

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the manufacture, retailing and trading of garments.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "New 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 commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Goodwill *(cont'd)*

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income is recognised on a straight-line basis over the lease terms.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Commission and management fee income are recognised when services are provided.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment losses, if any.

Construction in progress represents buildings under construction and plant and equipment in the process of installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	2% to 5%
Leasehold improvements	Over the lease terms
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Trademarks

Trademarks are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of impairment loss is treated as a revaluation decrease under that SSAP.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Investments in securities

Investments in securities are recognised on a trade-date basis and initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, 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 period 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.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expenses as they fall due.

Financial instruments and derivatives

Currency swaps are used to manage the Group's exposure to foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of currency swaps are recorded off balance sheet. Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or positions.

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group, less returns and allowances.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – (i) manufacture and trading of garments and (ii) retailing of garments. These divisions are the basis on which the Group reports its primary segment information.

Income statement for the year ended 31 December 2004

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	1,762,752	201,266	1,964,018
Inter-segment sales	6,273	(6,273)	–
Total	1,769,025	194,993	1,964,018
RESULT			
Segment result	79,391	(7,128)	72,263
Interests income	2,104	63	2,167
Profit from operations	81,495	(7,065)	74,430
Finance costs			(24,360)
Share of results of jointly controlled entities			1,441
Profit before taxation			51,511
Taxation			(5,663)
Profit before minority interests			45,848
Minority interests			26,552
Net profit for the year			72,400

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

(a) Business segments *(cont'd)*

Balance sheet as at 31 December 2004

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	1,295,010	179,126	1,474,136
Unallocated corporate assets			6,435
Consolidated total assets			1,480,571
LIABILITIES			
Segment liabilities	332,497	38,003	370,500
Unallocated corporate liabilities			457,921
Consolidated total liabilities			828,421

Other information for the year ended 31 December 2004

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	81,727	18,399	100,126
Depreciation and amortisation of property, plant and equipment	38,124	6,003	44,127
Impairment loss recognised in respect of property, plant and equipment	–	2,860	2,860
Loss on disposal of property, plant and equipment	1,503	687	2,190
Amortisation of trademarks	692	–	692
Allowance for bad and doubtful debts	5,938	–	5,938
Allowance for inventory obsolescence	–	2,943	2,943

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

(a) Business segments *(cont'd)*

Income statement for the year ended 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	1,737,332	180,579	1,917,911
RESULT			
Segment result	81,010	(21,867)	59,143
Interest income	951	54	1,005
Profit from operations	81,961	(21,813)	60,148
Finance costs			(26,370)
Share of results of jointly controlled entities			1,486
Profit before taxation			35,264
Taxation			(1,998)
Net profit for the year			33,266

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

(a) Business segments *(cont'd)*

Balance sheet as at 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	1,270,995	85,763	1,356,758
Unallocated corporate assets			4,715
Consolidated total assets			<u>1,361,473</u>
LIABILITIES			
Segment liabilities	346,243	37,316	383,559
Unallocated corporate liabilities			372,777
Consolidated total liabilities			<u>756,336</u>

Other information for the year ended 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	65,400	3,877	69,277
Depreciation and amortisation of property, plant and equipment	34,869	5,515	40,384
Amortisation of trademarks	692	–	692
Loss on disposal of property, plant and equipment	2,288	1,587	3,875

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(b) Geographical segments

The Group's operations are located in United States of America ("USA"), Europe, Greater China and other areas.

The following table provides an analysis of the Group's sale by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2004 HK\$'000	2003 HK\$'000
USA	1,329,009	1,444,907
Europe	250,857	186,426
Greater China	364,484	274,183
Others	19,668	12,395
	1,964,018	1,917,911

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
USA	141,664	137,516	375	1,717
Europe	18,061	24,441	862	249
Greater China	1,318,846	1,194,480	98,883	67,167
Other	2,000	5,036	6	144
	1,480,571	1,361,473	100,126	69,277

Notes to the Financial Statements

For the year ended 31 December 2004

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Depreciation and amortisation		
Owned assets	43,749	40,187
Leased assets	378	197
	44,127	40,384
Allowance for bad and doubtful debts	5,938	475
Allowance/(written back) for inventory obsolescence	2,943	(129)
Amortisation of trademarks (included in selling and distribution expenses)	692	692
Auditors' remuneration	2,859	2,761
Operating lease rentals in respect of equipment	221	119
Operating lease rentals in respect of land and buildings		
Minimum lease payments	59,676	42,264
Contingent rents	–	18,784
	59,676	61,048
Staff costs (including directors' remuneration – note 8)		
Wages, salaries and bonuses	267,853	284,799
Retirement benefits contributions	3,365	9,790
Less: Forfeited contributions	(69)	(203)
	3,296	9,587
	271,149	294,386
Net foreign exchange gains	(6,265)	(3,089)
Temporary textile quota expenses	2,112	12,663
Loss on disposal of property, plant and equipment	2,190	3,875
Gross rental income from investment properties	(4,675)	(3,158)
Less: Outgoings	1,369	1,112
Net rental income	(3,306)	(2,046)
Sub-letting rental income (included in selling and distribution expenses)	(3,337)	(5,003)
Interest income	(2,167)	(1,005)

Notes to the Financial Statements

For the year ended 31 December 2004

7. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	13,835	15,766
Finance leases	11	73
Factoring expenses	3,635	4,168
Bank charges	6,879	6,363
	24,360	26,370

8. DIRECTORS' REMUNERATION

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive	400	463
Non-executive	80	–
Independent non-executive	129	160
	609	623
Other emoluments:		
Executive		
Salaries, allowances and benefits in kind	12,640	13,183
Retirement benefits scheme contributions	48	48
	12,688	13,231
	13,297	13,854

Notes to the Financial Statements

For the year ended 31 December 2004

8. DIRECTORS' REMUNERATION (cont'd)

Their emoluments were within the following bands:

	THE GROUP	
	2004 No. of directors	2003 No. of directors
HK\$Nil to HK\$1,000,000	5	3
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–

During the year, no emoluments were paid by the Group to the directors as compensation for loss of office or as a discretionary bonus or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

9. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2003: five) were directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining one (2003: nil) individual was within the emolument band ranging from HK\$1,500,001 to HK\$2,000,000.

10. TAXATION

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	980	220
Other jurisdictions	7,010	1,107
(Over)underprovision in prior years:		
Hong Kong	(3,417)	–
Other jurisdictions	–	215
	4,573	1,542
Deferred taxation (note 27)	888	421
	5,461	1,963
Share of taxation attributable to jointly-controlled entities	202	35
	5,663	1,998

Notes to the Financial Statements

For the year ended 31 December 2004

10. TAXATION (cont'd)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 12% to 33%.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	51,511	35,264
Tax at the income tax rate of 17.5%	9,014	6,171
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,163	343
Tax effect of income not taxable for tax purpose	(14,262)	(15,825)
Tax effect of expenses not deductible for tax purpose	4,917	5,793
Tax effect of tax losses not recognised	12,356	12,763
Utilisation of tax losses previously not recognised	(4,108)	(7,462)
Over (underprovision) in prior years	(3,417)	215
Taxation for the year	5,663	1,998

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11. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Additional final dividend paid for 2003 arising from shares issued under option scheme	34	–
Interim, paid – HK3 cents per ordinary share (2003: HK1 cent)	9,881	3,259
Proposed final – HK5 cents per ordinary share (2003: HK3 cents)	16,658	9,822
	26,573	13,081

The final dividend of HK5 cents (2003: HK3 cents) per share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2004 together with the comparative figures for 2003 are calculated as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit for the purpose of basic and diluted earnings per share	72,400	33,266

	2004	2003
Weighted average number of ordinary shares for the purpose of basic earnings per share	328,635,730	325,520,564
Effect of dilutive potential ordinary shares assumed exercise of share options	6,069,967	5,019,197
Weighted average number of ordinary shares for the purpose of diluted earnings per share	334,705,697	330,539,761

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (Hong Kong) HK\$'000	Land and buildings (Elsewhere) HK\$'000	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 January 2004	33,401	218,145	11,123	30,246	219,087	70,421	22,017	604,440
Additions	-	12,562	39,954	15,943	18,949	8,231	4,487	100,126
Transfers	-	13,196	(41,464)	-	28,268	-	-	-
Transfer to investment properties (note 14)	(6,313)	-	-	-	-	-	-	(6,313)
Disposals	-	(6,136)	-	(5,430)	(25,284)	(13,082)	(3,811)	(53,743)
Exchange realignment	-	-	-	975	648	105	186	1,914
At 31 December 2004	27,088	237,767	9,613	41,734	241,668	65,675	22,879	646,424
ACCUMULATED								
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2004	5,386	31,345	-	16,397	110,630	54,997	15,456	234,211
Provided for the year	622	7,663	-	7,755	21,586	4,257	2,244	44,127
Transfer to investment properties (note 14)	(490)	-	-	-	-	-	-	(490)
Impairment loss recognised in the income statement	-	-	-	-	1,000	1,860	-	2,860
Eliminated on disposals	-	(1,133)	-	(4,722)	(15,468)	(10,967)	(3,299)	(35,589)
Exchange realignment	-	-	-	692	593	33	115	1,433
At 31 December 2004	5,518	37,875	-	20,122	118,341	50,180	14,516	246,552
NET BOOK VALUES								
At 31 December 2004	21,570	199,892	9,613	21,612	123,327	15,495	8,363	399,872
At 31 December 2003	28,015	186,800	11,123	13,849	108,457	15,424	6,561	370,229

Included in land and building (elsewhere) were properties in the PRC with an aggregate amount of HK\$5,993,000 (2003: HK\$6,133,000), the title of which has been kept by the court in the PRC to secure the Group's application on the freeze of assets of its agent to recover the amount owed by the agent to the Group.

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13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land in Hong Kong:		
Medium term leases	21,570	28,015
Land outside Hong Kong:		
Long term leases	1,999	2,105
Medium term leases	197,893	184,695
	221,462	214,815

On 10 April 2005, the Group disposed of certain furniture and fixtures for an aggregate consideration of HK\$1,000,000. After making due enquiry, the directors were satisfied that the selling price of the furniture and fixtures represented the estimated recoverable amount as at 31 December 2004. Accordingly, an impairment loss of HK\$1,860,000 was recognised.

The directors conducted a review on the recoverable amount of the property, plant and equipment at the balance sheet date and considered that certain plant and equipment have been impaired. Accordingly, an impairment loss of HK\$1,000,000 has been provided for the year.

The net book value of the motor vehicles includes an amount of HK\$910,000 (2003: HK\$1,041,000) in respect of assets held under finance leases.

14. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2004	34,500
Transfer from property, plant and equipment (<i>note 13</i>)	5,823
Surplus on revaluation	1,277
At 31 December 2004	41,600

Investment properties were revalued at their open market value at 31 December 2004 by Centaline Surveyors Limited, independent professionally qualified valuers. This revaluation gave rise to a revaluation increase of HK\$1,277,000 which has been credited to the investment properties revaluation reserve.

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

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15. TRADEMARKS

	THE GROUP
	HK\$'000
COST	
At 1 January 2004 and 31 December 2004	6,917
ACCUMULATED AMORTISATION	
At 1 January 2004	1,556
Provided for the year	692
At 31 December 2004	2,248
NET BOOK VALUES	
At 31 December 2004	4,669
At 31 December 2003	5,361

The amount is amortised over 10 years.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	126,671	126,671
Due from subsidiaries	410,612	390,071
	537,283	516,742

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid in the next twelve months.

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For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Details of the Company's principal subsidiaries at 31 December 2004 are set out as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
Angel Star Investment Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting deferred	75 75	Holding of trademarks
August Silk Inc.	USA	US\$10	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands/USA	US\$1	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting deferred	100 100	Investment holding
Dongguan Daliwai Fashion Co., Ltd. (Note 1)	PRC	HK\$28,000,000	100	Garment manufacturing
Dongguan Sanyue Fashions Limited (Note 3)	PRC	HK\$10,000,000	69	Garment manufacturing
Guangdong Theme-Huayu Fashion Company Limited	PRC	RMB5,000,000	75 (Note 2)	Garment retailing
Hangzhou OCT & High Fashion Textile Co., Ltd. (Note 1)	PRC	RMB3,000,000	100	Garment manufacturing
High Fashion Apparel Limited	British Virgin Islands/Hong Kong	US\$1,000	100	Investment holding
High Fashion Garments, Inc.	USA	US\$5,000	100	Marketing and garment trading

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
High Fashion (China) Co., Ltd. (formerly known as Zhejiang High Fashion Kaidi Silk Co., Ltd.) (Note 1)	PRC	US\$14,600,000	100	Dyeing, printing and sandwashing of fabrics, garment manufacturing
High Fashion (FG) Limited	British Virgin Islands/PRC	US\$1	100	Garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK\$2 Ordinary HK\$10,000,000 Non-voting deferred	100 100	Garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macao	MOP100,000	100	Garment trading
High Fashion Garments Management Limited	Hong Kong	HK\$20 Ordinary HK\$20 Non-voting deferred	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US\$1,800	100	Investment holding
High Fashion Knitwear Overseas Limited	Hong Kong	HK\$2 Ordinary HK\$10,000 Non-voting deferred	100 100	Garment trading
High Fashion Silk (Zhejiang) Co., Ltd. (formerly known as Zhejiang Xinchang High Fashion Silk Science and Technology Co., Ltd.) (Note 1)	PRC	US\$20,000,000	100	Silk weaving
High Fashion Trading Company Limited	Hong Kong	HK\$2	100	Garment trading

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation or registration/ or operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	Garment trading
Navigation Limited	British Virgin Islands/Hong Kong	US\$1	100	Investment holding
Shanghai Theme Fashion Company (Note 1)	PRC	RMB3,000,000	75 (Note 2)	Garment retailing
Stage II Limited	Hong Kong	HK\$800,000	75	Garment retailing
Super Base (China) Limited	Hong Kong	HK\$2	75	Property holding
Taiwan Vision Company Limited	Taiwan	NT\$80,000,000	75	Garment retailing
Theme International Holdings Limited ("Theme")	Bermuda/ Hong Kong	HK\$50,166,588	75	Investment holding
Theme International Limited	Hong Kong	HK\$2 Ordinary HK\$1,000,000 Non-voting deferred	75 75	Garment trading
Zhejiang Xinchang High Fashion Silk Co., Ltd. (Note 1)	PRC	US\$6,000,000	100	Silk weaving

Notes:

- (1) These companies are registered as a wholly-foreign owned enterprise.
- (2) These companies are subsidiaries of non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.
- (3) These companies are registered as a sino-foreign equity joint venture.

The shares of Theme are listed on the Stock Exchange. The market value of Theme's shares held by the Group amounted to HK\$135,450,000, as at 31 December 2004 (2003: HK\$56,437,000).

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Exception for High Fashion Apparel Limited which is directly held by the Company, all other subsidiaries listed above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	–

Details of the Group's associates at 31 December 2004 are set out as follows:

Name of entity	Form of business structure	Place of incorporation or registration/ operation	Proportion of nominal value of issued share capital/ registered capital held by the Group %	Principal activities
Sherman-Theme (China) Limited	Incorporated	Hong Kong	37.5	Investment holding
Shenyang Sherman – Theme Fashion Limited	Incorporated	PRC	22.5	Dormant

The investments in the associates are indirectly held by the Company.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	10,561	9,322

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For the year ended 31 December 2004

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

At 31 December 2004, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration and operations	Percentage of				Principal activities
			Ownership interest	Voting power of the Board	Profit sharing		
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	51	50	51	Garment manufacturing	
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion")	Incorporated	PRC	51	60 (Note)	51	Garment manufacturing	

Note: The Group holds 51% of the share capital Suzhou High Fashion. However, under the terms of memorandum and articles of associations of Suzhou High Fashion, all significant events must be mutually agreed by the Group and the other significant shareholder. Therefore, Suzhou High Fashion is classified as a jointly controlled entity of the Group.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments, at cost	14,118	14,118
Less: Impairment loss recognised	(325)	(325)
	13,793	13,793

Details of the Group's principal investments in securities are set out as follows:

Name	Place of registration and operations	Percentage of equity interest attributable to the Group (Note)
Zhoushan High Fashion Silk Spinning & Clothing Co., Ltd.	PRC	30
Zhoushan High Fashion Knitting Co., Ltd.	PRC	30

Note: The interests in these companies have not been accounted for as associates because the Group does not have significant influence over these companies.

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For the year ended 31 December 2004

20. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	118,384	59,098
Work in progress	83,874	109,589
Finished goods	126,528	102,828
	328,786	271,515

Included above are raw materials of approximately HK\$42,745,000 (2003: HK\$7,882,000) and finished goods of approximately HK\$71,562,000 (2003: HK\$65,389,000) which are carried at net realisable value.

21. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from 30 days to 90 days.

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within 90 days	234,313	252,006
91 to 180 days	7,993	7,790
181 to 360 days	5,645	1,922
Over 360 days	3,218	119
	251,169	261,837

22. CERTIFICATE OF DEPOSITS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Unlisted certificate of deposits, at market value	10,000	10,000

Notes to the Financial Statements

For the year ended 31 December 2004

23. TRADE PAYABLES AND ACCRUED PURCHASES

The following is an aged analysis of the trade payables and accrued purchases at the reporting date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade payables:		
Within 90 days	156,408	108,960
91 to 180 days	17,141	7,406
181 to 360 days	13,009	13,280
Over 360 days	11,113	13,477
	197,671	143,123
Accrued purchases	18,404	76,626
	216,075	219,749

24. AMOUNTS DUE TO JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

The balances are unsecured, interest-free and have no fixed terms of repayment.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	294	310	262	274
In the second year	205	184	191	168
In the third to fifth years, inclusive	71	101	71	99
	570	595	524	541
Less: Future finance charges	(46)	(54)	–	–
Present value of lease obligations	524	541	524	541
Less: Amount due for settlement within 12 months (shown under current liabilities)			(262)	(274)
Amount due for settlement after 12 months (shown under non-current liabilities)			262	267

Notes to the Financial Statements

For the year ended 31 December 2004

25. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

The Group leases certain of its motor vehicles. The average lease term is one to three years. For the year ended 31 December 2004, the average effective borrowing rate was 4%. Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

26. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	3,160	2,946
Trust receipt loans	4,278	19,876
Bank loans	445,690	344,360
	453,128	367,182
Analysed as:		
Secured	–	42,734
Unsecured	453,128	324,448
	453,128	367,182
The maturity profile of the above borrowings is as follows:		
On demand or within one year	345,128	343,782
More than one year, but not exceeding two years	54,000	23,400
More than two years, but not exceeding five years	54,000	–
	453,128	367,182
Less: Amounts due within one year shown under current liabilities	(345,128)	(343,782)
Amounts due after one year shown under non-current liabilities	108,000	23,400

At 31 December 2003, certain bank loans were secured by mortgages over some of the Group's land and buildings, other receivables and trade receivables which had an aggregate net book value of approximately HK\$2,105,000, HK\$90,784,000 and HK\$64,194,000, respectively.

Notes to the Financial Statements

For the year ended 31 December 2004

27. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation	Unrealised profit arising on intra-group transactions
	HK\$'000	HK\$'000
THE GROUP		
At 1 January 2003	2,006	(2,184)
Charge to income statement for the year	6	415
	<hr/>	<hr/>
At 31 December 2003 and 1 January 2004	2,012	(1,769)
Charge to income statement for the year	–	888
	<hr/>	<hr/>
At 31 December 2004	2,012	(881)

The Group has tax losses arising in Hong Kong of HK\$834,278,000 (2003: HK\$828,890,000) that are available and tax losses arising in overseas of HK\$172,310,000 (2003: HK\$164,171,000) for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

THE COMPANY

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

28. PROVISION FOR LONG SERVICE PAYMENTS

	THE GROUP
	HK\$'000
At 1 January 2004	3,153
Amount utilised during the year	(559)
	<hr/>
At 31 December 2004	2,594

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2004

29. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2003, 31 December 2003, 1 January 2004 and 31 December 2004	1,000,000	100,000
Issued and fully paid:		
At 1 January 2003	324,382	32,438
Exercise of share options	3,020	302
At 31 December 2003 and 1 January 2004	327,402	32,740
Exercise of share options (<i>Note</i>)	1,950	195
At 31 December 2004	329,352	32,935

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

Note: During the year, the subscription rights attaching to 1,950,000 share options were exercised at the subscription price of HK\$0.505 per share, resulting in the issue of 1,950,000 shares of HK\$0.10 each for a total cash consideration of approximately HK\$985,000.

Notes to the Financial Statements

For the year ended 31 December 2004

30. RESERVES

THE COMPANY

	Share		Capital		Retained	Total
	premium account	Contributed surplus	Capital redemption reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	292,131	101,171	16,521	4,703	47,523	462,049
Exercise of share options	1,223	–	–	–	–	1,223
Profit for the year	–	–	–	–	19,580	19,580
Dividends paid	–	–	–	–	(3,259)	(3,259)
<hr/>						
At 31 December 2003 and 1 January 2004	293,354	101,171	16,521	4,703	63,844	479,593
Exercise of share options	790	–	–	–	–	790
Loss for the year	–	–	–	–	(473)	(473)
Dividends paid	–	–	–	–	(19,737)	(19,737)
<hr/>						
At 31 December 2004	294,144	101,171	16,521	4,703	43,634	460,173

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1992 and represented the excess of the fair value of the subsidiaries' net assets acquired over the nominal value of the Company's shares issued in exchange therefor. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

The capital reserve of the Company represents the amount arising from the transferred of share premium account and to capital reserve.

31. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

On 26 March 2002, the share option scheme adopted by the Company on 18 March 1994 (the "Old Scheme") was terminated and a new scheme (the "New Scheme") was adopted by the shareholders of the Company. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. The purpose of the New Scheme is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the New Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from date of adoption.

31. SHARE OPTION SCHEMES *(cont'd)*

(A) Share option schemes of the Company *(cont'd)*

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At the balance sheet date, the Company had 7,440,000 share options outstanding, which represented approximately 2% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,440,000 additional ordinary shares of the Company for a cash consideration of approximately HK\$3,757,000 (before issue expenses).

Notes to the Financial Statements

For the year ended 31 December 2004

31. SHARE OPTION SCHEMES (cont'd)

(A) Share option schemes of the Company (cont'd)

The following share options were outstanding during the year:

Name or category of participant	Date of grant	Exercise price HK\$	Number of share options						
			At 1 January 2003	Exercised during the year	Cancelled during the year	At 31 December 2003 and 1 January 2004	Exercised during the year	Cancelled during the year	At 31 December 2004
Directors									
Lam Foo Wah	5 May 1999	0.505	3,800,000	-	-	3,800,000	-	-	3,800,000
Ip Weng Kun	5 May 1999	0.505	1,500,000	-	-	1,500,000	-	-	1,500,000
So Siu Hang, Patricia	5 May 1999	0.505	1,200,000	(480,000)	-	720,000	-	-	720,000
Wong Shing Loong, Raymond	5 May 1999	0.505	1,000,000	-	-	1,000,000	-	-	1,000,000
Jack Weinstock (Note 2)	5 May 1999	0.505	300,000	(150,000)	(150,000)	-	-	-	-
Other employees	5 May 1999	0.505	5,120,000	(2,390,000)	-	2,730,000	(1,950,000)	(360,000)	420,000
			12,920,000	(3,020,000)	(150,000)	9,750,000	(1,950,000)	(360,000)	7,440,000

Notes:

- (1) 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.
- (2) Jack Weinstock resigned as director on 15 October 2003.
- (3) The weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was HK\$1.18 (2003: HK\$1.03).

(B) Share option scheme of Theme

Theme operates a share option scheme (the "Theme Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Theme and its subsidiaries operations. Eligible participants of the Theme Share Option Scheme include any employee or executive or any non-executive directors of the Theme and its subsidiaries, including any full-time or part-time employees or executives, executive directors, non-executive directors, independent non-executive directors and secretary of any member of the Theme and its subsidiaries. The Theme Share Option Scheme became effective on 26 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

31. SHARE OPTION SCHEMES *(cont'd)*

(B) Share option scheme of Theme *(cont'd)*

The maximum number of unexercised share options currently permitted to be granted under the Theme Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Theme in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Theme Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Theme in issue at any time. Any further grant of share options in excess of this limit is subject to the approval of Theme's shareholders in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of Theme, or to any of their associates, are subject to approval in advance by the independent non-executive directors of Theme. In addition, any share options granted to a substantial shareholder or an independent non-executive director of Theme, or to any of their associates, in excess of 0.1% of the shares of Theme in issue at any time or with an aggregate value (based on the price of the Theme's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to approval of Theme's shareholders in advance in a general meeting.

The offer of a grant of share options of Theme may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The share option may be exercised at any time during the Theme Share Option Scheme period.

The exercise price of the share options is determinable by the board of directors of Theme, but may not be less than the higher of (i) the Stock Exchange closing price of the Theme's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Theme's shares for the five trading days immediately preceding the date of the offer; and (iii) the par value of the Theme's shares.

No share options were granted under Theme Share Option Scheme during the year nor outstanding as at the balance sheet date.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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For the year ended 31 December 2004

32. NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$313,000.

33. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to factoring houses and banks to secure credit facilities granted to the Group.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Land and buildings	–	2,105
Other receivables	–	90,784
Trade receivables	57,449	64,194
Bank deposits	5,554	–
	63,003	157,083

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	966	1,121	–	–
Bills discounted with recourse	30,594	12,043	–	–
Trade receivables factored with recourse	13,011	23	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	413,500	714,400
	44,571	13,187	413,500	714,400

As at 31 December 2004, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$331 million (2003: HK\$172 million).

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35. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties and subleases certain of its rented shops under operating lease arrangements with average lease term of one to two years.

At 31 December 2004, the Group had contracted with tenants for the following future minimum lease payment:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	7,951	6,059
In the second to fifth years, inclusive	9,601	1,606
	17,552	7,665

(b) As lessee

At 31 December 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	41,723	31,710
In the second to fifth years, inclusive	73,006	42,857
Over five years	17,995	29,972
	132,724	104,539
Equipment:		
Within one year	–	122
In the second to fifth years, inclusive	–	141
	–	263
	132,724	104,802

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	1,680	3,703

(b) At the balance sheet date, the Group had entered into agreements for forward sales of foreign currencies contracts:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
United States dollars	77,390	63,024
Euro	4,094	–
Pounds	16,478	–
	97,962	63,024

37. RELATED PARTY TRANSACTIONS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities (<i>note i</i>)	50,129	37,447
Sales of raw materials and finished goods to jointly controlled entities (<i>note i</i>)	3,958	–
Professional fees paid to Wilkinson & Grist (<i>note ii</i>)	165	72

Notes:

- (i) The purchases and sales of raw materials and finished goods were made according to the published prices and conditions offered from and to the major suppliers and customers of the Group, except that a longer credit period was usually granted.
- (ii) The professional fees related to the provision of legal advisory services and were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, director of the Company, is a partner of Wilkinson & Grist.