

Notes to the Financial Statements

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs", which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 ("HKSE"). A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 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.

The financial statements are prepared on a basis consistent with the accounting policies and methods adopted in the previous 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 2004

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.

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.

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% to 50%
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.

Notes to the Financial Statements

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 equity 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 equity 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.

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 first-in-first-out 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.

Notes to the Financial Statements

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Leasing (continued)

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.

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 sheets 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.

Notes to the Financial Statements

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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	
	2004	2003
	HK\$'000	HK\$'000
Net income from short term investments	2,700	802
Interest income	1,181	273
Sundry income	1,022	1,057
	4,903	2,132

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.

(a) Business segments

The Group comprises the following main business segments:

- (i) **Manufacturing Business:** The Group manufactures headwear products for sale to its Trading Business as well as to external customers. The prime manufacturing facilities are located in Shenzhen, the PRC. Customers are mainly located in the USA and Europe.

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For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

- (ii) Trading Business: The trading of headwear and other products business of the Group is operated through two subsidiaries, Drew Pearson Marketing, Inc. (“DPM”) and Drew Pearson International, Inc. (“DPI”) located in the USA, which focus on the USA and Europe markets respectively.
- (iii) Retailing: The Group operates LIDS stores in the PRC and Hong Kong under a license agreement with HatWorld Inc., a leading retailer of headwear in the US, signed in February 2004.

	Manufacturing		Trading		Retailing		Inter-segment elimination		Consolidation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover from external customers	245,004	198,254	308,883	271,651	3,583	-	-	-	557,470	469,905
Inter-segment turnover	110,108	64,281	-	-	-	-	(110,108)	(64,281)	-	-
	355,112	262,535	308,883	271,651	3,583	-	(110,108)	(64,281)	557,470	469,905
Other revenue	3,875	991	954	339	74	-	-	-	4,903	1,330
Total	358,987	263,526	309,837	271,990	3,657	-	(110,108)	(64,281)	562,373	471,235
Segment result and contribution from operations	90,780	67,088	3,805	10,624	(2,693)	-	(99)	(177)	91,793	77,535
Amortisation of goodwill									(288)	(1,275)
Profit from operations									91,505	76,260
Finance costs									(69)	(202)
Taxation									(7,771)	(7,737)
Minority interests									-	(1,354)
Profit attributable to shareholders									83,665	66,967
Depreciation	18,190	16,311	1,904	2,209	213	-	-	-	20,307	18,520
Amortisation of goodwill									288	1,275
Depreciation and amortisation for the year									20,595	19,795
Significant non-cash expenses (other than depreciation and amortisation)	1,196	1,391	(441)	31	-	-	-	-	755	1,422

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

	Manufacturing		Trading		Retailing		Consolidation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	355,034	339,834	129,570	87,855	6,369	-	490,973	427,689
Unallocated assets							5,771	6,059
Total assets							496,744	433,748
Segment liabilities	47,112	51,539	33,688	24,096	1,348	-	82,148	75,635
Capital expenditure incurred during the year	26,534	26,689	1,609	653	2,117	-	30,260	27,342

(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

	2004 HK\$'000	2003 HK\$'000
USA	489,668	430,525
Europe	55,631	35,438
Others	12,171	3,942
Total	557,470	469,905

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (Continued)

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		USA		Unallocated		Consolidation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	361,403	339,834	129,570	87,855	5,771	6,059	496,744	433,748
Capital expenditure incurred during the year	28,651	26,689	1,609	653	-	-	30,260	27,342

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	The Group	
	2004 HK\$'000	2003 HK\$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	59	175
Finance charges on obligations under finance leases	10	27
	69	202
(b) Other items		
Staff costs (including directors' emoluments and retirement benefit costs)	104,867	83,888
Cost of inventories	349,206	295,905
Amortisation of goodwill (included in administration expenses)	288	1,275
Auditors' remuneration	1,144	1,452
Depreciation	20,307	18,520
Operating leases in respect of office premises, factories and warehouses	11,129	8,656
Provisions for doubtful debts	755	2,400

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For the year ended 31 December 2004

6. DIRECTORS' EMOLUMENTS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Fees	235	208
Salaries, housing benefits, other allowances and benefits in kind	6,359	4,543
Discretionary bonuses	3,000	–
Contributions to retirement scheme	135	132
	9,729	4,883

Remunerations for each of the Directors for the year are as follows:

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonuses HK\$'000	Pension contribution HK\$'000	Total HK\$'000
Mr. Ngan Hei Keung	–	1,040	3,000	48	4,088
Madam Ngan Po Ling, Pauline	–	1,591	–	24	1,615
Mr. Ho Hung Chu, Peter	–	2,000	–	12	2,012
Mr. David, Stephen Briskie	–	1,728	–	51	1,779
Mr. Leung Shu Yin, William	104	–	–	–	104
Mr. Tse Kam Fow	45	–	–	–	45
Mr. Gordon Ng	86	–	–	–	86
Total	235	6,359	3,000	135	9,729

The emoluments payable to the directors are determined by reference to the duties and responsibilities.

According to the service contract with each of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, Mr. Ngan and Madam Ngan are entitled to a discretionary bonus provided that the audited consolidated net profit after taxation but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK\$40,000,000. The amount of the discretionary bonus is determined by the Board at its discretion, but in any event, the aggregate amount payable in each financial year to all executive directors shall not exceed 5% of the Profit.

According to the service contract between Mr. David, Stephen Briskie and two of the subsidiaries of the Group, in addition to the base salary of HK\$1,716,000 per annum, Mr. Briskie is also entitled to a gratitude payment equal to 15% of the annual base salary, in aggregate, payable after the expiration of the initial term of 5 years of the service contract commencing 26 April 2002.

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.

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For the year ended 31 December 2004

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included four (2003: two) directors, details of whose remuneration are set out in note 6. The details of the emoluments of the remaining one (2003: three) highest paid individual is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,226	3,435
Contributions to retirement scheme	51	128
	1,277	3,563

The emoluments of this one (2003: three) employee is within the following band:

	The Group	
	2004 HK\$'000	2003 HK\$'000
HK\$1,000,001 – HK\$1,500,000	1	3

8. TAXATION

	The Group	
	2004 HK\$'000	2003 HK\$'000
Hong Kong Profits Tax (note (i))	7,400	6,150
PRC income tax (note (ii))	78	(1,790)
Overseas tax (note (iii))	1,770	4,565
Deferred taxation (note 22)	(1,477)	(1,188)
	7,771	7,737

Note:

- (i) Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

Notes to the Financial Statements

For the year ended 31 December 2004

8. TAXATION (continued)

(iv) Reconciliation of tax expenses

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit from ordinary activities before tax	91,436	76,058
Calculated at a taxation rate of 17.5% (2003: 17.5%)	16,001	13,310
Effect of difference taxation rates in other countries	132	630
Non-deductible expenses	584	1,412
Tax exempt revenue	(8,660)	(6,835)
Unrecognised tax losses	999	201
Effect of change in tax rate	–	569
Overprovision in prior years	(1,003)	(3,043)
Others	(282)	1,493
Tax expenses for the year	7,771	7,737

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\$104,570,000 (2003: HK\$49,556,000), including dividends from subsidiaries totalling HK\$105,000,000 (2003: HK\$50,000,000).

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend of HK3 cents (2003: HK2 cents) per share	8,562	5,669
Proposed final dividend of HK10 cents (2003: HK8 cents) per share	28,618	22,675
	37,180	28,344

A final dividend in respect of 2004 of HK10 cents (2003: HK8 cents) per share amounting to approximately HK\$28,618,000 (2003: HK\$22,675,000) 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.

Notes to the Financial Statements

For the year ended 31 December 2004

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\$83,665,000 (2003: HK\$66,967,000).

The basic earnings per share is based on the weighted average number of shares of 284,463,941 (2003: 282,411,046) for the year. The diluted earnings per share is based on 311,161,941 (2003: 300,126,046) 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.

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 the 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 vested 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.

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12. RETIREMENT SCHEMES (continued)

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:

	2004 HK\$'000	2003 HK\$'000
Gross retirement schemes contributions	1,676	1,614
Less: Forfeited contributions for the year	(220)	(27)
Net retirement schemes contributions	1,456	1,587

As at 31 December 2004, 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment	Leasehold improvements	Plant and machinery	Construction in progress	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group						
Cost						
At 1 January 2004	20,867	23,138	120,212	11,042	5,422	180,681
Additions	3,542	2,217	17,641	5,500	1,360	30,260
Exchange differences	3	1	11	-	-	15
Disposals	-	-	(9,726)	-	(440)	(10,166)
At 31 December 2004	24,412	25,356	128,138	16,542	6,342	200,790
Accumulated depreciation						
At 1 January 2004	15,482	8,636	42,835	-	1,010	67,963
Charge for the year	3,631	2,460	13,066	-	1,150	20,307
Exchange differences	2	1	3	-	-	6
Eliminated on disposals	-	-	(8,304)	-	(381)	(8,685)
At 31 December 2004	19,115	11,097	47,600	-	1,779	79,591
Net book value						
At 31 December 2004	5,297	14,259	80,538	16,542	4,563	121,199
At 1 January 2003	5,385	14,502	77,377	11,042	4,412	112,718

As at 31 December 2004, the net book value of the Group's property, plant and equipment includes an amount of approximately HK\$115,000 (2003: HK\$314,000) in respect of assets held under finance leases.

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14. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries (note (i))	220,627	143,759
	320,258	243,390

Notes:

- (i) The amounts due from subsidiaries, which included dividends totaling HK\$105,000,000 (2003: 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 33.

15. INTANGIBLES

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Cost			
At 1 January 2004 and 31 December 2004	10,199	(1,974)	8,225
Amortisation			
At 1 January 2004	2,166	–	2,166
Amortisation for the year	1,275	(987)	288
At 31 December 2004	3,441	(987)	2,454
Carrying value			
31 December 2004	6,758	(987)	5,771
31 December 2003	8,033	(1,974)	6,059

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 in late 2003 is amortised over the remaining useful life of their identifiable non-monetary assets of approximately 2 years.

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16. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	32,807	29,064
Work-in-progress	6,486	7,537
Finished goods	28,342	24,302
	67,635	60,903

The amount of inventories, included in above, carried at net realisable value is HK\$42,704,000 (2003: HK\$10,875,000).

17. TRADE AND OTHER RECEIVABLES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Trade receivables	112,544	85,022
Deposits, prepayments and other debtors	20,027	9,776
	132,571	94,798

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	56,778	27,951
31 – 60 days	39,482	31,865
61 – 90 days	13,295	18,225
Over 90 days	2,989	6,981
	112,544	85,022

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.

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18. SHORT TERM INVESTMENTS

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

19. TRADE AND OTHER PAYABLES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	32,419	32,325
Accrued charges and other creditors	36,400	30,397
	68,819	62,722

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	20,001	12,799
31 – 60 days	9,735	9,373
61 – 90 days	1,222	4,777
Over 90 days	1,461	5,376
	32,419	32,325

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20. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount payable:				
Within one year	124	183	122	176
In the second year	–	142	–	138
	124	325	122	314
Future finance charges	(2)	(11)	–	–
Present value of lease obligations	122	314	122	314

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

21. POST-EMPLOYMENT BENEFITS

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

22. DEFERRED TAXATION

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

	Assets		Liabilities	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Depreciation allowances	10	(6)	(6,699)	(7,617)
Provisions	3,391	2,828	–	–
Tax losses	–	177	–	–
Others	3,027	2,868	–	–
Deferred tax assets (liabilities)	6,428	5,867	(6,699)	(7,617)

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For the year ended 31 December 2004

22. DEFERRED TAXATION (continued)

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

	2004 HK\$'000	2003 HK\$'000
Net deferred tax liabilities at 1 January	1,750	2,938
Exchange differences	(2)	–
Credit for the year (note 8)	(1,477)	(1,188)
Net deferred tax liabilities at 31 December	271	1,750

23. SHARE CAPITAL

	Number of shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31 December 2004 and 2003	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2003	281,298,531	28,129
Issue of shares pursuant to share option scheme (a)	2,134,000	214
As at 31 December 2003	283,432,531	28,343
Issue of shares pursuant to share option schemes (b)	2,449,000	245
As at 31 December 2004	285,881,531	28,588

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2004:

- (a) 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.
- (b) During the year ended 31 December 2004, options were exercised to subscribe for 1,517,000 shares at the exercise price of HK\$1.228 per share and 932,000 shares at the exercise price of HK\$2.30 per share under the share option schemes.

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.

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For the year ended 31 December 2004

24. 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 was 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.

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

	2004 Number of share options	2003 Number of share options
At 1 January	31,315,000	22,936,000
Granted	–	13,920,000
Exercised (note b)	(2,449,000)	(2,134,000)
Lapsed	(2,168,000)	(3,407,000)
As 31 December	26,698,000	31,315,000
Options vested at 31 December	15,383,000	11,544,600

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

Exercise price	2004 Number of share options	2003 Number of share options
HK\$1.228	1,517,000	2,134,000
HK\$2.30	932,000	–
	2,449,000	2,134,000

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For the year ended 31 December 2004

25. 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 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)
Profits for the year	–	–	66,967	–	66,967
2002 final dividend paid	–	–	(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	–	–	22,675	–	22,675
Reserves	90,126	25,878	191,312	(221)	307,095
	90,126	25,878	213,987	(221)	329,770
At 1 January 2004	90,126	25,878	213,987	(221)	329,770
Issue of shares on exercise of share options	3,762	–	–	–	3,762
Exchange differences	–	–	–	48	48
Profits for the year	–	–	83,665	–	83,665
2003 final dividend paid (note 10)	–	–	(22,675)	–	(22,675)
2004 interim dividend paid (note 10)	–	–	(8,562)	–	(8,562)
At 31 December 2004	93,888	25,878	266,415	(173)	386,008
Representing:					
2004 proposed final dividend (note 10)	–	–	28,618	–	28,618
Reserves	93,888	25,878	237,797	(173)	357,390
	93,888	25,878	266,415	(173)	386,008

Notes to the Financial Statements

For the year ended 31 December 2004

25. RESERVES (continued)

	Share premium	Contributed surplus	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company				
At 1 January 2003	87,719	99,431	1,445	188,595
Issue of shares on exercise of share options	2,407	–	–	2,407
Profits for the year	–	–	49,556	49,556
2002 final dividend paid	–	–	(16,878)	(16,878)
2003 interim dividend paid (note 10)	–	–	(5,669)	(5,669)
	<u>90,126</u>	<u>99,431</u>	<u>28,454</u>	<u>218,011</u>
At 31 December 2003	90,126	99,431	28,454	218,011
Representing:				
2003 proposed final dividend	–	–	22,675	22,675
Reserves	90,126	99,431	5,779	195,336
	<u>90,126</u>	<u>99,431</u>	<u>28,454</u>	<u>218,011</u>
At 1 January 2004	90,126	99,431	28,454	218,011
Issue of shares on exercise of share options	3,762	–	–	3,762
Profits for the year	–	–	104,570	104,570
2003 final dividend paid (note 10)	–	–	(22,675)	(22,675)
2004 interim dividend paid (note 10)	–	–	(8,562)	(8,562)
	<u>93,888</u>	<u>99,431</u>	<u>101,787</u>	<u>295,106</u>
At 31 December 2004	93,888	99,431	101,787	295,106
Representing:				
2004 proposed final dividend (note 10)	–	–	28,618	28,618
Reserves	93,888	99,431	73,169	266,488
	<u>93,888</u>	<u>99,431</u>	<u>101,787</u>	<u>295,106</u>

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.

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For the year ended 31 December 2004

25. RESERVES (continued)

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 2004, the Company's reserves available for cash distribution amounted to HK\$201,218,000 (2003: HK\$127,885,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$93,888,000 (2003: HK\$90,126,000) may be distributed in the form of fully paid bonus shares.

26. CASH GENERATED FROM OPERATIONS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit from ordinary activities before taxation	91,436	76,058
Interest income	(1,181)	(273)
Interest expenses	69	202
Amortisation of goodwill	288	1,275
(Gain)/loss on disposal of property, plant and equipment	(4)	6
Net income from short term investments	(2,700)	(802)
Depreciation	20,307	18,520
Write-back of post-employment benefits	-	(978)
Changes in working capital:		
Inventories	(6,732)	(7,236)
Trade and other receivables	(37,773)	(19,514)
Trade and other payables	6,097	13,253
Cash generated from operations	69,807	80,511

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For the year ended 31 December 2004

27. 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:

	2004		2003	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	14,365	819	8,024	–
In the second to fifth years inclusive	25,364	1,251	24,802	–
Over five years	16,957	–	17,410	–
	56,686	2,070	50,236	–

In addition, the Group has operating lease commitments with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases.

28. CAPITAL COMMITMENTS

At 31 December 2004, the Group had capital expenditure commitments in respect of plant and equipment as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
– Manufacturing facilities	6,500	5,060
Authorised but not contracted for		
– Manufacturing facilities and equipment	14,500	17,550
– New retail outlets	4,000	–
	25,000	22,610

29. PLEDGED ASSETS

As at 31 December 2004, the Group had banking facilities of HK\$94.8 million (2003: HK\$84.6 million), of which HK\$93.1 million (2003: HK\$83.4 million) was not utilised. Banking facility in the amount of HK\$46.7 million (2003: HK\$62.4 million), of which HK\$1.2 million (2003: HK\$1.2 million) was utilised, is secured by inventories and trade receivables of a subsidiary amounting to HK\$27 million (2003: HK\$27 million) and HK\$64 million (2003: HK\$39 million) respectively as at 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

30. CONTINGENT LIABILITIES

The Group

At 31 December 2004, DPM, a subsidiary of the Group, was involved in a patent dispute in which a preliminary injunction was entered in November 2004 by a competitor against an accessory product to be launched by DPM in the US market. Legal costs incurred up to 31 December 2004 were charged to the income statement for the year. Based on legal opinion, the Directors consider that the product has not infringed any of the competitor's patents. The parties to the dispute are currently in negotiations with each other with a view to settle the dispute. The cost of the related inventory included in the consolidated balance sheet as at 31 December 2004 amounted to HK\$2,858,000.

The Company

At 31 December 2004, the Company had executed a corporate guarantee of HK\$66,300,000 (2003: HK\$22,000,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK\$550,000 as at 31 December 2004 (2003: nil).

31. RELATED PARTY TRANSACTION

The Group had the following transaction with related party during the year:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Rental paid in respect of office premises to a company controlled by a director	960	960

The above transaction falls under the definition of connected transaction or continuing connected transaction in Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

32. SUBSEQUENT EVENTS

On 2 March 2005, the Group entered into a Subscription Agreement with Promotional Partners Worldwide Limited for a 51% interest in a joint venture to operate an exclusive license to design, manufacture and sell SANRIO products in the PRC through wholesale as well as the operation of its own retail outlets. Upon the completion of the Subscription Agreement on 31 March 2005, the Group injected HK\$30,000,000 into the joint venture, which includes the amount of HK\$10,000,000 for the subscription of the share capital and a shareholder's loan of HK\$20,000,000.

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For the year ended 31 December 2004

33. 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 ordinary share capital/ registered capital	Interest held	Principal activities
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Dongguan Mainland Headwear Ltd.	PRC (note (i))	PRC	Rmb4,000,000	100%	Manufacture and sale of headwear
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\$750	100%	Trading of headwear
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Hatworld (Hong Kong) Company Ltd.	Hong Kong	Hong Kong	HK\$1	100%	Retailing
Hatworld (Shenzhen) Company Ltd.	PRC (note (ii))	PRC	Rmb500,000	100%	Retailing
Jumbo Creation Investments Ltd.	The British Virgin Islands	Hong Kong	US\$1	100%	Investment holding
Mainland Sewing Headwear Manufacturing Ltd.	Hong Kong	Hong Kong	HK\$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	PRC (note (i))	PRC	HK\$26,000,000	100%	Manufacture and sale of headwear
Manga Investment Ltd.	Mauritius	Macau	US\$1	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2004

33. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Million Excel Trading Ltd.	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 (note (i))	PRC	HK\$15,050,039	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macao	Macao	MOP\$100,000	100%	Trading of headwear and provision of digitizing services

Notes:

- (i) These companies are registered in the PRC in the form of wholly foreign-owned enterprises.
- (ii) The company is registered in the PRC in the form of a limited liability company.

34. ULTIMATE HOLDING COMPANY

As at 31 December 2004, the ultimate holding company of the Company was Successful Years International Company Limited, incorporated in the British Virgin Islands.