

I PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain fixed assets and other investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (the “Group”) made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated exchange fluctuation reserve.

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

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

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (Continued)

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The profit and loss account of overseas subsidiaries expressed in foreign currencies is translated into Hong Kong dollars at average exchange rates for the year whereas balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the exchange fluctuation reserve and the cumulative exchange differences relating to the retained earnings are dealt with as a movement in the retained earnings account. At each balance sheet date, the exchange fluctuation reserve is subject to a review of impairment loss other than temporary and such impairment loss is transferred to the profit and loss account.

(c) Goodwill

Goodwill 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 subsidiaries at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) Textile quota entitlements

Permanent textile quota entitlements are stated at cost less accumulated amortisation and impairment losses and are amortised over a period of five years on a straight-line basis. The costs of temporary textile quota entitlements are charged to the profit and loss account in the year of acquisition.

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Fixed assets

Leasehold land and buildings and plant and machinery are stated at valuation. Fair value is determined by the directors based on independent valuations which are performed on an annual basis. If the fair value is in excess of the carrying amount of the relevant asset, the surplus is credited to the fixed assets revaluation reserve to the extent that it is not covered by deficits arising on prior valuations of that asset which have been previously charged to the profit and loss account. If the fair value is less than the carrying amount of the relevant asset the deficit is charged to the profit and loss account to the extent that it is not covered by surpluses arising on prior valuations of that asset which has been previously credited to the fixed assets revaluation reserve.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives to the Group on a straight-line basis. The principal annual rates are as follows:

Leasehold land	2%
Buildings	2% to 5%
Leasehold improvements	5% to 20%
Plant and machinery	10% to 30%
Furniture, office equipment and motor vehicles	10% to 30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**(j) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) Employee benefits*(i) Employee leave entitlements*

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

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

(ii) Pension obligations

The Group makes contributions to the mandatory provident fund scheme (the “MPF Scheme”) in Hong Kong, the assets of which are generally held in separate trustee-administered fund. The pension plan is generally funded by payments from employees and by the Group.

The Group’s contributions to the MPF Scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iii) Equity compensation benefits

Share options are granted to full-time directors and employees of the Group. No compensation cost is recognised on the date of the grant of the options. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when shipment is made.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments by location of customers be presented as the primary reporting format. Business segments are not presented as the secondary reporting format because the Group's turnover and operating 'were solely contributed by garment manufacturing business.

Unallocated costs represent corporate expenses. Segment assets by location of customers consist primarily of trade receivables and mainly exclude goodwill, fixed assets, inventories, other receivables and operating cash. Capital expenditure comprises additions to fixed assets.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in garment manufacturing. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of apparel products	<u>905,248</u>	<u>1,021,076</u>
Other revenues		
Interest income	<u>1,785</u>	<u>1,114</u>
Total revenues	<u><u>907,033</u></u>	<u><u>1,022,190</u></u>

The Group's turnover and operating loss were solely contributed by garment manufacturing business. The customers are located in five main geographical areas: United States of America, Europe, Canada, Southeast Asia and other countries.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – geographical segments by location of customers for 2004

	United States of America HK\$'000	Europe HK\$'000	Canada HK\$'000	Southeast Asia HK\$'000	Other countries HK\$'000	Group HK\$'000
Turnover	<u>804,783</u>	<u>21,236</u>	<u>44,548</u>	<u>28,195</u>	<u>6,486</u>	<u>905,248</u>
Segment results	<u>7,404</u>	<u>(554)</u>	<u>(20)</u>	<u>(2,118)</u>	<u>193</u>	<u>4,905</u>
Unallocated other revenues						284
Unallocated costs						<u>(48,525)</u>
Operating loss						<u>(43,336)</u>
Finance costs						<u>(3,011)</u>
Loss before taxation						<u>(46,347)</u>
Taxation						<u>3,890</u>
Loss after taxation						<u>(42,457)</u>
Minority interests						<u>1,549</u>
Loss attributable to shareholders						<u>(40,908)</u>
Segment assets	59,704	5,128	761	16,762	391	82,746
Unallocated assets						<u>406,722</u>
Total assets						<u>489,468</u>
Unallocated liabilities						<u>284,257</u>
Capital expenditure						56,580
Depreciation						17,262
Amortisation of goodwill						1,286

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – geographical segments by location of customers for 2003

	United States of America HK\$'000	Europe HK\$'000	Canada HK\$'000	Southeast Asia HK\$'000	Other countries HK\$'000	Group HK\$'000
Turnover	<u>870,360</u>	<u>61,202</u>	<u>60,337</u>	<u>24,572</u>	<u>4,605</u>	<u>1,021,076</u>
Segment results	<u>24,899</u>	<u>1,892</u>	<u>1,395</u>	<u>1,019</u>	<u>182</u>	29,387
Unallocated other revenues						241
Unallocated costs						<u>(49,300)</u>
Operating loss						(19,672)
Finance costs						<u>(2,233)</u>
Loss before taxation						(21,905)
Taxation						<u>(7,120)</u>
Loss after taxation						(29,025)
Minority interests						<u>5,505</u>
Loss attributable to shareholders						<u>(23,520)</u>
Segment assets	135,656	3,742	6,781	16,161	2,006	164,346
Unallocated assets						<u>382,715</u>
Total assets						<u>547,061</u>
Unallocated liabilities						<u>279,017</u>
Capital expenditure						17,266
Depreciation						18,006
Amortisation of goodwill						1,286
Amortisation of permanent textile quota entitlements	398	–	–	–	–	398

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – geographical segments by location of assets

	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong	162,756	446
Indonesia	170,405	2,929
Lesotho	39,081	52
El Salvador	30,793	40
Vietnam	15,355	161
China	<u>69,791</u>	<u>52,952</u>
	488,181	<u>56,580</u>
Unallocated assets	<u>1,287</u>	
	<u>489,468</u>	
	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong	241,930	1,858
Indonesia	193,211	8,912
Lesotho	49,611	1,257
El Salvador	34,833	476
Vietnam	17,219	2,847
China	<u>6,312</u>	<u>1,916</u>
	543,116	<u>17,266</u>
Unallocated assets	<u>3,945</u>	
	<u>547,061</u>	

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2004	2003
	HK\$'000	HK\$'000
<i>Crediting</i>		
Unrealised gains on other investments	289	560
Gain on disposal of fixed assets	49	–
Net exchange gains	666	–
	<u>666</u>	<u>–</u>
<i>Charging</i>		
Cost of inventories sold	791,971	860,226
Quota charges	22,201	11,943
Depreciation of fixed assets	17,262	18,006
Staff costs (excluding directors' emoluments) (Note 9)	167,961	168,529
Operating lease – land and buildings	10,547	9,175
Bad debt written off	4,895	–
Loss on disposal of fixed assets	–	7,210
Fixed assets written off	6,788	–
Amortisation of goodwill	1,286	1,286
Amortisation of permanent textile quota entitlements	–	398
Auditors' remuneration	1,692	1,869
Net exchange losses	–	1,639
	<u>–</u>	<u>1,639</u>

4 FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interests on bank loans and overdrafts wholly repayable within five years	3,011	2,233
	<u>3,011</u>	<u>2,233</u>

5 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
– current	379	5,001
– (over)/under-provision in prior years	(6,014)	16
Overseas taxation	1,357	2,493
Deferred taxation relating to the origination of temporary differences (Note 23)	388	(390)
	<u>(3,890)</u>	<u>7,120</u>
Taxation	<u>(3,890)</u>	<u>7,120</u>

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(46,347)</u>	<u>(21,905)</u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(8,111)	(3,833)
Effect of different taxation rates in other countries	3,866	2,059
Income not subject to taxation	(4,977)	(2,012)
Expenses not deductible for taxation purposes	2,512	7,592
Unrecognised deferred tax assets	8,834	3,329
(Over)/under provision of profits tax in prior years	(6,014)	16
Others	–	(31)
	<u>(3,890)</u>	<u>7,120</u>
Taxation	<u>(3,890)</u>	<u>7,120</u>

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$48,000,000 (2003: loss of HK\$10,000).

7 DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK\$Nil (2003: HK\$0.025) per ordinary share	-	9,001
Final, proposed, of HK\$Nil (2003: HK\$0.01) per ordinary share	-	3,600
	<u>-</u>	<u>3,600</u>
	<u>-</u>	<u>12,601</u>

8 LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$40,908,000 (2003: loss of HK\$23,520,000) and the weighted average number of 360,034,000 (2003: 360,034,000) ordinary shares in issue during the year.

No diluted loss per share is calculated for each of the years ended 31st December, 2004 and 31st December, 2003 since the exercise price of the Company's outstanding share options were higher than the average fair value per share of the Company during the respective year.

9 STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	163,317	160,300
Termination benefits	3,115	5,780
Pension costs – mandatory provident fund scheme (<i>Note</i>)	1,529	2,449
	<u>167,961</u>	<u>168,529</u>

9 STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

Note:

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1st December, 2000.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$4,000 per month. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

For employees whose basic salaries are in excess of HK\$20,000 per month, the employees may choose to make voluntary contributions at 5%, 7.5% or 10% of their salaries on a monthly basis. The Group shall then make 5% of their salaries as voluntary contributions for such employees. The employees are entitled to 100% of the Group's voluntary contributions after ten completed years of service, or at an increasing scale of between 30% to 90% after completion of three to nine years of service. Where an employee leaves the Group before the Group's contribution has fully vested, such forfeited contributions may be used by the Group to reduce its existing level of contributions. Forfeited contributions totalling HK\$105,000 (2003: HK\$4,000) were utilised during the year leaving HK\$Nil (2003: HK\$1,000) available at the year-end to reduce future contributions.

The MPF Scheme cost charged to the consolidated profit and loss account represents contributions payable by the Group to the MPF Scheme.

Except for the MPF Scheme, the Group did not have any other provident fund scheme available for its employees during the year.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees		
Independent non-executive directors	450	450
Executive directors	400	400
	<u>850</u>	<u>850</u>
Other emoluments		
Basic salaries, housing allowances, other allowances and benefits in kind	8,951	9,293
Contributions to the MPF Scheme	332	332
	<u>9,283</u>	<u>9,625</u>
	<u><u>10,133</u></u>	<u><u>10,475</u></u>

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	–	1
	<u>7</u>	<u>7</u>

During the year, two directors waived emoluments of HK\$294,000 (2003: Nil).

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: two) individual during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,040	1,990
Contributions to the MPF Scheme	12	48
	<u>1,052</u>	<u>2,038</u>

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>1</u>	<u>2</u>

11 GOODWILL

	2004	2003
	HK\$'000	HK\$'000
Cost	8,048	8,048
Accumulated amortisation and impairment losses	(6,761)	(5,475)
Net book amount	<u>1,287</u>	<u>2,573</u>
		HK\$'000
At 1st January, 2004		2,573
Amortisation		<u>(1,286)</u>
At 31st December, 2004		<u>1,287</u>

12 FIXED ASSETS

	Group							
	Leasehold land and buildings				Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in China	Held in Indonesia	Held in Lesotho				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
At 1st January, 2004	19,201	-	53,289	8,567	12,982	52,427	26,950	173,416
Exchange adjustment	-	-	(25)	64	-	(3,066)	(155)	(3,182)
Additions	-	13,088	144	-	13	41,160	2,175	56,580
Disposals	-	-	-	-	-	(1,207)	(289)	(1,496)
Fixed assets written off	-	-	-	-	(397)	(13,045)	(2,100)	(15,542)
Revaluation	(651)	(160)	(10,867)	(511)	-	(1,442)	-	(13,631)
At 31st December, 2004	18,550	12,928	42,541	8,120	12,598	74,827	26,581	196,145
Accumulated depreciation and impairment losses								
At 1st January 2004	-	-	-	-	9,456	-	16,165	25,621
Charge for the year	651	160	2,727	511	1,018	9,232	2,963	17,262
Disposals	-	-	-	-	-	(752)	(112)	(864)
Fixed assets written off	-	-	-	-	(369)	(7,038)	(1,347)	(8,754)
Revaluation	(651)	(160)	(2,727)	(511)	-	(1,442)	-	(5,491)
At 31st December, 2004	-	-	-	-	10,105	-	17,669	27,774
Net book value								
At 31st December, 2004	18,550	12,928	42,541	8,120	2,493	74,827	8,912	168,371
At 31st December, 2003	19,201	-	53,289	8,567	3,526	52,427	10,785	147,795

12 FIXED ASSETS (CONTINUED)

The analysis of the cost or valuation at 31st December, 2004 of the above assets is as follows:

	Leasehold land and buildings				Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in China	Held in Indonesia	Held in Lesotho				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	-	-	-	-	12,598	-	26,581	39,179
At 2004 valuation	18,550	12,928	42,541	8,120	-	74,827	-	156,966
	<u>18,550</u>	<u>12,928</u>	<u>42,541</u>	<u>8,120</u>	<u>12,598</u>	<u>74,827</u>	<u>26,581</u>	<u>196,145</u>

The analysis of the cost or valuation at 31st December, 2003 of the above assets is as follows:

	Leasehold land and buildings				Leasehold improve- ments	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	Held in Hong Kong	Held in China	Held in Indonesia	Held in Lesotho				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	-	-	-	-	12,982	-	26,950	39,932
At 2003 valuation	19,201	-	53,289	8,567	-	52,427	-	133,484
	<u>19,201</u>	<u>-</u>	<u>53,289</u>	<u>8,567</u>	<u>12,982</u>	<u>52,427</u>	<u>26,950</u>	<u>173,416</u>

12 FIXED ASSETS (CONTINUED)

Notes:

- (a) The Group's interests in land and buildings at their net book values are analysed as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	18,550	19,201
In China, held on:		
Leases of between 10 to 50 years	12,928	–
In Indonesia, held on:		
Leases of between 10 to 50 years	42,541	53,289
In Lesotho, held on:		
Leases of less than 10 years	8,120	8,567
	<u>82,139</u>	<u>81,057</u>

- (b) Leasehold land and buildings in Hong Kong were revalued as at 31st December, 2004 by Vigers Hong Kong Limited, an independent property valuer, on an open market value basis.
- (c) The fixed assets in Indonesia comprising leasehold land and buildings, plant and machinery were revalued by PTVPC Hagai Sejahtera, an independent qualified surveyor in Indonesia and a member of the VPC Asia Pacific Holding, as at 31st December, 2004. The land and buildings were revalued on an open market value basis. The plant and machinery were revalued at their depreciated replacement costs which were appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history.
- (d) The fixed assets in Lesotho comprising leasehold land and buildings, plant and machinery were revalued by Japie Van Dierk, an independent qualified surveyor in Lesotho at 31st December, 2004. The land and buildings were revalued on an open market value basis. The plant and machinery were revalued at their depreciated replacement costs which were appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history.
- (e) The carrying amount of leasehold land and buildings in Hong Kong, China, Indonesia and Lesotho and plant and machinery would have been HK\$25,731,000, HK\$12,928,000, HK\$15,921,000 and HK\$8,120,000 and HK\$74,827,000 (2003: HK\$26,381,000, HK\$Nil, HK\$18,530,000, HK\$8,569,000 and HK\$52,427,000) respectively for the Group had they been stated at cost less accumulated depreciation.

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Investment costs, unlisted shares	165,939	165,939
Provision for impairment loss	(48,000)	–
	<u>117,939</u>	<u>165,939</u>

Details of principal subsidiaries are set out in Note 27 to the accounts.

NOTES TO THE ACCOUNTS

14 INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Equity securities		
Listed in Hong Kong, at cost	<u>2,125</u>	<u>2,125</u>
Market value	<u>3,063</u>	<u>2,450</u>

15 INVENTORIES, AT COST

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	70,820	82,812
Work in progress	38,834	25,718
Finished goods	25,223	9,379
Goods in transit	<u>9,152</u>	<u>16,429</u>
	<u>144,029</u>	<u>134,338</u>

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables (Note)	70,834	149,962	–	–
Prepayments, deposits and other receivables	<u>15,820</u>	<u>16,944</u>	<u>745</u>	<u>684</u>
	<u>86,654</u>	<u>166,906</u>	<u>745</u>	<u>684</u>

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

Note:

The majority of the Group's turnover is on letter of credit at sight to 90 days. The remaining balances of turnover are without specific credit terms. The ageing analysis of trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	50,439	86,824
31-60 days	11,100	19,540
61-90 days	1,564	33,579
Over 90 days	7,731	10,019
	<u>70,834</u>	<u>149,962</u>

17 OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Investment in unit trusts:		
Listed outside Hong Kong, at market value	<u>8,821</u>	<u>7,949</u>

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	101,514	97,470	–	–
Other payables and accruals	25,331	42,390	460	270
	<u>126,845</u>	<u>139,860</u>	<u>460</u>	<u>270</u>

18 TRADE AND OTHER PAYABLES (CONTINUED)

The ageing analysis of the trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	83,134	57,726
31-60 days	4,702	16,484
61-90 days	2,146	7,552
Over 90 days	<u>11,532</u>	<u>15,708</u>
	<u><u>101,514</u></u>	<u><u>97,470</u></u>

19 BANK LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, wholly repayable within one year (note a)		
– secured (Note b)	33,526	32,691
– unsecured	<u>47,299</u>	<u>76,432</u>
	80,825	109,123
Bank loans, wholly repayable between two and five years		
– secured (Note b)	<u>23,400</u>	–
	<u><u>104,225</u></u>	<u><u>109,123</u></u>

Note:

- (a) Bank loans wholly repayable within one year included secured trust receipts loans of HK\$25,726,000 (2003: HK\$32,691,000) and unsecured trust receipts loans of HK\$47,299,000 (2003: HK\$76,432,000).
- (b) Certain leasehold land and buildings of the Group with an aggregate carrying value of approximately HK\$19 million (2003: HK\$19 million) have been pledged as securities for the above secured bank loans.

20 SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid		
360,034,000 ordinary shares of HK\$0.10 each	<u>36,003</u>	<u>36,003</u>

Share options

(a) *Share option scheme adopted on 23rd February, 2000 (the "Old Scheme")*

The sole shareholder of the Company approved the Old Scheme on 23rd February, 2000, under which the directors of the Company are authorised to grant options to directors or full-time employees of the Company or its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Old Scheme. Under the terms of the Old Scheme, the directors of the Company granted options to certain full-time employees (including executive directors) of the Company or its subsidiaries on 31st August, 2001 to subscribe for a total of 36,000,000 shares in the Company at a price of HK\$0.906 per share. At 31st December, 2004, there were 31,616,000 options outstanding which are exercisable from 1st September, 2002 to 31st August, 2005.

Although the Old Scheme was terminated and a new share option scheme was adopted on 8th May, 2002 (Note 20(b)), the provisions of the Old Scheme remain in force and all outstanding options granted prior to the said termination continue to be valid and exercisable in accordance therewith.

20 SHARE CAPITAL (CONTINUED)

Share options (Continued)

(a) *Share option scheme adopted on 23rd February, 2000 (the "Old Scheme") (Continued)*

Movements in the number of options outstanding under the Old Scheme during the year are as follows:

	2004	2003
At 1st January	34,016,000	35,466,000
Lapsed	(2,400,000)	(1,450,000)
At 31st December	<u>31,616,000</u>	<u>34,016,000</u>

Notes:

- (i) No share options were exercised during the year (2003: No share options were exercised during the year).
- (ii) Share options outstanding at 31st December, 2004 have the following terms:

Expiry date	Exercise price HK\$	Number of options	
		2004	2003
Directors 31st August, 2005	0.906	20,000,000	20,000,000
Continuous contract employees 31st August, 2005	0.906	<u>11,616,000</u>	14,016,000
		<u>31,616,000</u>	<u>34,016,000</u>

(b) *Share option scheme adopted on 8th May, 2002 (the "New Scheme")*

At the Annual General Meeting of the Company held on 8th May, 2002, the New Scheme was approved and adopted.

Under the New Scheme, the directors of the Company are authorised to grant options to qualifying participants of the Company or its subsidiaries to subscribe for shares in the Company at prices in accordance with the terms of the New Scheme. The total number of shares available for issue under the New Scheme is 4,350,000 which is 1.21% of the issued share capital of the Company as at 31st December, 2004.

No options have been granted under the New Scheme.

21 SHARE CAPITAL AND RESERVES

	Group						
	Share capital	Exchange fluctuation reserve (Note 1(b)(ii))	Fixed assets revaluation reserve (Note 22)	Merger reserve (Note (a))	Share premium	Retained earnings (Note 1(b)(ii))	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004	36,003	(39,458)	55,689	(200)	36,889	179,121	268,044
Exchange differences arising on the translation of the accounts of overseas subsidiaries	-	(5,753)	-	-	-	(6,490)	(12,243)
Deficit on revaluation (Note 22)	-	-	(6,082)	-	-	-	(6,082)
Loss for the year	-	-	-	-	-	(40,908)	(40,908)
2003 final dividend paid (Note 7)	-	-	-	-	-	(3,600)	(3,600)
At 31st December, 2004	36,003	(45,211)	49,607	(200)	36,889	128,123	205,211
At 1st January, 2003	36,003	(42,505)	63,719	(200)	36,889	214,690	308,596
Exchange differences arising on the translation of the accounts of overseas subsidiaries	-	3,047	-	-	-	4,153	7,200
Deficit on revaluation (Note 22)	-	-	(8,030)	-	-	-	(8,030)
Loss for the year	-	-	-	-	-	(23,520)	(23,520)
2002 final dividend paid	-	-	-	-	-	(7,201)	(7,201)
2003 interim dividend paid (Note 7)	-	-	-	-	-	(9,001)	(9,001)
At 31st December, 2003	36,003	(39,458)	55,689	(200)	36,889	179,121	268,044
Representing:							
Retained earnings at 31st December, 2003						175,521	
2003 final dividend proposed (Note 7)						3,600	
At 31st December, 2003						179,121	

21 SHARE CAPITAL AND RESERVES (CONTINUED)

	Company				
	Contributed		Share premium	Retained earnings including proposed dividends	Total
	Share capital	surplus <i>(note (b))</i>			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January, 2004	36,003	165,739	36,889	18,056	256,687
Loss for the year	-	-	-	(48,000)	(48,000)
2003 final dividend paid (Note 7)	-	-	-	(3,600)	(3,600)
At 31st December, 2004	36,003	165,739	36,889	(33,544)	205,087
At 1st January, 2003	36,003	165,739	36,889	34,268	272,899
Loss for the year	-	-	-	(10)	(10)
2002 final dividend paid	-	-	-	(7,201)	(7,201)
2003 interim dividend paid (Note 7)	-	-	-	(9,001)	(9,001)
At 31st December, 2003	36,003	165,739	36,889	18,056	256,687
Representing:					
Retained earnings at 31st December, 2003				14,456	
2003 final dividend proposed (note 7)				3,600	
At 31st December, 2003				18,056	

21 SHARE CAPITAL AND RESERVES (CONTINUED)

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the shares of a subsidiary acquired and the nominal value of the Company's shares issued in exchange thereof.
- (b) The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiary acquired and the nominal value of the Company's shares issued in exchange thereof.

22 FIXED ASSETS REVALUATION RESERVE

	Group		
	Leasehold land and buildings in Indonesia HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
At 1st January, 2004	42,543	13,146	55,689
Deficit on revaluation	<u>(6,082)</u>	<u>-</u>	<u>(6,082)</u>
At 31st December, 2004	<u>36,461</u>	<u>13,146</u>	<u>49,607</u>
At 1st January, 2003	42,824	20,895	63,719
Deficit on revaluation	<u>(281)</u>	<u>(7,749)</u>	<u>(8,030)</u>
At 31st December, 2003	<u>42,543</u>	<u>13,146</u>	<u>55,689</u>

23 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%). Deferred taxation of overseas subsidiaries are calculated at the rates of taxation prevailing in the countries in which the Group operates.

The movement on the deferred tax assets/(liabilities) account is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1st January	402	–
Exchange differences	(49)	12
Deferred taxation (charged)/credited to profit and loss account (Note 5)	<u>(388)</u>	<u>390</u>
At 31st December	<u><u>(35)</u></u>	<u><u>402</u></u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$79,307,000 (2003: HK\$25,430,000) to carry forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities arising from accelerated tax depreciation

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1st January	970	–
Charged to profit and loss account	454	959
Exchange differences	<u>(85)</u>	<u>11</u>
At 31st December	<u><u>1,339</u></u>	<u><u>970</u></u>

23 DEFERRED TAXATION (CONTINUED)

Deferred tax assets arising from tax losses

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	1,372	–
Credited to the profit and loss account	66	1,349
Exchange differences	(134)	23
	<u>1,304</u>	<u>1,372</u>
At 31st December	<u>1,304</u>	<u>1,372</u>
	2004	2003
	HK\$'000	HK\$'000
Deferred tax assets	1,304	1,372
Deferred tax liabilities	(1,339)	(970)
	<u>(35)</u>	<u>402</u>

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow/(outflow) from operations

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(46,347)	(21,905)
Depreciation of fixed assets	17,262	18,006
Amortisation of goodwill	1,286	1,286
Amortisation of permanent textile quota entitlements	-	398
Bad debt written off	4,895	-
(Gain)/loss on disposal of fixed assets	(49)	7,210
Fixed assets written off	6,788	-
Unrealised gains on other investments	(289)	(560)
Interest income	(1,785)	(1,114)
Interest expenses	3,011	2,233
Operating (loss)/profit before working capital changes	(15,228)	5,554
(Increase)/decrease in inventories	(11,151)	467
Decrease/(increase) in trade and other receivables	74,861	(47,847)
(Decrease)/increase in trade and other payables	(12,365)	35,418
Net cash inflow/(outflow) from operations	<u>36,117</u>	<u>(6,408)</u>

(b) Analysis of changes in financing during the year

	Share capital (including premium)		Bank loans		Minority interests	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st January	72,892	72,892	109,123	68,743	2,596	6,040
Bank loans raised	-	-	346,459	346,739	-	-
Bank loans repaid	-	-	(351,357)	(306,359)	-	-
Minority interests' in share of profits and reserves	-	-	-	-	(1,869)	(5,928)
Investment in subsidiaries from minority shareholders	-	-	-	-	25,767	2,458
Exchange differences	-	-	-	-	(5)	26
At 31st December	<u>72,892</u>	<u>72,892</u>	<u>104,225</u>	<u>109,123</u>	<u>26,489</u>	<u>2,596</u>

25 CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	–	–	104,225	109,123
Bills of exchange discounted with recourse	11,981	12,801	–	–
	<u>11,981</u>	<u>12,801</u>	<u>104,225</u>	<u>109,123</u>

Management anticipates that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

26 COMMITMENTS

(a) Capital commitments relating to the Group's interest in a subsidiary and acquisition of fixed assets are as follow:

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
– interest in a subsidiary	–	25,753
– acquisition of fixed assets	–	67
	<u>–</u>	<u>25,820</u>

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments for land and buildings under non-cancellable operating leases as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	4,324	9,812
Later than one year and not later than five years	9,504	10,690
Later than five years	10,605	11,947
	<u>24,433</u>	<u>32,449</u>

27 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st December, 2004:

Company name	Place of incorporation/ Place of operation	Principal activities	Particulars of issued share capital	Percentage of interest held
<i>Shares held directly:</i>				
Topwell Group Development Ltd.	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	100
<i>Shares held indirectly:</i>				
Best Sphere Group Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Carry Wealth Limited	Hong Kong	Garment trading, marketing and provision of management services	4,000,000 ordinary shares of HK\$1 each	100
Carry Wealth (South Africa) Investment Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Charter Row Group Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Charter, S.A. de C.V.	El Salvador	Manufacture of knit tops	200 shares of US\$114.28 each	100
Dragon Vision Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Giant Sage Investments Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100

27 SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation/ Place of operation	Principal activities	Particulars of issued share capital	Percentage of interest held
Gold Clipper Trading Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Keen Vision Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	100
Promaster Company Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100
Times King Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Topwell Investment (Asia) Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
Topwell Investments Ltd.	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100
東莞國興製衣有限公司 (Dongguan Guoxing Garment Limited) *	PRC wholly owned foreign enterprise	Manufacture and sale of knit, woven and sweater products	HK\$5,000,000	100
PT Aneka Garmentama Indah *	Indonesia	Manufacture of woven bottoms	6,000 ordinary shares of Rp1 million each	95

27 SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation/ Place of operation	Principal activities	Particulars of issued share capital	Percentage of interest held
PT Caterindo Garment Industri *	Indonesia	Manufacture of knit tops	15,000 ordinary shares of Rp1 million each	95
Shinning Century Limited	Hong Kong/ Lesotho	Manufacture of knit tops	1,000,000 ordinary shares of HK\$1 each	70
Sino Precision Limited	British Virgin Island	Investment holding	1,000 ordinary shares of US\$1 each	66.7
Carry Greatwall Apparel Limited	Hong Kong	Provision of management services	10,000 ordinary shares of HK\$1 each	51
Excellent First Limited	Hong Kong	Trading and sourcing of garment products	5,000,000 ordinary shares of HK\$1 each	51
Molax Vina Co., Ltd	Vietnam	Manufacture of knit tops	US\$400,000	51
山東魏橋恒富針織 印染有限公司 (ShanDong WeiQiao HengFu Textile Limited) *	PRC sino-foreign equity joint venture	Knitting, dyeing and finishing of knitted fabrics	US\$8,250,000	40

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 42% (2003: 20%) of the Group's total assets at 31st December, 2004.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 17th March, 2005.