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 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 2006, together with the comparative figures for the year 2005 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006** *HK$'000*	2005 *HK$'000*
Turnover	*2*	**1,920,068**	1,894,835
Cost of sales	*4*	**(1,249,738)**	(1,202,126)
Gross profit		**670,330**	692,709
Other income	*2*	**732**	664
Other gains, net	*3*	**23,065**	21,882
Selling, marketing and distribution costs	*4*	**(117,960)**	(102,667)
Administrative expenses	*4*	**(152,985)**	(160,089)
Operating profit		**423,182**	452,499
Finance income	*5*	**35,909**	10,249
Finance costs	*5*	**(423)**	(8,951)
Finance income, net	*5*	**35,486**	1,298
Share of profit of associates		**6,823**	9,023
Profit before income tax		**465,491**	462,820
Income tax expense	*6*	**(54,690)**	(72,715)
Profit for the year		**410,801**	390,105
Attributable to:			
Equity holders of the Company		**408,539**	380,997
Minority interests		**2,262**	9,108
		410,801	390,105
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	*7*	**19.79 cents**	25.15 cents
– diluted	*7*	**19.70 cents**	25.13 cents
Dividends	*8*	**276,798**	351,260

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**452,509**	237,783
Investment properties		**4,940**	4,940
Leasehold land and land use rights		**74,339**	36,128
Interest in associates		**72,250**	59,540
Intangible assets		**43,903**	27,688
Deferred income tax assets		**4,153**	4,321
		652,094	370,400
Current assets			
Inventories		**348,197**	218,140
Due from associates		**3,107**	1,104
Trade and other receivables	*9*	**375,496**	293,567
Tax recoverable		**5,288**	2,097
Pledged bank deposits		**12,310**	1,128
Term deposits with initial term of over three months		**327,829**	300,000
Cash and cash equivalents		**497,429**	669,542
		1,569,656	1,485,578
Total assets		**2,221,750**	1,855,978
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**206,625**	199,000
Retained earnings		**597,470**	433,805
Other reserves		**1,003,139**	807,556
		1,807,234	1,440,361
Minority interests		**35,550**	13,979
Total equity		**1,842,784**	1,454,340
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	4,368
Deferred income tax liabilities		**19,752**	779
		19,752	5,147
Current liabilities			
Trade and other payables	*10*	**337,803**	286,205
Borrowings		**2,225**	59,420
Due to associates		**5,922**	7,541
Current income tax labilities		**13,264**	43,325
		359,214	396,491
Total liabilities		**378,966**	401,638
Total equity and liabilities		**2,221,750**	1,855,978
Net current assets		**1,210,442**	1,089,087
Total assets less current liabilities		**1,862,536**	1,459,487

NOTES:

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

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

(a) Amendments to published standards effective in 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 Turnover, other income and segment information

(a) Turnover and other income

(i) Turnover

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

(ii) Other income

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

(b) Primary reporting segment – business segments

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

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

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

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

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

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

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

	OEM garment sales *HK$'000*	Retailing of branded fashion apparel *HK$'000*	Total *HK$'000*
Gross segment sales	1,730,322	172,783	1,903,105
Elimination of inter-segment sales	(8,270)	–	(8,270)
Turnover	1,722,052	172,783	1,894,835
Other income	664	–	664
	1,722,716	172,783	1,895,499
Segment results	422,479	14,114	436,593
Unallocated gains			15,906
Operating profit			452,499
Finance income			10,249
Finance costs			(8,951)
Finance income, net			1,298
Share of profit of associates	9,023	–	9,023
Profit before income tax			462,820
Income tax expense			(72,715)
Profit for the year			390,105

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

	OEM garment sales *HK$'000*	Retailing of branded fashion apparel *HK$'000*	Total *HK$'000*
Depreciation of property, plant and equipment	23,531	3,075	26,606
Amortisation of leasehold land and land use rights	1,061	–	1,061
Amortisation of intangible assets	–	3,381	3,381
Provision for impairment of receivables	1,203	1,866	3,069
Bad debts written off	78	–	78
Inventory write-down	55	17,047	17,102

(c) Secondary reporting segment – geographical segments

The Group primarily operates in Hong Kong and the People's Republic of China ("PRC"). Sales are made to overseas customers as well as customers in the PRC.

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

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

3 Other gains, net

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

4 Expenses by nature

	2006	2005
	HK$'000	*HK$'000*
Amortisation of leasehold land and land use rights	**1,001**	1,061
Amortisation of intangible assets	**3,122**	3,381
Depreciation of property, plant and equipment	**28,160**	26,606
Employee benefit expenses (including directors' emolument)	**279,043**	229,202
Changes in inventories of finished goods and work in progress	**(109,758)**	64,708
Raw materials and consumables used	**920,625**	751,553
Direct operating expenses arising from investment properties that generate rental income	**84**	81
Operating lease rental in respect of property, plant and equipment	**14,911**	6,307
Provision for inventory write-down	**–**	17,102
(Reversal of)/provision for impairment of receivables	**(1,167)**	3,069
Bad debts written off	**–**	78

5 Finance income and costs

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

6 Income tax expense

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

(a) Hong Kong profits tax

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

(b) PRC enterprise income tax

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

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

7 Earnings per share

(a) Basic

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

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

(b) Diluted

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

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

8 Dividends

	2006	2005
	HK$'000	*HK$'000*
Interim		
Interim dividend, paid, of HK5.4 cents per ordinary share *(Note (i))*	**111,510**	256,270
Special dividend, paid, of HK$1.0 cent per ordinary share	**20,650**	–
Final		
Proposed final dividend of HK4.4 cents (2005: HK4.6 cents) per ordinary share *(Note (ii))*	**90,915**	94,990
Proposed special dividend of HK$2.6 cents (2005: Nil) per ordinary share *(Note (ii))*	**53,723**	–
	276,798	351,260

Notes:

(i) Interim dividend

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

At a meeting held on 28 March 2007, the directors proposed a special dividend of HK$2.6 cents per ordinary share in addition to a final dividend of HK4.4 cents per ordinary share. The proposed dividends are not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

9 Trade and other receivables

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

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

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

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of not more than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

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

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

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

10 Trade and other payables

	2006	2005
	HK$'000	*HK$'000*
Trade and bills payables	**223,976**	182,719
Other payable and accruals	**113,827**	103,486
	337,803	286,205

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

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Saturday, 28 April 2007 to Friday, 4 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be considered at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on Friday, 27 April 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Business Review

The Group is a vertically integrated and large scale garment manufacturer, exporter and retailer based in Mainland China. The Group is headquartered in Hong Kong with production facilities in Zhejiang, Jiangsu and Shenzhen, and with offices in Hong Kong, Hangzhou, Shenzhen, Shanghai, Paris and New York. As at 31 December 2006, members of the Group operated 20 factories, principally situated at the China Ting Industrial Complex, engaging in fabric weaving and manufacturing of garment for OEM and of apparels for retail business in Mainland China.

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

(2) Financial Review

Turnover

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

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

The OEM sales analysis by product is as follows:

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

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

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

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

The retail sales analysis by brand name is as follows:

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

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

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

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

Gross Profit

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

The gross profit margin of OEM business decreased from 34.5% to 31.8%. The gross profit margin was eroded by the high raw silk price and the continuing appreciation of the value of RMB against the US dollar.

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

Other income and other gains

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

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

Operating expenses

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

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

Operating profit

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

Income tax expense

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

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

Profit attributable to the equity holders of the Company

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

Liquidity and Financial Resources

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

The net cash inflow from operating activities amounted to approximately HK$221.5 million, an decrease by approximately HK$197.0 million from approximately HK$418.5 million in FY 2005. The decrease was mainly due to a high level of inventories were maintained by the Group for the expansion of the Group's retail business. The net cash used in financing activities increased by approximately HK$677.3 million. As in FY 2005, the Group received the proceeds of approximately HK$1,012.5 million raised from the initial public offering of the Group's shares completed in December 2005, Excluding the effect of proceeds from issuance of ordinary shares, the net cash used in financing activities decreased from approximately HK$472.9 million in FY2005 to approximately HK$289.0 million in FY2006.

(3) Outlook

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

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

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

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

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

(4) Human Resources

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

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

(5) Use of proceeds from the initial public offering

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

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

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

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

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

(6) Corporate Governance

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 on Corporate Governance Practices" as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. In the opinion of the Board, the Company has complied with the Model Code and upon specific enquiry, no director is aware of any non-compliance with the Model Code throughout the year ended 31 December 2006.

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") 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 of the Group for year ended 31 December 2006 have been reviewed by the Audit Committee on 22 March 2007.

(7) Final Dividend

At a meeting held on 28 March 2007, the Board proposed a special dividend of HK2.6 cents per ordinary share in addition to a final dividend of HK4.4 cents per ordinary share. Upon the approval to be obtained from the forth coming annual general meeting, the final dividends and the special dividend will be payable on or about 15 May 2007 to the shareholders whose names appear on the register of members of the Company at close of business on Friday, 27 April 2007.

(8) Purchase, sale or redemption of Shares

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2006.

(9) 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 2006 containing all the information required by 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 opportunities 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
Mr. CHEUNG Ting Yin, Peter

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

By Order of the Board of
CHINA TING GROUP HOLDINGS LIMITED
TING Man Yi
Chairman

28 March 2007

Please also refer to the published version of this announcement in South China Morning Post.