1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting years reflected in these financial statements is provided in note 2.

The Group has not applied any new standard or interpretation that has been issued and is not yet effective for the current accounting year. The Group has already commenced an assessment of the impact of these new standards or interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

The financial statements are prepared under the historical cost convention, except for short term investments which are stated at fair value as explained in accounting policies as set out below.

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

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(f)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination, after re-assessment, is recognised immediately as income.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) 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 (see note 1(f)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extend that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 1(f)).

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 are available for use 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% to 33%
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 available for use.

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.

(f) Impairment of assets

(i) Impairment of other receivables

Other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets except in the case of goodwill may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries;
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash estimates have not been adjusted. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) 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.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(f)).

(i) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

(j) Short term investments

Financial assets carried at fair value through profit and loss are classified as short term investments under current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

(k) 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.

(l) Leasing

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

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

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

(m) 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.

(n) 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, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, 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. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(o) 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.

(p) 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, or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and /or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or if any entity that is a related party of the Group.

(q) Retirement benefit costs

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

(r) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) 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.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The principal accounting policies of the Group and /or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting years reflected in these financial statements.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs in the consolidated income statement and consolidated balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004 and the opening balance adjustments made as at 1 January 2005. The effects of the changes in accounting policies on the reserves balances at 1 January 2004 and 2005 are disclosed in note 27.

(i) Effects on consolidated income statement for the year ended 31 December 2004

	Note	Administration expenses HK$'000
Effect of new policy (decrease in profit for the year)		
HKFRS 2	2(c)	(3,410)
Total effect for the year		(3,410)
Decrease in earnings per share		
– Basic		(HK1.2 cents)
– Diluted		(HK1.1 cents)
Other significant disclosure item		
Increase in staff costs		3,410

(ii) Effects on consolidated balance sheet and the Company's balance sheet as at 31 December 2004

	Note	Capital reserve HK$'000	Accumulated profits HK$'000	Total equity HK$'000
Effect of new policy (increase/ (decrease) in total equity)				
HKFRS 2	2(c)	5,350	(5,350)	–
Total effect for total equity		5,350	(5,350)	–

(iii) Effects on opening balance of consolidated total equity at 1 January 2005

	Note	Capital reserve HK$'000	Accumulated profits HK$'000	Total equity HK$'000
Effect of new policy (increase/ (decrease) in total equity)				
HKFRS 2	2(c)	5,350	(5,350)	–
HKFRS 3	2(d)	–	987	987
Total effect for total equity		5,350	(4,363)	987

(b) Estimated effect of changes in accounting policies on the current year

The following tables provide estimates of the extent to which in the consolidated income statement and consolidated balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous accounting policies still been applied in the year, where it is practicable to make such estimates.

(i) Estimated effects on consolidated income statement for the year ended 31 December 2005

	Note	Administration expenses HK$'000
Estimated effect of new policy (increase/(decrease) in profit for the year)		
HKFRS 2	2(c)	(1,996)
HKFRS 3	2(d)	726
Estimated total effect for the year		(1,270)
Decrease in earnings per share		
– Basic		(HK0.4 cents)
– Diluted		(HK0.4 cents)
Other significant disclosure items		
Increase in staff costs		1,996
Decrease in amortisation of goodwill		(726)

(ii) Estimated effects on consolidated balance sheet as at 31 December 2005

	Note	Intangibles HK$'000	Minority interests HK$'000	Total HK$'000
Estimated effect of new policy (increase in net assets)				
HKFRS 3	2(d)	726	–	726
HKAS 1 and HKAS 27	2(e)	–	4,233	4,233
Estimated total effect for net assets		726	4,233	4,959

	Note	Share premium HK$'000	Capital reserve HK$'000	Accumulated profits HK$'000	Minority interests HK$'000	Total equity HK$'000
Estimated effect of new policy (increase/(decrease) in total equity)						
HKFRS 2	2(c)	59	1,044	(1,103)	–	–
HKFRS 3	2(d)	–	–	726	–	726
HKAS 1 and HKAS 27	2(e)	–	–	–	4,233	4,233
Estimated total effect for total equity		59	1,044	(377)	4,233	4,959

(iii) Estimated effects on the Company's balance sheet as at 31 December 2005

	Note	Share premium HK$'000	Capital reserve HK$'000	Accumulated profits HK$'000	Total equity HK$'000
Effect of new policy (increase/(decrease) in total equity)					
HKFRS 2	2(c)	59	1,044	(1,103)	–
Estimated total effect for total equity		59	1,044	(1,103)	–

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(r).

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- all options granted to employees on or before 7 November 2002; and

- all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adjustments for each financial statement line affected for the years ended 31 December 2004 and 2005 are set out in notes 2(a) and 2(b).

Details of the employee share option scheme are set out in note 26.

(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

- positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

- negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 1(c) and note 1(f).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 December 2005 are set out in note 2(b).

The change in policy relating to negative goodwill had opening adjustment effect on the financial statements as at 1 January 2005 (see note 2(a)) and had no effect on the financial statements for the year ended 31 December 2004.

(e) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(d). These changes in presentation have been applied retrospectively with comparatives restated.

(f) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy is set out in note 1(n).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 January 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 31 December 2005.

(g) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(p) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current year, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3. TURNOVER AND REVENUE

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

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

4. OTHER INCOME

	The Group	
	2005	2004
	HK$'000	HK$'000
Net gain from short term investments	**5,474**	2,700
Write-back of sundry payables	**3,709**	–
Gain on disposal of property, plant and equipment	**695**	–
Interest income	**644**	1,181
Sundry income	**916**	1,022
	11,438	4,903

5. 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 and Retail 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.

(ii) Trading Business: The trading of headwear and other products business of the Group is operated through three subsidiaries, Drew Pearson Marketing, Inc. ("DPM") which focuses on the US market, and Drew Pearson International, Inc. ("DPI") and Drew Pearson International (Europe) Ltd. ("DPI Europe") which focus on the Europe market.

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores in the PRC.

	Manufacturing		Trading		Retail		Inter-segment elimination		Consolidation	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004 (restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover from external customers	**263,138**	245,004	**293,313**	308,883	**30,266**	3,583	**–**	–	**586,717**	557,470
Inter-segment turnover	**105,866**	110,108	**–**	–	**–**	–	**(105,866)**	(110,108)	**–**	–
	369,004	355,112	**293,313**	308,883	**30,266**	3,583	**(105,866)**	(110,108)	**586,717**	557,470
Other revenue	**6,218**	3,875	**683**	954	**152**	74	**–**	–	**7,053**	4,903
Total	**375,222**	358,987	**293,996**	309,837	**30,418**	3,657	**(105,866)**	(110,108)	**593,770**	562,373
Segment result and contribution from operations	**94,698**	90,780	**751**	3,805	**(11,598)**	(2,693)	**–**	(99)	**83,851**	91,793
Unallocated operating expenses									**(1,996)**	(3,698)
Profit from operations									**81,855**	88,095
Finance costs									**(30)**	(69)
Taxation									**(6,153)**	(7,771)
Profit for the year									**75,672**	80,255
Depreciation	**18,507**	18,190	**1,413**	1,904	**1,605**	213	**–**	–	**21,525**	20,307
Amortisation of goodwill									**–**	288
Depreciation and amortisation for the year									**21,525**	20,595
Significant non-cash expenses (other than depreciation and amortisation)	**(163)**	1,196	**3,243**	(441)	**–**	–	**–**	–	**3,080**	755
Unallocated									**1,996**	3,410
									5,076	4,165

	Manufacturing		Trading		Retail		Consolidation	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**349,766**	355,034	**136,773**	129,570	**52,992**	6,369	**539,531**	490,973
Unallocated assets							**10,262**	5,771
Total assets							**549,793**	496,744
Segment liabilities	**51,998**	47,112	**24,604**	33,688	**7,219**	1,348	**83,821**	82,148
Capital expenditure incurred during the year	**6,894**	26,534	**965**	1,609	**7,270**	2,117	**15,129**	30,260

(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

	2005	2004
	HK$'000	HK$'000
USA	**473,911**	489,668
Europe	**71,902**	55,631
Others	**40,904**	12,171
Total	**586,717**	557,470

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		USA and Europe		Unallocated		Consolidation	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**402,758**	361,403	**134,673**	129,570	**10,262**	5,771	**547,693**	496,744
Capital expenditure incurred during the year	**14,164**	28,651	**965**	1,609	**–**	–	**15,129**	30,260

6. PROFIT BEFORE TAXATION

This is stated after charging:

	The Group	
	2005	2004 (restated)
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**28**	59
Finance charges on obligations under finance leases	**2**	10
	30	69
(b) Other items		
Staff costs (including directors' emoluments and retirement benefit costs)	**124,499**	108,277
Cost of inventories	**368,922**	349,206
Auditors' remuneration	**1,337**	1,144
Depreciation	**21,525**	20,307
Operating leases in respect of office premises, retail outlets, factories and warehouse premises	**22,362**	11,129
Provisions for doubtful debts	**3,080**	755

7. DIRECTORS' EMOLUMENTS

	The Group	
	2005	2004
	HK$'000	HK$'000
Fees	**298**	235
Salaries, allowances and benefits in kind	**5,727**	6,359
Discretionary bonuses	**1,227**	3,000
Retirement scheme contributions	**98**	135
	7,350	9,729

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

	Fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**2005 Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,040	–	48	1,088
Madam Ngan Po Ling, Pauline	–	1,602	–	24	1,626
Mr. Ho Hung Chu, Peter	–	2,000	1,000	12	3,012
Mr. David, Stephen Briskie	–	1,085	227	14	1,326
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Lo Hang Fong	82	–	–	–	82
Total	298	5,727	1,227	98	7,350

	Fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**2004 Total**
	HK$'000	HK$'000	HK$'000	HK$'000	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. During the year, there was no discretionary bonus granted to Mr. Ngan and Madam Ngan.

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. Mr. Briskie remains as the chief executive officer of the Group's US operation after his resignation as an Executive Director of the Company on 8 July 2005. The remunerations to Mr. Briskie disclosed above represented the remunerations for the period to 8 July 2005.

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

Except as disclosed in note 8, 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.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three (2004: four) directors, details of whose remuneration are set out in note 7. The details of the emoluments of the remaining two (2004: one) highest paid individuals are as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefit in kinds	**3,248**	1,226
Discretionary bonuses	**1,071**	–
Join-in bonus	**1,687**	–
Share-based payments	**47**	–
Retirement scheme contributions	**27**	51
	6,080	1,277

The emoluments of this two (2004: one) employee is within the following bands:

	2005	2004
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$4,000,001 – HK$4,500,000	**1**	–

9. TAXATION

	The Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong Profits Tax (note (i))	**7,917**	7,400
PRC income tax (note (ii))	**2,207**	78
Overseas tax (note (iii))	**1,117**	1,770
Deferred taxation (note 24)	**(5,088)**	(1,477)
	6,153	7,771

Note:

(i) Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 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.

(iv) Reconciliation of tax expenses

	The Group	
	2005	2004
		(restated)
	HK$'000	HK$'000
Profit before tax	**81,825**	88,026
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**14,319**	15,405
Effect of different taxation rates in other countries	**(864)**	132
Non-deductible expenses	**1,697**	1,180
Tax exempt revenue	**(11,161)**	(8,660)
Unrecognised tax losses	**2,009**	999
Overprovision in prior years	**(242)**	(1,003)
Others	**395**	(282)
Tax expenses for the year	**6,153**	7,771

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The profit attributable to equity shareholders dealt with in the financial statements of the Company for the year amounted to HK$68,006,000 (restated 2004: HK$101,160,000), including dividends from subsidiaries totaling HK$70,000,000 (2004: HK$105,000,000).

11. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Interim dividend of HK 2 cents (2004: HK3 cents) per share	**5,724**	8,562
Proposed final dividend of HK11 cents (2004: HK10 cents) per share	**31,487**	28,618
	37,211	37,180

A final dividend in respect of 2005 of HK11 cents (2004: HK10 cents) per share amounting to approximately HK$31,487,000 (2004: HK$28,618,000) 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.

12. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to equity shareholders for the year of HK$77,772,000 (restated 2004: HK$80,255,000).

The basic earnings per share is based on the weighted average number of shares of 286,119,136 (2004: 284,463,941) for the year. The diluted earnings per share is based on 287,796,570 (2004: 311,161,941) 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.

13. 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 organised by the respective municipal governments whereby they are required to pay a fixed contribution as determined by the relevant authorities in the PRC for each employee.

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

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

	2005 **HK$'000**	2004 HK$'000
Gross retirement schemes contributions	**2,012**	1,676
Less: Forfeited contributions for the year	**–**	(220)
Net retirement schemes contributions	**2,012**	1,456

As at 31 December 2005, 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Total HK$'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 and 1 January 2005	24,412	25,356	128,138	16,542	6,342	200,790
Additions	4,101	5,361	5,116	–	551	15,129
Acquisition of subsidiaries	186	352	–	–	–	538
Transfers	–	–	13,041	(13,041)	–	–
Cost adjustments	–	–	–	(3,501)	–	(3,501)
Exchange differences	190	154	242	–	35	621
Disposals	(33)	–	(6,684)	–	–	(6,717)
At 31 December 2005	**28,856**	**31,223**	**139,853**	**–**	**6,928**	**206,860**
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 and 1 January 2005	19,115	11,097	47,600	–	1,779	79,591
Charge for the year	2,854	3,429	14,003	–	1,239	21,525
Acquisition of subsidiaries	14	46	–	–	–	60
Exchange differences	150	58	119	–	20	347
Eliminated on disposals	(1)	–	(6,684)	–	–	(6,685)
At 31 December 2005	**22,132**	**14,630**	**55,038**	**–**	**3,038**	**94,838**
Net book value						
At 31 December 2005	**6,724**	**16,593**	**84,815**	**–**	**3,890**	**112,022**
At 31 December 2004	5,297	14,259	80,538	16,542	4,563	121,199

As at 31 December 2005, no property, plant and equipment was held under finance leases (2004: the net book value amounted to HK$115,000).

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**99,631**	99,631
Due from subsidiaries (note (i))	**257,003**	220,627
	356,634	320,258

Note:

(i) The amounts due from subsidiaries, which included HK$70,000,000 (2004: HK$105,000,000) dividends 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 37.

16. 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
At 1 January 2005	10,199	(1,974)	8,225
Opening balance adjustment to eliminate accumulated amortisation	(3,441)	–	(3,441)
Derecognition of negative goodwill	–	1,974	1,974
At 1 January 2005 (as restated)	6,758	–	6,758
Acquisition of a subsidiary (note 30)	3,504	–	3,504
At 31 December 2005	**10,262**	**–**	**10,262**
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
At 1 January 2005	3,441	(987)	2,454
Eliminated against cost at 1 January 2005	(3,441)	–	(3,441)
Derecognition of negative goodwill	–	987	987
At 1 January 2005 (as restated) and 31 December 2005	**–**	**–**	**–**
Carrying value			
31 December 2005	**10,262**	**–**	**10,262**
31 December 2004	6,758	(987)	5,771

Prior to 2005, positive goodwill arising from acquisitions of DPM and DPI was 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 was amortised over the remaining useful life of their identifiable non-monetary assets of approximately 2 years.

As explained further in note 2(d), with effect from 1 January 2005 the group no longer amortises positive goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of positive goodwill as at 1 January 2005 has been eliminated against the cost of positive goodwill as at the date. In accordance with the transitional provision set out in HKFRS 3, negative goodwill is de-recognised with a corresponding adjustment to the opening accumulated profits for the year.

17. INVENTORIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**41,777**	32,807
Work-in-progress	**12,034**	6,486
Finished goods	**49,359**	28,342
	103,170	67,635

The amount of inventories, included in above, carried at fair value less costs to sell is HK$57,164,000 (2004: HK$42,704,000).

18. TRADE AND OTHER RECEIVABLES

	The Group	
	2005	2004
	HK$'000	HK$'000
Trade and bills receivables	**138,685**	112,544
Deposits, prepayments and other debtors	**26,303**	20,027
	164,988	132,571

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

	The Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**52,001**	56,778
31 – 60 days	**63,022**	39,482
61 – 90 days	**22,041**	13,295
Over 90 days	**1,621**	2,989
	138,685	112,544

The Group's credit policy is set out in note 28(a).

19. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free, and have no fixed repayment terms.

20. SHORT TERM INVESTMENTS

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

21. TRADE AND OTHER PAYABLES

	The Group	
	2005	2004
	HK$'000	HK$'000
Trade and bills payables	**31,294**	32,419
Accrued charges and other creditors	**36,633**	36,400
	67,927	68,819

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

	The Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**20,618**	20,001
31 – 60 days	**8,242**	9,735
61 – 90 days	**–**	1,222
Over 90 days	**2,434**	1,461
	31,294	32,419

22. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable:				
Within one year	**–**	124	**–**	122
	–	124	**–**	122
Future finance charges	**–**	(2)	**–**	–
Present value of lease obligations	**–**	122	**–**	122

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

23. POST-EMPLOYMENT BENEFITS

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

24. DEFERRED TAXATION

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

	Assets		Liabilities	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**–**	10	**(5,939)**	(6,699)
Provisions	**6,667**	3,391	**–**	–
Others	**4,064**	3,027	**–**	–
Deferred tax assets/(liabilities)	**10,731**	6,428	**(5,939)**	(6,699)

In accordance with the accounting policy set out in note 1(m), the Group and the Company have not recognised deferred tax assets in respect of cummulative tax losses of HK$7,462,000 and HK$1,618,000 respectively (2004: HK$2,998,000 and HK$1,110,000 respectively) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

The movements for the year in the Group's net deferred tax assets/(liabilities) position are as follows:

	2005 HK$'000	2004 HK$'000
Net deferred tax liabilities at 1 January	**(271)**	(1,750)
Exchange differences	**(25)**	2
Credit for the year (note 9)	**5,088**	1,477
Net deferred tax assets/(liabilities) at 31 December	**4,792**	(271)

25. SHARE CAPITAL

		Number of shares of HK$0.10 each	HK$'000
Authorised:			
At 31 December 2005 and 2004		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2004		283,432,531	28,343
Issue of shares pursuant to share option schemes	(a)	2,449,000	245
As at 31 December 2004		285,881,531	28,588
Issue of shares pursuant to share option schemes	(b)	364,000	37
As at 31 December 2005		**286,245,531**	**28,625**

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2005:

(a) 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$2.3 per share under the share option schemes.

(b) During the year ended 31 December 2005, options were exercised to subscribe for 184,000 shares at the exercise price of HK$2.3 per share and 180,000 shares at the exercise price of HK$2.7 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. HK$59,000 has been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 1(r). These newly issued shares rank pari passu with the existing shares.

26. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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.

The options granted were vested one year from the date of grant and generally have a term of three years.

(a) Movements in share options

	2005		2004	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At 1 January	**26,698,000**	**2.48**	31,315,000	2.34
Exercised	**(364,000)**	**2.50**	(2,449,000)	1.64
Lapsed	**(1,504,000)**	**2.37**	(2,168,000)	1.46
At 31 December	**24,830,000**	**2.48**	26,698,000	2.48
Options vested at 31 December	**20,282,000**	**2.52**	15,383,000	2.58

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 5.8 years (2004: 6.8 years). Details of the range of exercise price for these options outstanding at the end of year are set out in the Report of the Directors on page 29.

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

Exercise price	**2005 Number of share options**	2004 Number of share options
HK$1.228	**–**	1,517,000
HK$2.3	**184,000**	932,000
HK$2.7	**180,000**	–
	364,000	2,449,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$2.974 (2004: HK$2.688)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

Average share price	HK$2.68
Weighted average exercise price	HK$2.29
Expected volatility	25.2%
Expected life	6 years
Risk free rate	3.52%
Expected dividend yield	4%

The expected volatility is based on the historic volatility of share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services rendered. There were no market conditions associated with the share option grants.

27. RESERVES AND MINORITY INTERESTS

The Group	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Total reserves HK$'000	Minority interests HK$'000
	Attributable to equity shareholders of the Company						
At 1 January 2004:							
– as previously reported	90,126	25,878	213,987	–	(221)	329,770	–
– prior period adjustment in respect of HKFRS 2	–	–	(1,940)	1,940	–	–	–
As restated	90,126	25,878	212,047	1,940	(221)	329,770	–
Issue of shares on exercise of share options	3,762	–	–	–	–	3,762	–
Equity settled share-based payment transactions (restated)	–	–	–	3,410	–	3,410	–
Exchange differences	–	–	–	–	48	48	–
Profit for the year (restated)	–	–	80,255	–	–	80,255	–
2003 final dividend paid	–	–	(22,675)	–	–	(22,675)	–
2004 interim dividend paid	–	–	(8,562)	–	–	(8,562)	–
At 31 December 2004 (as restated)	93,888	25,878	261,065	5,350	(173)	386,008	–
Representing:							
2004 proposed final dividend	–	–	28,618	–	–	28,618	
Reserves (restated)	93,888	25,878	232,447	5,350	(173)	357,390	
	93,888	25,878	261,065	5,350	(173)	386,008	

The Group	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Total reserves HK$'000	Minority interests HK$'000
	Attributable to equity shareholders of the Company						
At 1 January 2005:							
– as previously reported	93,888	25,878	266,415	–	(173)	386,008	–
– prior period adjustment in respect of HKFRS 2	–	–	(5,350)	5,350	–	–	–
As restated, before opening balance adjustment	93,888	25,878	261,065	5,350	(173)	386,008	–
– opening adjustment in respect of HKFRS 3	–	–	987	–	–	987	–
At 1 January 2005 (as restated)	93,888	25,878	262,052	5,350	(173)	386,995	–
Issue of shares on exercise of share options	932	–	–	(59)	–	873	–
Share options lapsed	–	–	893	(893)	–	–	–
Equity settled share-based payment transactions	–	–	–	1,996	–	1,996	–
Exchange differences	–	–	–	–	(180)	(180)	–
Acquisition of subsidiaries	–	–	–	–	–	–	6,333
Profit for the year	–	–	77,772	–	–	77,772	(2,100)
2004 final dividend paid (note 11)	–	–	(28,618)	–	–	(28,618)	–
2005 interim dividend paid (note 11)	–	–	(5,724)	–	–	(5,724)	–
At 31 December 2005	**94,820**	**25,878**	**306,375**	**6,394**	**(353)**	**433,114**	**4,233**
Representing:							
2005 proposed final dividend (note 11)	–	–	31,487	–	–	31,487	
Reserves	94,820	25,878	274,888	6,394	(353)	401,627	
	94,820	25,878	306,375	6,394	(353)	433,114	

The Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2004:					
– as previously reported	90,126	99,431	28,454	–	218,011
– prior period adjustment in respect of HKFRS 2	–	–	(1,940)	1,940	–
As restated	90,126	99,431	26,514	1,940	218,011
Issue of shares on exercise of share options	3,762	–	–	–	3,762
Equity settled share-based payment transactions (restated)	–	–	–	3,410	3,410
Profit for the year (restated)	–	–	101,160	–	101,160
2003 final dividend paid	–	–	(22,675)	–	(22,675)
2004 interim dividend paid	–	–	(8,562)	–	(8,562)
At 31 December 2004 (as restated)	93,888	99,431	96,437	5,350	295,106
Representing:					
2004 proposed final dividend	–	–	28,618	–	28,618
Reserves (restated)	93,888	99,431	67,819	5,350	266,488
	93,888	99,431	96,437	5,350	295,106
At 1 January 2005:					
– as previously reported	93,888	99,431	101,787	–	295,106
– prior period adjustment in respect of HKFRS 2	–	–	(5,350)	5,350	–
At 1 January 2005 (as restated)	93,888	99,431	96,437	5,350	295,106
Issue of shares on exercise of share options	932	–	–	(59)	873
Share options lapsed	–	–	893	(893)	–
Equity settled share-based payments transactions	–	–	–	1,996	1,996
Profit for the year	–	–	68,006	–	68,006
2004 final dividend paid (note 11)	–	–	(28,618)	–	(28,618)
2005 interim dividend paid (note 11)	–	–	(5,724)	–	(5,724)
At 31 December 2005	**94,820**	**99,431**	**130,994**	**6,394**	**331,639**
Representing:					
2005 proposed final dividend (note 11)	–	–	31,487	–	31,487
Reserves	94,820	99,431	99,507	6,394	300,152
	94,820	99,431	130,994	6,394	331,639

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.

The capital reserve of the Group and the Company represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(r).

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 2005, the Company's reserves available for cash distribution amounted to HK$230,425,000 (restated 2004: HK$195,868,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$94,820,000 (2004: HK$93,888,000) may be distributed in the form of fully paid bonus shares.

28. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, and short term investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables are due within 30 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.

Short term investments in equity and bond funds are made normally with counterparties that have sound credit ratings. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

At the balance sheet date, the Group has a certain concentration of credit risk as 22% (2004: 12%) and 52% (2004:41%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

The Group continues to enjoy financing for its operations by internally generated cash flows. The Group maintained its gearing ratio at zero and the Group will have sufficient financial resources to meet its commitments and working capital requirements.

(c) Interest rate risk

The Group has minimum exposure to interest rate risk.

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004.

(f) Estimation of fair value

Fair value of short term investments represents market values.

29. CASH GENERATED FROM OPERATIONS

	The Group	
	2005	2004
		(restated)
	HK$'000	HK$'000
Profit before taxation	**81,825**	88,026
Interest income	**(644)**	(1,181)
Interest expenses	**30**	69
Amortisation of goodwill	**–**	288
Gain on disposal of property, plant and equipment	**(695)**	(4)
Net gain from short term investments	**(5,474)**	(2,700)
Depreciation	**21,525**	20,307
Write-back of post-employment benefits	**(36)**	–
Equity settled share-based payment expenses	**1,996**	3,410
Provision for doubtful debts	**3,080**	755
Write-back of sundry payables	**(3,709)**	–
Changes in working capital:		
Inventories	**(34,848)**	(6,732)
Trade and other receivables	**(30,951)**	(38,528)
Trade and other payables	**1,801**	6,097
Cash generated from operations	**33,900**	69,807

30. ACQUISITION OF A SUBSIDIARY

On 31 March 2005, the Group acquired 51% of the issued share capital of Futureview Investment Limited ("FIL") 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, at a consideration of HK$10,000,000 together with a shareholder's loan of HK$20,000,000. The acquisition has been accounted for by the acquisition method of accounting.

Details of the net liabilities of FIL acquired by the Group were as follows:

	FIL's carrying amount and fair value amount before combination HK$'000
Property, plant and equipment	478
Inventories	687
Trade and other receivables	1,045
Bank balances and cash	397
Trade and other payables	(1,016)
Amount due to related companies	(3,696)
Net liabilities acquired	(2,105)
Share of net liabilities by the minority interest	1,031
Share capital of FIL subscribed by the Group	10,000
Subscription of the Group effectively being shareholding of the minority interest	(2,349)
Goodwill	3,504
Total consideration and direct costs paid by the Group, and satisfied by cash	10,081
Net cash inflow arising on acquisition of subsidiaries:	
Direct costs paid	(81)
Bank balances and cash acquired	397
	316

The subsidiaries acquired contributed a revenue of approximately HK$10,952,000 and a loss of approximately HK$2,675,000 to the equity shareholders of the Company for the year ended 31 December 2005.

If the acquisition had been completed on 1 January 2005, total Group turnover would have been increased by HK$614,000 and profit attributable to equity shareholders for the year would have been decreased by HK$408,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005 nor is it intended to be a projection of future results.

31. 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:

	2005		2004	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within one year	**22,744**	**663**	14,365	819
In the second to fifth years inclusive	**20,169**	**918**	25,364	1,251
Over five years	**16,553**	**–**	16,957	–
	59,466	**1,581**	56,686	2,070

In addition, the Group has operating lease commitments in respect of retail outlets with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases. Contingent rentals expensed in the income statement amounted to HK$1,743,000 (2004: HK$51,000).

32. CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital expenditure commitments in respect of plant and equipment as follows:

	The Group	
	2005 HK$'000	2004 HK$'000
Contracted but not provided for		
– Manufacturing Business	**–**	6,500
– Retail Business	**511**	–
Authorised but not contracted for		
– Manufacturing Business	**21,825**	14,500
– Trading Business	**3,046**	–
– Retail Business	**6,568**	4,000
	31,950	25,000

33. PLEDGED ASSETS

As at 31 December 2005, the Group had banking facilities of HK$95.3 million (2004: HK$94.8 million), of which HK$88.5 (2004: HK$93.1 million) was not utilised. Banking facility in the amount of HK$27.1 million (2004: HK$46.7 million), of which HK$1.6 (2004: HK$1.2 million) was utilised, is secured by inventories and trade and other debtors of a subsidiary amounting to HK$36.8 million (2004: HK$27 million) and HK$72 million (2004: HK$65.6 million) respectively as at 31 December 2005.

34. CONTINGENT LIABILITIES

The Group

As at 31 December 2005, DPM was under investigation by the tax bureau of the United States in connection with DPM's accounting records for the period from 1999 to 2003, in particular, a transaction in the amount of HK$7.75 million between the Company and DPM during the financial year ended 31 December 2001. As at the date of the annual report, no litigation against the Group had been resulted from such investigation. Based on the opinion from DPM's legal counsel, the result of the investigation and the total amount involved are unknown at this stage.

DPM was an associated company of the Group prior to 30 April 2002 when the Group increased its shareholding in DPM from 42.86% to 85.71%. On 31 December 2003, the Group acquired the remaining interest in DPM which then became a wholly owned subsidiary of the Group.

The Company

At 31 December 2005, the Company had executed a corporate guarantee of HK$63,300,000 (2004: HK$66,300,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$3,734,000 as at 31 December 2005 (2004: HK$550,000).

35. MATERIAL RELATED PARTY TRANSACTION

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

	The Group	
	2005	2004
	HK$'000	HK$'000
Rental paid in respect of office premises to a company controlled by a director (note)	**960**	960
Guarantee provided by a minority shareholder for bank facilities granted to a subsidiary	**1,500**	–

Note: 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.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**16,146**	12,641
Share-based payments	**142**	149
Retirement scheme contributions	**163**	210
	16,451	13,000

Total remuneration is included in "staff costs" (note 6(b)).

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

37. 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 principal 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.	The PRC (note ii)	The PRC	Rmb4,000,000	100%	Manufacture and sale of headwear
Drew Pearson International, Inc.	The United States of America	The United States of America	US$833	100%	Trading of headwear
Drew Pearson Marketing, Inc.	The United States of America	The United States of America	US$750	100%	Trading of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$100	51%	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	The PRC (note i)	The PRC	Rmb500,000	100%	Retailing
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	The PRC (note ii)	The PRC	HK$26,000,000	100%	Manufacture and sale of headwear
Manga Investments Ltd.	Mauritius	Macau	US$1	100%	Investment holding

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 Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
PPW Asia Ltd.	Hong Kong	Hong Kong	HK$2	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.	The PRC (note ii)	The PRC	HK$15,050,039	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
上海成顏豐實業有限公司	The PRC (note i)	The PRC	RMB2,000,000	100%	Retailing
深圳市大同啟豐實業有限公司	The PRC(note i)	The PRC	RMB1,000,000	100%	Retailing
北京大同啟豐商貿有限公司	The PRC (note i)	The PRC	RMB1,000,000	100%	Retailing
廣州市天開貿易有限公司	The PRC (note i)	The PRC	RMB1,000,000	100%	Trading and wholesales

Notes:

(i) These companies are registered in the PRC in the form of a limited liability company.

(ii) These companies are registered in the PRC in the form of wholly foreign-owned enterprises.

38. ULTIMATE HOLDING COMPANY

As at 31 December 2005, the ultimate holding company of the Company was Successful Years International Company Limited, incorporated in the British Virgin Islands.