

Notes to the Financial Statements

For the year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the "SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The financial statements are prepared on a basis consistent with the accounting policies and methods adopted in the previous year except for the adoption of SSAP 12 (Revised) "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003. SSAP 12 (Revised) has had no significant impact for the financial statements on the amounts recorded for income taxes. However, deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis and also the related note disclosures are now more extensive than previously required. These are detailed in note 8 to the financial statements and include a reconciliation between the accounting profit and tax charge for the year.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by restating certain investment in securities to fair value as explained in accounting policies as set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December each year. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All significant inter-company balances and transactions are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Goodwill/Negative goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is amortised using straight-line method over its estimated useful life not exceeding twenty years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Notes to the Financial Statements For the year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill/Negative goodwill (continued)

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period up to the date the associates became subsidiaries of the Group. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Notes to the Financial Statements For the year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture and equipment	20%
Leasehold improvements	10%
Plant and machinery	10%
Motor vehicles	20%

No depreciation is provided in respect of construction in progress until it is completed and put into commercial operation.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Investment in securities

Investments in trust and bond funds are stated in the balance sheet at their fair values. Changes in fair values are recognised in the income statement as they arise.

The profit or loss on disposal of trust and bond funds is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amounts of the investments.

Notes to the Financial Statements For the year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average costing method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

Leasing

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

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Notes to the Financial Statements For the year ended 31 December 2003

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are dealt with in the income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of accumulated profits within reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund are charged as expenses as they fall due.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

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

Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable interest rate.

Notes to the Financial Statements For the year ended 31 December 2003

2. TURNOVER AND REVENUE

The principal activities of the Group are manufacture and sales of headwear products.

Turnover and revenue represent sale of goods at invoiced value to customers net of returns and discounts.

3. OTHER INCOME

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Net income from short term investments	802	–
Interest income	273	1,112
Sundry income	1,057	4,220
Exchange gain	–	1,032
	2,132	6,364

Notes to the Financial Statements For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The presentation of business segments has been revised and analysed into "Headwear manufacturing" segment and "Trading of headwear and other products" segment, as in the opinion of the directors, such revision would produce a more appropriate presentation of the Group's financial results.

(a) Business segments

The Group comprises the following main business segments:

- (i) Headwear manufacturing: The Group's manufacturing facilities are located in Shenzhen, the PRC. Customers are mainly located in the USA and Europe.
- (ii) Trading of headwear and other products: The trading business of the Group is operated through two subsidiaries, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI") located in the USA, with market in the USA and Europe. Prior to increasing the shareholdings in DPM and DPI by the Group from 42.86% and 33.33% to approximately 85.71% and 66.67% respectively on 30 April 2002, DPM and DPI were associates of the Group.

On 31 December 2003, the Group acquired the remaining shareholdings in DPM and DPI which then became wholly owned subsidiaries of the Group.

Notes to the Financial Statements For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

	Headwear manufacturing		Trading of headwear and other products		Inter-segment elimination		Consolidation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover from external customers	198,254	203,697	271,651	190,425	-	-	469,905	394,122
Inter-segment turnover	64,281	53,105	-	-	(64,281)	(53,105)	-	-
	262,535	256,802	271,651	190,425	(64,281)	(53,105)	469,905	394,122
Other revenue from external customers	991	1,870	339	86	-	-	1,330	1,956
Total	263,526	258,672	271,990	190,511	(64,281)	(53,105)	471,235	396,078
Segment result and contribution from operations	67,088	62,045	10,624	7,860	(177)	-	77,535	69,905
Amortisation of goodwill							(1,275)	(1,087)
Profit from operations							76,260	68,818
Finance costs							(202)	(336)
Share of profits of associates	-	-	-	5,222	-	-	-	5,222
Taxation							(7,737)	(9,178)
Minority interests							(1,354)	(494)
Profit attributable to shareholders							66,967	64,032
Depreciation	16,311	13,036	2,209	1,641	-	-	18,520	14,677
Amortisation of goodwill							1,275	1,087
Depreciation and amortisation for the year							19,795	15,764
Significant non-cash expenses (other than depreciation and amortisation)	1,391	1,516	31	189	-	-	1,422	1,705

Notes to the Financial Statements For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

	Headwear manufacturing		Trading of headwear and other products		Consolidation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	339,834	305,678	87,855	75,521	427,689	381,199
Unallocated assets					6,059	9,308
Total assets					433,748	390,507
Segment liabilities	51,539	40,720	24,096	32,391	75,635	73,111
Unallocated liabilities					–	6,103
Total liabilities					75,635	79,214
Capital expenditure incurred during the year	26,689	28,293	653	1,067	27,342	29,360

(b) Geographical segments

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

(i) Segment turnover

	2003 HK\$'000	2002 HK\$'000
USA	430,525	360,227
Europe	35,438	31,530
Others	3,942	2,365
Total	469,905	394,122

Notes to the Financial Statements For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		USA		Unallocated		Consolidation	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	339,834	305,678	87,855	75,521	6,059	9,308	433,748	390,507
Capital expenditure incurred during the year	26,689	28,293	653	1,067	-	-	27,342	29,360

Notes to the Financial Statements

For the year ended 31 December 2003

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	The Group	
	2003 HK\$'000	2002 HK\$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	175	107
Finance charges on obligations under finance leases	27	229
	202	336

(b) Other items

	The Group	
	2003 HK\$'000	2002 HK\$'000
Staff costs (including directors' emoluments and retirement benefit costs)	63,389	54,851
Cost of inventories	178,539	142,667
Amortisation of goodwill (included in administration expenses)	1,275	1,087
Auditors' remuneration	1,452	764
Depreciation	18,520	14,677
Operating leases in respect of office premises, factories and warehouses	8,656	8,063
Provisions for doubtful debts	2,400	–

Notes to the Financial Statements For the year ended 31 December 2003

6. DIRECTORS' EMOLUMENTS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, housing benefits, other allowances and benefits in kind	4,751	3,708
Contributions to retirement scheme	132	123
	4,883	3,831

The emoluments of the directors are within the following bands:

	2003		2002	
	No. of directors		No. of directors	
Nil – HK\$1,000,000	3	4	4	1
HK\$1,000,001 – HK\$1,500,000	2	1	1	1
HK\$1,500,001 – HK\$2,000,000	1	1	1	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements For the year ended 31 December 2003

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2002: three) directors, details of whose remuneration are set out in note 6. The details of the emoluments of the remaining three (2002: two) highest paid individuals are as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries and allowances	3,435	2,876
Contributions to retirement schemes	128	12
	3,563	2,888

The emoluments of these three (2002: two) employees are within the following bands:

	2003	2002
	HK\$'000	HK\$'000
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	3	–
HK\$2,000,001 – HK\$2,500,000	–	1

8. TAXATION

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong Profits Tax (note (i))	6,150	4,693
PRC enterprise income tax (note (ii))	(1,790)	(1,367)
Overseas tax (note (iii))	4,565	3,157
Deferred taxation (note 23)	(1,188)	997
	7,737	7,480
Share of associates' taxation	–	1,698
	7,737	9,178

Notes to the Financial Statements For the year ended 31 December 2003

8. TAXATION (continued)

Notes:

- (i) Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the year.
- (ii) PRC enterprise income tax has been provided at the preferential income tax rate of 15% applicable to the Group's subsidiaries operating in the Shenzhen Special Economic Zone, the PRC.
- (iii) Provisions for the taxation of profits of subsidiaries operating overseas have been calculated on the estimated assessable profits for the year at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations and practices in respect thereof.
- (iv) Reconciliation of tax expenses

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit from ordinary activities before taxation	76,058	73,704
Calculated at a taxation rate of 17.5% (2002: 16%)	13,310	11,793
Effect of different taxation rates in other countries	630	1,354
Non-deductible expenses	1,412	1,555
Tax exempt revenue	(6,835)	(6,359)
Unrecognised tax losses	201	88
Effect of change in tax rate	569	–
Over-provision in prior years	(3,043)	(2,304)
Others	1,493	3,051
Tax expenses for the year	7,737	9,178

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company for the year amounted to HK\$49,556,000 (2002: HK\$20,851,000), including dividends from subsidiaries totalling HK\$50,000,000 (2002: HK\$19,488,000).

Notes to the Financial Statements For the year ended 31 December 2003

10. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim dividend of HK2 cents (<i>2002: HK2 cents</i>) per share	5,669	5,608
Proposed final dividend of HK8 cents (<i>2002: HK6 cents</i>) per share (note)	22,675	16,878
	28,344	22,486

Note: A final dividend in respect of 2003 of HK8 cents (*2002: HK6 cents*) per share amounting to approximately HK\$22,675,000 (*2002: HK\$16,878,000*) has been proposed by the directors after the balance sheet date. The proposed dividend is not accounted for until it has been approved at the annual general meeting.

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to shareholders for the year of HK\$66,967,000 (*2002: HK\$64,032,000*).

The basic earnings per share is based on the weighted average number of shares of 282,411,046 (*2002: 270,592,289*) for the year. The diluted earnings per share is based on 300,126,046 (*2002: 273,995,969*) shares which is the weighted average number of shares during the year adjusted for the number of dilutive potential shares under the share option schemes.

Notes to the Financial Statements For the year ended 31 December 2003

12. RETIREMENT SCHEMES

The Group operates a defined contribution retirement scheme in accordance with the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") covering about 10% of its employees in Hong Kong, which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. Under the ORSO Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income. Contributions forfeited during the year are available to reduce the contributions payable in future years.

The Group also operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the ORSO Scheme. Under the MPF Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000 and contributions to the MPF Scheme vest immediately.

The ORSO Scheme and the MPF Scheme are administered by independent trustees.

The subsidiaries of the Group in the PRC participate in pension schemes organized by the respective municipal governments whereby they are required to pay a fixed contribution as determined by the relevant authorities in the PRC for each employee.

The US subsidiaries of the Group operate a defined contribution plan (the "Plan") covering substantially all the US employees which is subject to the provisions of the Employee Retirement Income Security Act of 1974 of the US. The Plan custodian is an insurance company and the Plan trustees are two members of management. The eligible US employees may elect to allocate a certain percentage of their compensation to the Plan. The US subsidiaries have the option to contribute funds to the Plan. Upon termination of service, a US employee may elect to receive or defer a lump-sum amount equal to the value of his account.

Details of retirement schemes contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group are as follows:

	2003	2002
	HK\$'000	HK\$'000
Gross retirement schemes contributions	1,614	802
Less: Forfeited contributions for the year	(27)	(124)
Net retirement schemes contributions	1,587	678

As at 31 December 2003, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Hong Kong Employment Ordinance, which are unprovided for.

Notes to the Financial Statements For the year ended 31 December 2003

13. PROPERTY, PLANT AND EQUIPMENT

The Group	Furniture and equipment	Leasehold improve- ments	Plant and machinery	Con- struction in progress	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1 January 2003	19,595	22,273	108,423	1,542	1,807	153,640
Additions	1,295	868	11,859	9,500	3,820	27,342
Exchange differences	(11)	(3)	(41)	–	–	(55)
Disposals	(12)	–	(29)	–	(205)	(246)
At 31 December 2003	20,867	23,138	120,212	11,042	5,422	180,681
Accumulated depreciation						
At 1 January 2003	11,901	6,370	30,652	–	801	49,724
Charge for the year	3,602	2,269	12,235	–	414	18,520
Exchange differences	(9)	(3)	(31)	–	–	(43)
Eliminated on disposals	(12)	–	(21)	–	(205)	(238)
At 31 December 2003	15,482	8,636	42,835	–	1,010	67,963
Net book value						
At 31 December 2003	5,385	14,502	77,377	11,042	4,412	112,718
At 31 December 2002	7,694	15,903	77,771	1,542	1,006	103,916

As at 31 December 2003, the net book value of the Group's property, plant and equipment includes an amount of approximately HK\$314,000 (2002: HK\$673,000) in respect of assets held under finance leases.

Notes to the Financial Statements For the year ended 31 December 2003

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries (note (i))	143,759	95,418
	243,390	195,049

Notes:

- (i) The amounts due from subsidiaries, which included dividends totaling HK\$50,000,000 from subsidiaries for the year, are unsecured, interest-free and have no fixed terms of repayments.
- (ii) Particulars of the Company's subsidiaries are set out in note 35.

15. INTANGIBLES

The Group	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Cost			
At 1 January 2003	10,199	–	10,199
Acquisitions of remaining shareholdings in subsidiaries	–	(1,974)	(1,974)
At 31 December 2003	10,199	(1,974)	8,225
Amortisation			
At 1 January 2003	891	–	891
Amortisation for the year	1,275	–	1,275
At 31 December 2003	2,166	–	2,166
Carrying value			
31 December 2003	8,033	(1,974)	6,059
31 December 2002	9,308	–	9,308

Goodwill arising from acquisitions of DPM and DPI is amortised over 8 years on a straight-line basis from the date since they become subsidiaries of the Group.

Negative goodwill arising from acquisitions of the remaining shareholdings in DPM and DPI is amortised over the remaining useful life of their identifiable non-monetary assets of approximately 2 years.

Notes to the Financial Statements

For the year ended 31 December 2003

16. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2003 HK\$'000	2002 HK\$'000
At fair value		
Trust investment, unlisted	–	7,750

17. INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	29,064	22,380
Work-in-progress	7,537	6,142
Finished goods	24,302	25,145
	60,903	53,667

Notes to the Financial Statements For the year ended 31 December 2003

18. TRADE AND OTHER RECEIVABLES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables	85,022	72,399
Deposits, prepayments and other debtors	9,776	2,885
	94,798	75,284

The ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) as at the balance sheet date is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	27,951	27,379
31 – 60 days	31,865	32,919
61 – 90 days	18,225	6,221
Over 90 days	6,981	5,880
	85,022	72,399

Trade receivables are due within 60 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimise any credit risk associated with receivables. In addition, customers with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. SHORT TERM INVESTMENTS

The balance represents investments in unlisted trust and bond funds and are stated at fair value.

Notes to the Financial Statements

For the year ended 31 December 2003

20. TRADE AND OTHER PAYABLES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables	32,325	21,284
Accrued charges and other creditors	30,397	28,185
	62,722	49,469

The ageing analysis of trade payables as at the balance sheet date is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	12,799	10,103
31 – 60 days	9,373	8,176
61 – 90 days	4,777	2,757
Over 90 days	5,376	248
	32,325	21,284

21. OBLIGATIONS UNDER FINANCE LEASES

The Group	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount payable:				
Within one year	183	368	176	341
In the second to fifth years inclusive	142	310	138	299
	325	678	314	640
Future finance charges	(11)	(38)	–	–
Present value of lease obligations	314	640	314	640

The average lease term is 3 years and all leases are payable in fixed monthly instalments. There is no arrangement for contingent rent payments.

Notes to the Financial Statements

For the year ended 31 December 2003

22. POST-EMPLOYMENT BENEFITS

The balance represents the provision for long services payments to employees.

23. DEFERRED TAXATION

At the balance sheet date, components of the deferred tax assets and liabilities of the Group provided were as follows:

	Assets		Liabilities	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Depreciation allowances	(6)	(13)	(7,617)	(6,065)
Intangible assets	–	145	–	–
Provisions	2,828	2,494	–	–
Tax losses	177	–	–	–
Others	2,868	501	–	–
Deferred tax assets (liabilities)	5,867	3,127	(7,617)	(6,065)

The movements for the year in the Group's net deferred tax position were as follows:

	2003 HK\$'000	2002 HK\$'000
Net deferred tax liabilities at 1 January	2,938	4,913
Acquisitions of subsidiaries (note 28)	–	(2,972)
(Credit) charge for the year (note 8)	(1,188)	997
Net deferred tax liabilities at 31 December	1,750	2,938

Notes to the Financial Statements For the year ended 31 December 2003

24. SHARE CAPITAL

		Number of shares of HK\$0.10 each	HK\$'000
Authorised:			
At 31 December 2003 and 2002		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2002		244,488,461	24,449
Placing of shares	<i>(a)</i>	20,000,000	2,000
Issue of shares for acquisition of subsidiaries	<i>(b)</i>	13,112,070	1,311
Issue of shares pursuant to share option scheme	<i>(c)</i>	3,698,000	369
As at 31 December 2002		281,298,531	28,129
Issue of shares pursuant to share option scheme	<i>(d)</i>	2,134,000	214
As at 31 December 2003		283,432,531	28,343

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2003:

- (a) In March 2002, 20,000,000 shares of HK\$0.10 each were issued at a price of HK\$1.75 per share for cash pursuant to the agreements dated 12 March 2002 in respect of the placing and subscription of shares in the Company entered into between the Company, Successful Years International Co., Ltd. and independent investors.
- (b) In March 2002, 13,112,070 shares of HK\$0.10 each were issued at HK\$1.75 per share as part of the consideration for acquisitions of two subsidiaries, namely DPM and DPI.
- (c) During the year ended 31 December 2002, options were exercised to subscribe for 3,698,000 shares at the exercise prices of HK\$1.228 per share under the share option scheme.
- (d) During the year ended 31 December 2003, options were exercised to subscribe for 2,134,000 shares at the exercise price of HK\$1.228 per share under the share option scheme.

The excess of the issue price over the par value of the shares issued was credited to the share premium account. These newly issued shares rank pari passu with the existing shares.

Notes to the Financial Statements For the year ended 31 December 2003

25. SHARE OPTIONS

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. In addition, there are varying restrictions imposed on the proportions of options exercisable during the initial years of the option periods.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 27,760,053, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

(a) Movements in share options

	2003	2002
	Number of share options	Number of share options
At 1 January	22,936,000	10,649,000
Granted	13,920,000	15,985,000
Exercised	(2,134,000)	(3,698,000)
Lapsed	(3,407,000)	–
As 31 December	31,315,000	22,936,000
Options vested at 31 December	11,544,600	309,700

Notes to the Financial Statements For the year ended 31 December 2003

25. SHARE OPTIONS (continued)

- (b) Details of share options granted during the year at nominal consideration of total HK\$32 (2002: HK\$24) are as follows:

Exercise period	Exercise price HK\$	2003 Number of share options	2002 Number of share options
03.07.2003 – 02.07.2010	2.700	–	15,985,000
12.02.2004 – 11.02.2011	2.205	1,120,000	–
03.06.2004 – 02.06.2013	2.300	12,800,000	–
		13,920,000	15,985,000

- (c) Details of share options exercised during the year are as follows:

Exercise price	2003 Number of share options	2002 Number of share options
HK\$1.228	2,134,000	3,698,000

Notes to the Financial Statements

For the year ended 31 December 2003

26. RESERVES

The Group	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1 January 2002	29,225	25,878	125,023	–	180,126
Issue of shares	54,635	–	–	–	54,635
Issue of shares on exercise of share options	4,171	–	–	–	4,171
Share issue expenses	(312)	–	–	–	(312)
Profit for the year	–	–	64,032	–	64,032
2001 final dividend paid	–	–	(13,880)	–	(13,880)
2002 interim dividend paid (note 10)	–	–	(5,608)	–	(5,608)
At 31 December 2002	87,719	25,878	169,567	–	283,164
Representing:					
2002 proposed final dividend (note 10)	–	–	16,878	–	16,878
Reserves	87,719	25,878	152,689	–	266,286
	87,719	25,878	169,567	–	283,164
At 1 January 2003	87,719	25,878	169,567	–	283,164
Issue of shares on exercise of share options	2,407	–	–	–	2,407
Exchange differences	–	–	–	(221)	(221)
Profit for the year	–	–	66,967	–	66,967
2002 final dividend paid (note 10)	–	–	(16,878)	–	(16,878)
2003 interim dividend paid (note 10)	–	–	(5,669)	–	(5,669)
At 31 December 2003	90,126	25,878	213,987	(221)	329,770
Representing:					
2003 proposed final dividend (note 10)	–	–	22,675	–	22,675
Reserves	90,126	25,878	191,312	(221)	307,095
	90,126	25,878	213,987	(221)	329,770

Notes to the Financial Statements For the year ended 31 December 2003

26. RESERVES (continued)

The Company	Share premium	Contributed surplus	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	29,225	99,431	82	128,738
Issue of shares	54,635	–	–	54,635
Issue of shares on exercise of share options	4,171	–	–	4,171
Share issue expenses	(312)	–	–	(312)
Profit for the year	–	–	20,851	20,851
2001 final dividend paid	–	–	(13,880)	(13,880)
2002 interim dividend paid (note 10)	–	–	(5,608)	(5,608)
At 31 December 2002	87,719	99,431	1,445	188,595
Representing:				
2002 proposed final dividend (note 10)	–	–	16,878	16,878
Reserves	87,719	99,431	(15,433)	171,717
	87,719	99,431	1,445	188,595
At 1 January 2003	87,719	99,431	1,445	188,595
Issue of shares on exercise of share options	2,407	–	–	2,407
Profit for the year	–	–	49,556	49,556
2002 final dividend paid (note 10)	–	–	(16,878)	(16,878)
2003 interim dividend paid (note 10)	–	–	(5,669)	(5,669)
At 31 December 2003	90,126	99,431	28,454	218,011
Representing:				
2003 proposed final dividend (note 10)	–	–	22,675	22,675
Reserves	90,126	99,431	5,779	195,336
	90,126	99,431	28,454	218,011

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange in late 2000 over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if;

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 December 2003, the Company's reserves available for cash distribution amounted to HK\$127,885,000 (2002: HK\$100,876,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$90,126,000 (2002: HK\$87,719,000) may be distributed in the form of fully paid bonus shares.

Notes to the Financial Statements

For the year ended 31 December 2003

27. CASH GENERATED FROM OPERATION

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit from ordinary activities before taxation	76,058	73,704
Interest income	(273)	(1,112)
Interest expenses	202	336
Amortisation of goodwill	1,275	1,087
Loss on disposal of property, plant and equipment	6	5
Net income from short term investments	(802)	–
Depreciation	18,520	14,677
(Write-back of) provision for post-employment benefits	(978)	1,705
Unrealised profits relating to an associate	–	(1,000)
Share of profits of associates	–	(5,222)
Changes in working capital:		
Inventories	(7,236)	(4,167)
Trade and other receivables	(19,514)	50,398
Trade and other payables	13,253	(54,889)
Cash generated from operation	80,511	75,522

28. ACQUISITIONS OF SUBSIDIARIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	–	4,980
Inventories	–	23,208
Trade and other receivables	–	65,946
Bank balances and cash	–	3,884
Obligations under finance leases	–	(368)
Trade and other payables	–	(50,449)
Provision for taxation	–	(5,831)
Deferred taxation	–	2,972
	–	44,342
Less: Minority interests	–	(4,945)
	–	39,397
Goodwill on acquisition	–	10,199
	–	49,596

Notes to the Financial Statements For the year ended 31 December 2003

28. ACQUISITIONS OF SUBSIDIARIES (continued)

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Satisfied by:		
Cash consideration	–	2,679
Issuance of shares	–	22,946
Interest in associates	–	23,971
	–	49,596
Net cash inflow arising on acquisitions:		
Total cash consideration	–	(2,679)
Consideration payable included in accrued charges and other creditors	–	780
Cash consideration paid	–	(1,899)
Bank balance and cash acquired	–	3,884
	–	1,985

29. MAJOR NON-CASH TRANSACTIONS

During 2002, the Group increased its equity interests in two associates to become its subsidiaries, and part of the consideration was satisfied by the issue and allotment of shares of the Company (note 24(b)).

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which are payable as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	8,024	8,912
In the second to fifth years inclusive	24,802	17,454
Over five years	17,410	32,856
	50,236	59,222

Notes to the Financial Statements For the year ended 31 December 2003

31. CAPITAL COMMITMENTS

At 31 December 2003, the Group had capital expenditure commitments in respect of plant and equipment as follows:

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	5,060	184
Authorised but not contracted for	17,550	30,000
	22,610	30,184

In addition, the Group signed a license agreement with Hat World Corporation on 17 February 2004 to operate headwear retail outlets under the name HatWorld/Lids in Hong Kong and the PRC. Capital expenditure budget for 2004 in respect of the development of the infrastructure and shop renovation of retail outlets amounted to approximately HK\$6 million.

At 31 December 2003, the Company had no significant capital commitments.

32. PLEDGED ASSETS

As at 31 December 2003, the Group had banking facilities of HK\$84.6 million (2002: HK\$108 million), of which HK\$83.4 million (2002: HK\$106.8 million) was not utilised. Banking facility in the amount of HK\$62.4 million (2002: HK\$62.4 million), of which HK\$1.2 million (2002: HK\$1.2 million) was utilised, is secured by inventories and trade receivables of a subsidiary amounting to HK\$27 million (2002: HK\$22 million) and HK\$39 million (2002: HK\$27 million) respectively as at 31 December 2003.

33. CONTINGENT LIABILITIES

At 31 December 2003, the Company had executed a corporate guarantee of HK\$22,000,000 (2002: HK\$46,000,000) to secure general banking facilities granted to a subsidiary. No facilities were utilised by the subsidiary as at 31 December 2003.

Notes to the Financial Statements For the year ended 31 December 2003

34. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	2003	2002
	HK\$'000	HK\$'000
Rental paid in respect of office premises to a company controlled by a director	960	1,320
Rental paid in respect of warehousing facilities to a director	–	175
Sale of goods to associates	–	26,824

In addition, during the year ended 31 December 2003, DPM and DPI, two of the subsidiaries of the Company, entered into an agreement with Mr. Drew Pearson ("Mr. Pearson"), a substantial shareholder of DPM and DPI, pursuant to which DPM and DPI purchased from Mr. Pearson 14.29% shareholding in DPM and 20% shareholding in DPI respectively at a respective cash consideration of HK\$5,926,000 and HK\$8. DPM and DPI has become wholly owned subsidiaries of the Group upon the completion of the transactions on 31 December 2003.

35. PRINCIPAL SUBSIDIARIES

Other than Rhys Trading Ltd. which is held directly by the Company, all subsidiaries are held by the Company indirectly.

Particulars of the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued share capital/registered capital	Interest held	Principal activities
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Drew Pearson International, Inc.	United States of America	United States of America	US\$833	100%	Trading of headwear
Drew Pearson Marketing, Inc.	United States of America	United States of America	US\$875	100%	Trading of headwear
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding

Notes to the Financial Statements For the year ended 31 December 2003

35. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued share capital/registered capital	Interest held	Principal activities
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK\$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	PRC	PRC	HK\$26,000,000	100%	Manufacture and sale of headwear
Manga Investment Ltd.	Mauritius	Macau	US\$1	100%	Investment holding
Million Excel Trading Limited	The British Virgin Islands	Hong Kong	US\$1	100%	Investment holding
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Summerville Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Trading of headwear
Top Super Investments Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC	PRC	HK\$13,560,000	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP\$100,000	100%	Trading of headwear and provision of digitising services

36. COMPARATIVE AMOUNTS

As explained in note 1 to the financial statements, due to the adoption of revised SSAP12 "Income taxes" during the current year, the presentation of certain balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with current year's presentation.