



CHINA TING GROUP HOLDINGS LIMITED

華鼎集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3398)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

HIGHLIGHTS

- Dealings in the Shares on the Main Board commenced on 15 December 2005.
- Turnover for the year increased to approximately HK\$1,894.8 million, representing an increase of approximately 35.2% as compared with the year 2004.
- Gross profit margin for the year was approximately 36.6%, representing an improvement of approximately 5.7% as compared with the year 2004.
- Profit attributable to the equity holders of the Company increased to approximately HK\$381.0 million, representing an increase of approximately 97.6% as compared with the year 2004.
- Earnings per Share was approximately 25.15 HK cents.
- Final dividend of 4.6 HK cents for each Share was proposed to be made for the year.
- The Annual General Meeting is expected to be held on 30 May 2006.

FINAL RESULTS

The board of Directors (the “**Board**”) of China Ting Group Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2005, with the comparative figures for the year 2004, as follows.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	3	1,894,835	1,401,465
Cost of goods sold	5	<u>(1,202,126)</u>	<u>(967,807)</u>
Gross profit		692,709	433,658
Other income	3	10,913	6,505
Other gains, net	4	21,882	26,637
Selling, marketing and distribution costs	5	(102,667)	(108,716)
Administrative expenses	5	<u>(160,089)</u>	<u>(114,930)</u>
Operating profit		462,748	243,154
Finance costs	6	(8,951)	(10,191)
Share of profit of associates		<u>9,023</u>	<u>10,391</u>
Profit before income tax		462,820	243,354
Income tax expense	7	<u>(72,715)</u>	<u>(30,186)</u>
Profit for the year		<u>390,105</u>	<u>213,168</u>
Attributable to:			
Equity holders of the Company		380,997	192,803
Minority interests		<u>9,108</u>	<u>20,365</u>
		<u>390,105</u>	<u>213,168</u>
Earnings per Share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per Share)			
— Basic	8	<u>25.15 cents</u>	<u>12.94 cents</u>
— Diluted	8	<u>25.13 cents</u>	<u>N/A</u>
Dividend	9	<u>351,260</u>	<u>—</u>

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005**

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		237,783	274,714
Investment properties		4,940	4,310
Leasehold land and land use rights		36,128	43,622
Interest in associates		59,540	45,117
Intangible assets		27,688	29,655
Deferred income tax assets		<u>4,321</u>	<u>1,173</u>
		370,400	398,591
Current assets			
Inventories		218,140	187,665
Due from related companies		—	159,874
Due from associates		1,104	4,238
Due from directors		—	28,468
Trade and bills receivable	10	230,924	188,583
Other receivables, deposits and prepayments		62,643	52,620
Tax recoverable		2,097	1,332
Pledged bank deposits		1,128	17,850
Term deposits with initial term of over three months		300,000	1,692
Bank balances and cash		<u>669,542</u>	<u>137,936</u>
		1,485,578	780,258
Total assets		<u>1,855,978</u>	<u>1,178,849</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		199,000	10,000
Retained earnings		433,805	389,379
Other reserves		<u>807,556</u>	<u>41,269</u>
		1,440,361	440,648
Minority interests		<u>13,979</u>	<u>95,515</u>
Total equity		<u>1,454,340</u>	<u>536,163</u>

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		4,368	13,231
Deferred income tax liabilities		<u>779</u>	<u>108</u>
		5,147	13,339
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Current liabilities			
Trade and bills payables	11	182,719	176,164
Other payables and accruals		103,486	93,144
Borrowings		59,420	200,660
Due to associates		7,541	—
Due to directors		—	142,321
Taxation payable		<u>43,325</u>	<u>17,058</u>
		396,491	629,347
		-----	-----
Total liabilities		401,638	642,686
		-----	-----
Total equity and liabilities		1,855,978	1,178,849
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Net current assets		1,089,087	150,911
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Total assets less current liabilities		1,459,487	549,502
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Notes:—

1. GROUP STRUCTURE, REORGANISATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands. The registered office of the Company is situated at Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Company in Hong Kong is situated at 28th Floor, Future Plaza, 111–113 How Ming Street, Kwun Tong, Kowloon.

Pursuant to a group reorganisation (the “**Reorganisation**”), which was completed on 18 November 2005, the Company became the ultimate holding company of the companies now comprising the Group. The ordinary shares (the “**Shares**”) of the Company of HK\$0.10 each have been listed on the main board (the “**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 15 December 2005.

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

These consolidated financial statements are presented in units of Hong Kong dollars (HK\$), unless otherwise stated.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management of the Group to exercise its judgement in the process of applying the Company’s accounting policies.

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

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

Notes:—

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

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

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

3. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(a) Turnover and other income

i) *Turnover*

The Group is principally engaged in the manufacture and sale of garment on OEM basis and retailing of branded fashion apparel. Revenues recognised are approximately HK\$1,894.8 million for the year ended 31 December 2005 (2004: approximately HK\$1,401.5 million).

ii) *Other income*

The Group's other income is analysed as follows:—

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest income	10,249	5,842
Rental income	<u>664</u>	<u>663</u>
	<u>10,913</u>	<u>6,505</u>

(b) Primary reporting segment — business segments

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

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

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

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

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

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

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

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

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

4. OTHER GAINS, NET

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

5 EXPENSES BY NATURE

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

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

6. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank loans and overdrafts	<u>8,951</u>	<u>10,191</u>

7. INCOME TAX EXPENSE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong profits tax (note (a))	50,623	15,741
PRC enterprise income tax (note (b))	24,531	14,328
Overseas taxation	—	146
Deferred income tax	<u>(2,439)</u>	<u>(29)</u>
	<u><u>72,715</u></u>	<u><u>30,186</u></u>

(a) Hong Kong profits tax

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

(b) Enterprise income tax in the People's Republic of China (the "PRC")

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

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

8. EARNINGS PER SHARE

Basic

Basic earnings per Share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of the Shares in issue during the year. In determining the weighted average number of the Shares in issue during the year, a total of 1,490,000,000 Shares were deemed to be in issue since 1 January 2004 after taking into consideration the allotment of 1,390.0 million Shares by the capitalisation of HK\$139.0 million from the share premium account.

	2005	2004
Profit attributable to equity holders of the Company (HK\$'000)	<u>380,997</u>	<u>192,803</u>
Weighted average number of the Shares in issue (thousands)	<u>1,514,658</u>	<u>1,490,000</u>
Basic earnings per share (HK cents per Share)	<u>25.15 cents</u>	<u>12.94 cents</u>

Diluted

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

	2005
Profit attributable to equity holders of the Company and used to determine diluted earnings per share (HK\$'000)	<u>380,997</u>
Weighted average number of Shares in issue (thousands)	1,514,658
Adjustments for the share option granted (thousands)	<u>1,147</u>
Weighted average number of Shares for diluted earnings per Share (thousands)	<u>1,515,805</u>
Diluted earnings per Share (HK cents per Share)	<u>25.13 cents</u>

No disclosure of diluted earnings per Share for the year ended 31 December 2004 has been made as there were no potential dilutive Shares outstanding during the year.

9. DIVIDEND

	2005	2004
	HK\$'000	HK\$'000
Interim dividend, paid (Note (i))	256,270	—
Proposed final dividend of 4.6 HK cents (2004: Nil) per ordinary share (Note (ii))	<u>94,990</u>	—
	<u>351,260</u>	—

Notes:—

(i) Interim dividend

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

(ii) Proposed final dividend

At a meeting held on 11 April 2006, the Directors proposed a final dividend of 4.6 HK cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006. Such dividend represented HK\$91,540,000 for the 1,990,000,000 shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK\$3,450,000 for the shares issued in January 2006 under the over-allotment arrangement as disclosed in Note 13 (a).

10. TRADE AND BILLS RECEIVABLE

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

Aging analysis of trade and bills receivables is as follows:—

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

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

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

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

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

11. TRADE AND BILLS PAYABLES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade payables	159,541	162,738
Bills payable	<u>23,178</u>	<u>13,426</u>
	<u><u>182,719</u></u>	<u><u>176,164</u></u>

Aging analysis of third party trade and bills payables is as follows:—

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

12. CONTINGENT LIABILITIES

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

13 SUBSEQUENT EVENTS

- (a) On 4 January 2006, the Company issued 75,000,000 Shares at the offer price of HK\$2.025 per Share under an over-allotment option as part of the initial public offering of the Shares and raised gross proceeds of approximately HK\$151.9 million.
- (b) In February 2006, the Group signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu for the construction of a new apparel production base with an estimated annual production capacity of approximately six million pieces of apparel. The construction of the project commenced in March 2006 and it is expected that the first stage and the final stage of the production would be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project is approximately HK\$234 million.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 24 May 2006 to Tuesday, 30 May 2006, both days inclusive, during which no transfer of Shares will be effected. To qualify for the final dividend (which will be payable on or about Tuesday, 20 June 2006) to be tabled and considered at the Annual General Meeting, Shareholders must ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on Tuesday, 23 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Business Overview

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

The Group is headquartered in Hong Kong with production facilities in Zhejiang, Jiangsu and Shenzhen and offices in Hong Kong, Hangzhou, Shenzhen, Shanghai, Paris and New York to support its sourcing, manufacturing and distribution activities, to maintain close liaison with major customers

and to keep abreast of the latest market information and international fashion trends. The Group's primary manufacturing facilities are situated at the China Ting Industrial Complex in Hangzhou, which is the centre of China's silk industry. The Group also operates other manufacturing facilities in Shenzhen, Hangzhou City, Haiyan of Zhejiang and Sihong of Jiangsu, the PRC.

(i) *OEM business*

Through vertical integration of the core production activities, the Group continued to benefit from the economies of scale, to control production costs and to enhance the quality of its products, so as to deliver quality products to customers and shorten the lead time for production. During the year, the Group invested in Zhejiang Huayue Silk Products Company Limited and made further investment in Jiangsu Fuse Textile Company Limited, both of which further secured the supply of silk fabrics for the production of the Group. As at 31 December 2005, members of the Group operated 15 factories, principally situated at the China Ting Industrial Complex, in Hangzhou, the PRC engaging in fabric weaving and manufacturing of a varieties of silk and silk-blended fabric garment for OEM business.

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

(ii) *Retail business*

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

The Group's products will continue targeting the medium to high-end market segment. Up to 31 December 2005, the Group had a sale network of 302 retail outlets comprising 147 concessions and 3 free-standing stores directly operated by the Group and 152 retail outlets operated by franchisees through franchise agreements, spanning over 26 provinces and centrally governed municipalities.

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

(2) Financial review

Turnover

The Group recorded a turnover of HK\$1,894.8 million, representing a growth of HK\$493.3 million or 35.2% over the year 2004. Approximately 90.9% of turnover was generated from the OEM sales and the remaining 9.1% was generated from the retail sales.

The OEM sales reached to HK\$1,722.1 million, representing a 38.4% increase over the year 2004. The increase was mainly driven by more sale orders received from major OEM customers in U.S. Sales to the five major customers was HK\$1,132.2 million as compared with the year 2004 of HK\$686.5 million. The substantial majority of the OEM business continued to be of silk and silk-blended

apparel. For the year 2005, sales of silk and silk-blended apparel reached to HK\$1,121.6 million, representing a 65.1% of the total OEM sales and a growth of 23.3% over the year 2004. Sales of linen and linen-blended apparel grew to HK\$202.0 million, representing a 11.7% of the total OEM sales and a growth of 33.5% over the year 2004. Sales of other apparel increased to HK\$398.5 million, representing a 23.2% of the total OEM sales and a growth of 117.1% over the year 2004.

The retail sales also recorded a new high to HK\$172.7 million, representing a 10.1% increase over the year 2004. The increase in retail sales was reflected a growth of same stores sales and new sales contributed from new retail stores.

Gross profit

The gross profit in the year was HK\$692.7 million, representing an increase of HK\$259.0 million compared to HK\$433.7 million in the year 2004. The gross profit margin also improved from 30.9% in 2004 to 36.6% in 2005.

The gross profit margin of the OEM business and retail business improved from 27.9% in the year 2004 to 34.5%, and 55.0% in the year 2004 to 57.4%.

The improvement in gross profit margin was mainly due to a further enhancing of the economies of scales from a vertically integrated production.

Other gains

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

Operating expenses

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

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

Operating profit

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

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

Income Tax Expenses

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

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

Net profit attributable to Shareholders

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

Liquidity and financial resources

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

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

(3) Human resources

The Group will continue to make sure that all employees receive appropriate training, with emphasis on strong team spirit to achieve targeted results in the competitive business environment. The Group offers competitive remuneration including basic salaries, double pay, discretionary bonus (based on the Group's and individual's performance) and provides appropriate fringe benefits to the employees.

As at 31 December 2005, the Group employed approximately 10,950 full-time employees in Hong Kong, Hangzhou, Shenzhen, Shanghai, New York and Paris.

(4) Use of proceeds from the initial public offering

As dealings in the Shares on the Main Board commenced on 15 December 2005, the Group had not utilized any of the net proceeds from the initial public offering of the Shares as at 31 December 2005 for the business expansion and construction of production facilities of the Group. As at 31 December 2005, all the net proceeds were deposited with licensed bank in Hong Kong as short-term deposits with interest rate of around 4.5%. Nevertheless, there is no change in the proposed use of net proceeds stated in the prospectus of the Company dated 30 November 2005.

Subsequent to 31 December 2005, the Group has already used part of the proceeds to repay the bank borrowings of HK\$5.8 million and to invest into the following projects for the business expansion:—

- (i) approximately HK\$43.0 million to complete the construction of a new apparel production plant in Hangzhou with an estimated capacity of two million pieces of apparel. This new apparel production plant will commence its production in the second half of 2006.
- (ii) approximately HK\$8.0 million to complete the construction of a product design, development and exhibition centre. This centre will be put into use in the second half of 2006.

(5) The Code of Corporate Governance Practices (the "Code")

The Board is committed to enhancing the corporate governance of the Group, and the Group reviews and updates all such necessary measures in order to promote good corporate governance.

The Company has complied with the applicable code provisions of the Code of Best Practice as set out in appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) since 15 December 2005, being the date of commencement of trading of the Shares on the Main Board, up until 31 December 2005.

The Company has adopted the Model Code for securities transactions by directors of listed issuers (the “**Model Code**”) set forth in appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. In the opinion of the Board, the Company has complied with the code and upon specific enquiry, no Director is aware of any non-compliance with the Model Code throughout the year ended 31 December 2005.

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board considers that all the independent non-executive Directors are independent.

In compliance with Rule 3.21 of the Listing Rules the Board has established an audit committee (the “**Audit Committee**”) on 18 November 2005 to review the financial reporting procedures and internal control and provides guidance thereto. Member of the Audit Committee comprise all the three independent non-executive Directors. The annual results have been reviewed by the Audit Committee on 7 April 2006.

(6) Final dividend

At a meeting held on 11 April 2006, the directors proposed a final dividend of HK 4.6 cents per ordinary share. Upon the approval to be obtained from the forth coming Annual General Meeting, the final dividends will be payable on or about 20 June 2006 to the shareholders whose names appear on the register of members of the Company at close of business on 30 May 2006. Such dividend represented HK\$91,540,000 for the 1,990,000,000 shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK\$3,450,000 for the shares issued in January 2006 under the over-allotment arrangement as disclosed in note 13 (a).

(7) Purchase, sale or redemption of Shares

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Shares since 15 December 2005.

(8) Annual report and disclosure of information on the website of the Stock Exchange

This announcement is also published on the website of the Stock Exchange. The annual report for the year ended 31 December 2005 containing all the information required by paragraphs 45(1) to 45(3) of appendix 16 to the Listing Rules will be dispatched to Shareholders and published on the website of the Stock Exchange in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders, customers, suppliers, banks, professional parties and employees of the Company for their continuous patronage and support.

GENERAL INFORMATION

As at the date of this announcement, the Board comprises the following Directors:—

Executive Directors:—

Mr. TING Man Yi (*Chairman*)

Mr. TING Hung Yi (*Chief Executive Officer*)

Mr. DING Jianer

Mr. WONG Sin Yung

Independent non-executive Directors:—

Dr. CHENG Chi Pang

Mr. LEUNG Man Kit

Mr. WONG Chi Keung

By Order of the Board
CHINA TING GROUP HOLDINGS LIMITED
TING Hung Yi
Chief Executive Officer

Hong Kong, 11 April 2006