dividend of HK\$0.40 per share and a special dividend of HK\$0.30 per share representing a total dividend distribution of HK\$30,937,000. This proposed final dividend and special dividend are not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st December 2007.

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**13 Property, plant and equipment**

| Group   | Other<br>properties<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------|--------------------|-------------------|
| <b>At 1st January 2005</b>                        |                                 |                    |                   |
| Cost  | 12,189                          | 3,866              | 16,055            |
| Accumulated depreciation and<br>impairment losses | (8,467)                         | (3,736)            | (12,203)          |
| Net book amount                                   | <u>3,722</u>                    | <u>130</u>         | <u>3,852</u>      |
| <b>Year ended 31st December 2005</b>              |                                 |                    |                   |
| Opening net book amount                           | 3,722                           | 130                | 3,852             |
| Additions   | -                               | 210                | 210               |
| Depreciation                                      | (371)                           | (67)               | (438)             |
| Closing net book amount                           | <u>3,351</u>                    | <u>273</u>         | <u>3,624</u>      |
| <b>At 31st December 2005</b>                      |                                 |                    |                   |
| Cost  | 12,189                          | 4,004              | 16,193            |
| Accumulated depreciation and<br>impairment losses | (8,838)                         | (3,731)            | (12,569)          |
| Net book amount                                   | <u>3,351</u>                    | <u>273</u>         | <u>3,624</u>      |
| <b>Year ended 31st December 2006</b>              |                                 |                    |                   |
| Opening net book amount                           | 3,351                           | 273                | 3,624             |
| Additions   | -                               | 33                 | 33                |
| Disposals   | -                               | (5)                | (5)               |
| Depreciation                                      | (371)                           | (74)               | (445)             |
| Closing net book amount                           | <u>2,980</u>                    | <u>227</u>         | <u>3,207</u>      |
| <b>At 31st December 2006</b>                      |                                 |                    |                   |
| Cost  | 12,189                          | 4,026              | 16,215            |
| Accumulated depreciation and<br>impairment losses | (9,209)                         | (3,799)            | (13,008)          |
| Net book amount                                   | <u>2,980</u>                    | <u>227</u>         | <u>3,207</u>      |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

## 13 Property, plant and equipment *(con't)*

The Group's other properties at their net book value are analysed as follows:

|                                   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| In Hong Kong, held on:            |                  |                  |
| Leases of between 10 and 50 years | 1,220            | 1,435            |
| Outside Hong Kong, held on:       |                  |                  |
| Leases of over 50 years           | 429              | 450              |
| Leases of between 10 and 50 years | 1,331            | 1,466            |
|                                   | 2,980            | 3,351            |

As the aggregate net book value of the leasehold land is not material, it has not been separately accounted for and disclosed in accordance with HKAS 17.

## 14 Investment properties

|                  | Group            |                  |
|------------------|------------------|------------------|
|                  | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| At 1st January   | 812,200          | 444,220          |
| Fair value gains | 73,400           | 367,980          |
| At 31st December | 885,600          | 812,200          |

The investment properties as at 31st December 2006 and 2005 were revalued on an open market basis by Prudential Surveyors International Limited, an independent professionally qualified property valuer.

The Group's investment properties with an aggregate carrying value of HK\$864,300,000 (2005: HK\$791,700,000) have been mortgaged to a bank to secure general banking facilities of which HK\$90,000,000 (2005: HK\$ Nil) was utilised as at 31st December 2006 (Note 24).

The Group's investment properties are held on leases of between 10 and 50 years in Hong Kong.

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**15 Subsidiaries**

|                          | Company           |                   |
|--------------------------|-------------------|-------------------|
|                          | 2006              | 2005              |
|                          | HK\$'000          | HK\$'000          |
| Unlisted shares, at cost | 378,782           | 378,782           |
|                          | <u>          </u> | <u>          </u> |

Particulars of the principal subsidiaries are included in Note 31.

**16 Jointly controlled entities**

|                     | Group             |                   |
|---------------------|-------------------|-------------------|
|                     | 2006              | 2005              |
|                     | HK\$'000          | HK\$'000          |
| Share of net assets | 109,038           | 102,151           |
|                     | <u>          </u> | <u>          </u> |

The following is a list of the jointly controlled entities as at 31st December 2006 and 2005 :

| Name   | Place of establishment<br>and operation | Principal activities              |
|--|---|-----------------------------------|
| Shanghai Sung Nan Textile<br>Co Ltd (Note a) | People's Republic of<br>China           | Textile<br>manufacturing          |
| Southern Textile Company<br>Limited (Note b) | People's Republic<br>of China           | Investment in<br>textile business |

(a) The Group has a 64.68% interest in ownership and profit sharing and 57% voting power in Shanghai Sung Nan Textile Co Ltd.

(b) The Group has a 45% interest in ownership and profit sharing and 43% voting power in Southern Textile Company Limited.

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**16 Jointly controlled entities**   *(con't)*

The following amounts represent the Group's aggregate share of the assets and liabilities, and results of the jointly controlled entities:

|                         | 2006     | 2005      |
|-------------------------|----------|-----------|
|                         | HK\$'000 | HK\$'000  |
| Assets                  |          |           |
| Non-current assets      | 50,397   | 48,204    |
| Current assets          | 66,297   | 63,671    |
|                         | 116,694  | 111,875   |
| Liabilities             |          |           |
| Current liabilities     | 7,656    | 9,724     |
|                         | 109,038  | 102,151   |
| Income                  | 105,967  | 110,564   |
| Expenses                | (97,253) | (101,624) |
|                         | 8,714    | 8,940     |
| Profit after income tax |          |           |

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**17 Available-for-sale financial assets**

|                                     | Group          |               |
|-------------------------------------|----------------|---------------|
|                                     | 2006           | 2005          |
|                                     | HK\$'000       | HK\$'000      |
| Listed securities, at fair value:   |                |               |
| - Equity securities - Hong Kong     | 4,778          | 4,697         |
|                                     | -----          | -----         |
| Unlisted securities, at fair value: |                |               |
| - Equity securities                 | 408,978        | 56,634        |
| - Venture capital funds             | 3,024          | 2,675         |
|                                     | -----          | -----         |
|                                     | 412,002        | 59,309        |
|                                     | -----          | -----         |
|                                     | <u>416,780</u> | <u>64,006</u> |

The available-for-sale financial assets are denominated in the following currencies:

|                    | Group    |          |
|--------------------|----------|----------|
|                    | 2006     | 2005     |
|                    | HK\$'000 | HK\$'000 |
| New Taiwan dollars | 408,978  | 56,633   |
| Others             | 7,802    | 7,373    |
|                    | -----    | -----    |
|                    | 416,780  | 64,006   |
|                    | -----    | -----    |

At 31st December 2006, the carrying amount of interests in the following company exceeded 10% of the total assets of the Group.

| Name   | Place of incorporation | Particulars of issued share capital                  | Group equity interest |
|--|------------------------|--|-----------------------|
| The Shanghai Commercial & Savings Bank Limited | Taiwan                 | 1,962,680,000 ordinary shares issued of NT\$ 10 each | 2.5%                  |

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**18 Trade and other receivables**

|  | Group        |              | Company       |               |
|--|--------------|--------------|---------------|---------------|
|  | 2006         | 2005         | 2006          | 2005          |
|  | HK\$'000     | HK\$'000     | HK\$'000      | HK\$'000      |
| Trade receivables                              | 406          | 254          | -             | -             |
| Other receivables,<br>prepayments and deposits | 8,455        | 6,415        | 188           | 190           |
| Amount due from                                |              |              |               |               |
| - a subsidiary (Note a)                        | -            | -            | 13,665        | 20,505        |
| - a jointly controlled entity<br>(Note a)      | 34           | 13           | -             | -             |
|  | <u>8,895</u> | <u>6,682</u> | <u>13,853</u> | <u>20,695</u> |

Note:

- (a) The amounts due from a subsidiary/jointly controlled entity are unsecured, interest free and have no fixed terms of repayment.
- (b) The carrying amounts of trade and other receivables approximate their fair values.
- (c) The Group does not grant any credit to customers. At 31st December 2006, the aging analysis of the trade receivables is as follows:

|                | Group      |            |
|----------------|------------|------------|
|                | 2006       | 2005       |
|                | HK\$'000   | HK\$'000   |
| Within 30 days | <u>406</u> | <u>254</u> |

There is no concentration of credit risk with respect to trade receivables.

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

|  | Group    |          |
|--|----------|----------|
|  | 2006     | 2005     |
|  | HK\$'000 | HK\$'000 |
| Listed equity securities:                |          |          |
| - Hong Kong                              | 17,514   | 17,741   |
| - outside Hong Kong                      | 295,512  | 271,627  |
|  | 313,026  | 289,368  |
| Listed debt securities outside Hong Kong | 67,736   | 64,167   |
|  | 380,762  | 353,535  |
| Market value of listed securities        | 380,762  | 353,535  |

The above financial assets at fair value through profit or loss are held for trading purposes. They are presented within the section on operating activities as part of changes in working capital in the consolidated cash flow statement (Note 26).

Changes in fair values of financial assets at fair value through profit or loss are recorded in turnover in the consolidated income statement (Note 5).

The financial assets at fair value through profit or loss are denominated in the following currencies:

|                       | Group    |          |
|-----------------------|----------|----------|
|                       | 2006     | 2005     |
|                       | HK\$'000 | HK\$'000 |
| Euro                  | 39,430   | 31,693   |
| Japanese yen          | 18,597   | 18,521   |
| Hong Kong dollars     | 17,513   | 17,741   |
| Singapore dollars     | 11,620   | 14,542   |
| United States dollars | 269,024  | 254,342  |
| Others                | 24,578   | 16,696   |
|                       | 380,762  | 353,535  |
|                       | 380,762  | 353,535  |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

## 20 Cash and cash equivalents

Included in the Group's cash and cash equivalents are short-term bank deposits of HK\$46,191,000 (2005: HK\$46,508,000). The effective interest rate of the deposits at 31st December 2006 was 4.1% (2005: 3.8%). These deposits have an average maturity of 29 days (2005: 15 days).

## 21 Share capital

|                               | Number of<br>shares        | Amount<br>HK\$'000         |
|-------------------------------|----------------------------|----------------------------|
| <b>Authorised:</b>            |                            |                            |
| Shares of HK\$0.10 each       |                            |                            |
| At 1st January 2005,          |                            |                            |
| 31st December 2005 and        |                            |                            |
| 31st December 2006            | 60,000,000                 | 6,000                      |
|                               | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| <b>Issued and fully paid:</b> |                            |                            |
| Shares of HK\$0.10 each       |                            |                            |
| At 1st January 2005           |                            |                            |
| Repurchase of own shares      | 45,095,299                 | 4,509                      |
|                               | (400,000)                  | (40)                       |
|                               | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| At 31st December 2005         |                            |                            |
| Repurchase of own shares      | 44,695,299                 | 4,469                      |
|                               | (500,000)                  | (50)                       |
|                               | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| At 31st December 2006         |                            |                            |
|                               | 44,195,299                 | 4,419                      |
|                               | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |

During the year, the Company repurchased a total of 500,000 (2005: 400,000) of its own shares through purchases on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The aggregate price of HK\$4,800,000 (2005: HK\$3,720,000) paid was charged against retained profits and the nominal value of the shares repurchased of HK\$50,000 (2005: HK\$40,000) was transferred to the capital redemption reserve.

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

## 22 Reserves

| Group  | Contributed<br>surplus<br>HK\$'000 | Available-<br>for-sale<br>Investments<br>reserve<br>HK\$'000 | Capital<br>reserve on<br>consolidation<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Statutory<br>reserves<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------------|--|--|--------------------------------|-----------------------------------|------------------------------------|--|---------------------------------|-------------------|
| At 1st January 2006  | 20,000                             | 38,514   | 1,000  | 76,000                         | 11,425                            | 6,430                              | 531  | 1,163,314                       | 1,317,214         |
| Fair value gains on available-for-sale<br>investments            | -                                  | 247,628  | -  | -                              | -                                 | -                                  | -  | -                               | 247,628           |
| Currency translation differences                                 | -                                  | -  | -  | -                              | -                                 | 1,375                              | -  | -                               | 1,375             |
| Shares repurchased and<br>cancelled (Note 21)                    | -                                  | -  | -  | -                              | -                                 | -                                  | 50   | (4,800)                         | (4,750)           |
| 2005 final dividend  | -                                  | -  | -  | -                              | -                                 | -                                  | -  | (15,468)                        | (15,468)          |
| Profit for the year  | -                                  | -  | -  | -                              | -                                 | -                                  | -  | 137,389                         | 137,389           |
| Transfer to statutory reserves<br>of jointly controlled entities | -                                  | -  | -  | -                              | 938                               | -                                  | -  | (938)                           | -                 |
| <b>At 31st December 2006</b>                                     | <b>20,000</b>                      | <b>286,142</b>   | <b>1,000</b>                                       | <b>76,000</b>                  | <b>12,363</b>                     | <b>7,805</b>                       | <b>581</b>                                   | <b>1,279,497</b>                | <b>1,683,388</b>  |
| Representing:  |                                    |  |  |                                |                                   |                                    |  |                                 |                   |
| Reserves at 31st December 2006                                   |                                    |  |  |                                |                                   |                                    |  |                                 | 1,652,451         |
| 2006 dividends proposed  |                                    |  |  |                                |                                   |                                    |  |                                 | 30,937            |
|  |                                    |  |  |                                |                                   |                                    |  |                                 | <b>1,683,388</b>  |
| At 1st January 2005  | 20,000                             | 26,632   | 1,000  | 76,000                         | 10,538                            | 7,068                              | 491  | 836,883                         | 978,612           |
| Fair value gains on available-for-sale<br>investments            | -                                  | 11,882   | -  | -                              | -                                 | -                                  | -  | -                               | 11,882            |
| Currency translation differences                                 | -                                  | -  | -  | -                              | -                                 | (638)                              | -  | -                               | (638)             |
| Profit for the year  | -                                  | -  | -  | -                              | -                                 | -                                  | -  | 344,545                         | 344,545           |
| Shares repurchased and<br>cancelled (Note 21)                    | -                                  | -  | -  | -                              | -                                 | -                                  | 40   | (3,720)                         | (3,680)           |
| 2004 final dividend  | -                                  | -  | -  | -                              | -                                 | -                                  | -  | (13,507)                        | (13,507)          |
| Transfer to statutory reserves<br>of jointly controlled entities | -                                  | -  | -  | -                              | 887                               | -                                  | -  | (887)                           | -                 |
| <b>At 31st December 2005</b>                                     | <b>20,000</b>                      | <b>38,514</b>  | <b>1,000</b>                                       | <b>76,000</b>                  | <b>11,425</b>                     | <b>6,430</b>                       | <b>531</b>                                   | <b>1,163,314</b>                | <b>1,317,214</b>  |
| Representing:  |                                    |  |  |                                |                                   |                                    |  |                                 |                   |
| Reserves at 31st December 2005                                   |                                    |  |  |                                |                                   |                                    |  |                                 | 1,301,746         |
| 2005 final dividend proposed                                     |                                    |  |  |                                |                                   |                                    |  |                                 | 15,468            |
|  |                                    |  |  |                                |                                   |                                    |  |                                 | <b>1,317,214</b>  |

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S T A T E M E N T S   (con't)

**22 Reserves**   (con't)

Company

|   | Contributed<br>surplus<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------------|--|---------------------------------|-------------------|
| At 1st January 2006                           | 373,782                            | 531  | 20,765                          | 395,078           |
| Profit for the year                           | -                                  | -  | 13,562                          | 13,562            |
| Shares repurchased and cancelled<br>(Note 21) | -                                  | 50   | (4,800)                         | (4,750)           |
| 2005 final dividend (Note 12)                 | -                                  | -  | (15,468)                        | (15,468)          |
| At 31st December 2006                         | 373,782                            | 581  | 14,059                          | 388,422           |
| Representing:                                 |                                    |  |                                 |                   |
| Reserves at 31st December 2006                |                                    |  |                                 | 357,485           |
| 2006 dividends proposed                       |                                    |  |                                 | 30,937            |
| At 31st December 2006                         |                                    |  |                                 | 388,422           |
| At 1st January 2005                           | 373,782                            | 491  | 25,295                          | 399,568           |
| Profit for the year                           | -                                  | -  | 12,697                          | 12,697            |
| Shares repurchased and cancelled<br>(Note 21) | -                                  | 40   | (3,720)                         | (3,680)           |
| 2004 final dividend (Note 12)                 | -                                  | -  | (13,507)                        | (13,507)          |
| At 31st December 2005                         | 373,782                            | 531  | 20,765                          | 395,078           |
| Representing:                                 |                                    |  |                                 |                   |
| Reserves at 31st December 2005                |                                    |  |                                 | 379,610           |
| 2005 final dividend proposed                  |                                    |  |                                 | 15,468            |
| At 31st December 2005                         |                                    |  |                                 | 395,078           |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

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## 22 Reserves *(con't)*

Pursuant to a group reorganisation in 1989, the Company acquired all the issued shares of Nanyang Cotton Mill Limited ("NCML") in exchange for the Company's new shares issued. The Group's contributed surplus represents the difference between the nominal value of NCML's shares and the nominal value of the Company's shares issued pursuant to the group reorganisation. The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued and the consolidated net assets of NCML acquired under the group reorganisation as at the date of acquisition.

Statutory reserves are created in accordance with the terms of the joint venture agreements of the jointly controlled entities established in the People's Republic of China and are required to be retained in the financial statements of the entities for specific purposes. The statutory reserves at 31st December 2006 comprise statutory surplus reserve of HK\$6,181,500 (2005: HK\$5,712,500) and enterprise development reserve of HK\$6,181,500 (2005: HK\$5,712,500) which are appropriated from the profits of the jointly controlled entities.

General reserve arose from transfers from retained profits and has no specific purposes.

## 23 Trade and other payables

|   | Group         |               | Company    |            |
|---|---------------|---------------|------------|------------|
|   | 2006          | 2005          | 2006       | 2005       |
|   | HK\$'000      | HK\$'000      | HK\$'000   | HK\$'000   |
| Trade payables (Note a)                               | 1,796         | 1,722         | -          | -          |
| Rental and management<br>fee deposits                 | 10,601        | 9,400         | -          | -          |
| Other payables and accruals                           | 29,156        | 25,650        | 894        | 853        |
| Amount due to a jointly<br>controlled entity (Note b) | 962           | 3,654         | -          | -          |
|   | <u>42,515</u> | <u>40,426</u> | <u>894</u> | <u>853</u> |

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S T A T E M E N T S   (con't)

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**23 Trade and other payables**   (con't)

Note :

(a) At 31st December 2006, the aging analysis of the trade payables is as follows:

|                | Group    |          |
|----------------|----------|----------|
|                | 2006     | 2005     |
|                | HK\$'000 | HK\$'000 |
| Within 30 days | 1,456    | 1,382    |
| 31 - 60 days   | 340      | 340      |
|                | 1,796    | 1,722    |
|                | 1,796    | 1,722    |

(b) The amount due to a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

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

**24 Short-term bank loans**

The short-term bank loans as at 31st December 2006 are secured by the Group's investment properties (Note 14) and bear interest at 0.75% per annum over 1, 2 or 3 months Hong Kong Interbank Offered Rate (HIBOR). The loans are denominated in Hong Kong dollars and had an effective interest rate of 4.63% at 31st December 2006. The carrying amounts of the loans approximate their fair values.

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**25 Deferred income tax**

Deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2005: 17.5%).

|                                 | Group     |           |
|---------------------------------|-----------|-----------|
|                                 | 2006      | 2005      |
|                                 | HK\$'000  | HK\$'000  |
| Deferred income tax assets      | 117       | 142       |
| Deferred income tax liabilities | (120,553) | (106,581) |
|                                 | (120,436) | (106,439) |
|                                 | (120,436) | (106,439) |

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

|  | Group     |           |
|--|-----------|-----------|
|  | 2006      | 2005      |
|  | HK\$'000  | HK\$'000  |
| At 1st January   | (106,439) | (42,234)  |
| Recognised in the consolidated income statement (Note 9) | (13,997)  | (64,205)  |
|  | (120,436) | (106,439) |
|  | (120,436) | (106,439) |

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**25 Deferred income tax (con't)**

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

| Deferred income tax liabilities:                   | Group  |                                 |                   |
|--|--|---------------------------------|-------------------|
|  | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Fair value<br>gains<br>HK\$'000 | Total<br>HK\$'000 |
| At 1st January 2005                                | (9,207)  | (34,140)                        | (43,347)          |
| Recognised in the consolidated<br>income statement | (990)  | (63,122)                        | (64,112)          |
| At 31st December 2005                              | (10,197)                                       | (97,262)                        | (107,459)         |
| Recognised in the consolidated<br>income statement | (970)  | (12,707)                        | (13,677)          |
| At 31st December 2006                              | (11,167)                                       | (109,969)                       | (121,136)         |

| Deferred income tax assets:                        | Group   |                        |                   |
|--|---|------------------------|-------------------|
|  | Accelerated<br>accounting<br>depreciation<br>HK\$'000 | Tax losses<br>HK\$'000 | Total<br>HK\$'000 |
| At 1st January 2005                                | 121   | 992                    | 1,113             |
| Recognised in the consolidated<br>income statement | (2)   | (91)                   | (93)              |
| At 31st December 2005                              | 119   | 901                    | 1,020             |
| Recognised in the consolidated<br>income statement | (2)   | (318)                  | (320)             |
| At 31st December 2006                              | 117   | 583                    | 700               |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$2,201,000 (2005: HK\$2,066,000) in respect of losses amounting to HK\$12,578,000 (2005: HK\$11,804,000) that can be carried forward against future taxable income. These tax losses have no expiry date.

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**26 Notes to the consolidated cash flow statement**

Reconciliation of operating profit to net cash generated from operations:

|   | 2006     | 2005      |
|---|----------|-----------|
|   | HK\$'000 | HK\$'000  |
| Operating profit  | 145,780  | 400,422   |
| Dividend income from available-for-sale<br>financial assets                     | (4,717)  | (1,862)   |
| Depreciation  | 445      | 438       |
| Loss/(Gain) on disposal of fixed assets   | 5        | (1)       |
| Impairment loss on available-for-sale<br>financial assets                       | -        | 54        |
| Changes in fair value of investment<br>properties                               | (73,400) | (367,980) |
|   | 68,113   | 31,071    |
| (Increase)/decrease in trade and other<br>receivables                           | (2,213)  | 140       |
| (Increase)/decrease in financial assets at<br>fair value through profit or loss | (27,227) | 23,456    |
| Increase in trade and other<br>payables   | 2,089    | 341       |
| Exchange translation differences  | 855      | (575)     |
|   | 41,617   | 54,433    |

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S T A T E M E N T S (con't)

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**27 Capital commitments**

At 31st December 2006, the Group had no material capital commitment (2005: HK\$Nil).

|  | Group    |          |
|--|----------|----------|
|  | 2006     | 2005     |
|  | HK\$'000 | HK\$'000 |
| The Group's share of capital commitments of a jointly controlled entity is as follows: |          |          |
| Contracted but not provided for  | 6,455    | 4,640    |
| Authorised but not contracted for  | 28,529   | 42,656   |
|  | 34,984   | 47,296   |
|  | 34,984   | 47,296   |

The Company did not have any capital commitment as at 31st December 2006 (2005: HK\$Nil).

**28 Commitments under operating leases**

At 31st December, the Group had future aggregate minimum lease payments under a non-cancellable operating lease for office premises as follows:

|   | Group    |          |
|---|----------|----------|
|   | 2006     | 2005     |
|   | HK\$'000 | HK\$'000 |
| Not later than one year                           | 2,045    | 863      |
| Later than one year and not later than five years | 5,202    | 107      |
|   | 7,247    | 970      |
|   | 7,247    | 970      |

# NOTES TO THE FINANCIAL STATEMENTS *(con't)*

## 29 Future rental receivables

At 31st December, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases on its investment properties as follows:

|   | Group    |          |
|---|----------|----------|
|   | 2006     | 2005     |
|   | HK\$'000 | HK\$'000 |
| Not later than one year                           | 34,407   | 22,757   |
| Later than one year and not later than five years | 50,798   | 12,348   |
|   | 85,205   | 35,105   |
|   | 85,205   | 35,105   |

## 30 Related-party Transactions

### (a) Sales of services

During the year, agency commission income of HK\$7,129,000 (2005: HK\$7,766,000) was received by a subsidiary from a jointly controlled entity for handling sales of textile products for the jointly controlled entity. These transactions were entered into in the normal course of business of the Group and the commission income has been calculated at a certain fixed percentage of the value of sales handled by the subsidiary.

### (b) Key management compensation

|   | 2006     | 2005     |
|---|----------|----------|
|   | HK\$'000 | HK\$'000 |
| Salaries and other short-term employee benefits | 20,210   | 19,205   |
| Post-employment benefits                        | 250      | 792      |
|   | 20,460   | 19,997   |
|   | 20,460   | 19,997   |

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### 31 Subsidiaries

Details of the subsidiaries as at 31st December 2006 are as follows:

| Name                         | Place of incorporation | Place of operation             | Principal activities            | Particulars of issued share capital  | Group equity interest |      |
|------------------------------|------------------------|--------------------------------|---------------------------------|--|-----------------------|------|
|                              |                        |                                |                                 |  | 2006                  | 2005 |
| Bright Honest Investment Ltd | British Virgin Islands | Hong Kong                      | Investment holding              | 1 share without par value issued at US\$1,000  | 100%                  | 100% |
| Cottage Investments Co SA    | Panama                 | Hong Kong                      | Investment holding              | 100 common shares without par value issued at US\$10 each and 100 common shares of US\$10 each | 100%                  | 100% |
| + Culvert Investments Ltd    | British Virgin Islands | Hong Kong                      | Investment holding              | 100 shares of US\$1 each   | 100%                  | 100% |
| East Coast Investments Ltd   | Hong Kong              | Hong Kong                      | Investment trading              | 2 ordinary shares of US\$1 each  | 100%                  | 100% |
| Highriver Estates Ltd        | Hong Kong              | Hong Kong                      | Property holding                | 2 ordinary shares of HK\$1 each  | 100%                  | 100% |
| Homestead Investments Inc    | Liberia                | Hong Kong                      | Investment holding              | 1 share without par value issued at US\$10,000   | 100%                  | 100% |
| Mepal International Ltd.     | Hong Kong              | Hong Kong                      | Property investment             | 3 ordinary shares of HK\$1 each  | 100%                  | 100% |
| Merry Co Inc                 | Liberia                | The People's Republic of China | Property and investment holding | 1 share without par value issued at US\$1,000  | 100%                  | 100% |

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## S T A T E M E N T S   *(con't)*

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### 31 Subsidiaries   *(con't)*

| Name                                       | Place of incorporation | Place of operation | Principal activities                       | Particulars of issued share capital            | Group equity interest |      |
|--|------------------------|--------------------|--|--|-----------------------|------|
|  |                        |                    |  |  | 2006                  | 2005 |
| Nanyang Cotton Mill Ltd                    | Hong Kong              | Hong Kong          | Investment holding and property investment | 25,000,000 ordinary shares of HK\$1 each       | 100%                  | 100% |
| Nanyang Industrial (China) Limited         | Hong Kong              | Hong Kong          | Investment holding                         | 2 ordinary shares of HK\$1 each                | 100%                  | 100% |
| Nanyangtextile.com Limited                 | Hong Kong              | Hong Kong          | Investment holding                         | 2 ordinary shares of HK\$1 each                | 100%                  | 100% |
| Peninsular Inc                             | Liberia                | Hong Kong          | Investment holding                         | 1 share without par value issued at HK\$10,000 | 100%                  | 100% |
| Peninsular Yarn & Fabric Merchandising Ltd | Hong Kong              | Hong Kong          | Textile sales agency                       | 1,000 ordinary shares of HK\$1 each            | 100%                  | 100% |
| Velden Ltd                                 | British Virgin Islands | Hong Kong          | Investment holding and trading             | 10,000 ordinary shares of US\$1 each           | 100%                  | 100% |

+      Subsidiary held directly by the Company.